Tatra banka

Annual report 2016

Slovak Republic

Member of Raiffeisen Bank International

TATRA BANKA

Content of Annual Report

About

Survey of key data

Survey of key data according to International Financial Reporting Standards

Tatra banka Group (in thousands of EUR)

	2016	2015	Change
Consolidated Statement of Comprehensive Income			
Net interest income	274,601	289,386	(5.1)%
Provisions for impairment losses	(12,301)	(33,922)	(63.7)%
Net fees and commission income	119,449	131,703	(9.3)%
Net profit (loss) from trading instruments	22,768	23,184	(1.8)%
General administrative expenses	(249,210)	(233,890)	6.6%
Consolidated profit before income taxes	162,734	159,441	2.1%
Consolidated profit after income taxes	125,980	120,562	4.5%
Comprehensive consolidated profit after tax	111,086	137,227	(19.0)%
Earnings per ordinary share (nominal value per share: 800 EUR)	1,571	1,513	3.8%
Earnings per ordinary share (nominal value per share: 4,000 EUR)	7,855	7,565	3.8%
Consolidated Statement of Financial Position			
Loans and advances to banks	147,801	125,893	17.4%
Loans and advances to customers, gross	8,551,381	8,144,219	5.0%
Deposits from banks	241,182	357,083	(32.5)%
Deposits from customers	8,966,815	8,719,428	2.8%
Equity (including consolidated profit)	994,047	996,375	(0.2)%
Balance sheet total	11,373,028	11,215,116	1.4%
Performance			
Return on equity (ROE) before tax	17.5%	17.0%	2.6%
Cost/income ratio[2]	60.3%	52.8%	14.2%
Return on assets (ROA) before tax	1.5%	1.5%	0.0%
Tier 1 ratio, total	15.3%	14.1%	8.5%
Own funds ratio	19.7%	18.2%	8.3%
Resources			
Number of staff on balance sheet date	3,792	3,735	1.5%
Branches on balance sheet date[1]	199	198	0.5%

Ratings	Long-term deposits	Outlook	Short-term deposits	Baseline Credit Assessment
Moody's Investors Service	Baa1	stable	Prime-2	ba1

[1]Inclusive of Corporate centres, "Centrum bývania" branches, Raiffesen bank branches and Tatra-Leasing, s.r.o. branches

[2]excluded special levy of selected financial institutions

Statements

Statement by the Chairman of the Management Board

Dear Shareholders, Business Partners and Clients,

2016 was a very successful year. I'm proud of the results achieved by Tatra banka in the last year. With our shared enthusiasm and ceaseless efforts to drive banking forward, we have surpassed our achievements of previous years.

In 2016, we recorded the highest sales of mortgage and consumer loans. The bank even closed the largest corporate transaction in the history of Slovakia. Net provisioning for impairment losses were at a record low. In addition, the bank received a one-off income of EUR 30 million from a transaction with VISA. Hence, it is no surprise that we posted the second best results in the history of Tatra banka. I would like to take this opportunity to emphasize that this success was achieved thanks to the performance and efficiency of both our brands – Tatra banka and Raiffeisen Bank.

2016 was the fourth year of operations of Raiffeisen Bank as a separate brand on the Slovak market. At the end of 2016, the bank operated 62 business outlets, 18 of which as mall branches and 11 as franchise branches. Raiffeisen Bank offers its clients a unique experience and straightforward, user-friendly products and services at fair prices. In everything the bank does, it emphasizes the following principles: simplicity, comprehensibility, transparency and a diligent approach. These are the attributes clients appreciate about the bank, which is confirmed by surveys conducted by the independent agency, TNS. The results show that the clients of Raiffeisen Bank are the most satisfied bank clients on the Slovak market.

Raiffeisen Bank more than doubled the amount of loans year-on-year, and the total number of clients increased one and a half times. Raiffeisen Bank has become a pioneer in this transfering clients accounts between banks on the Slovak market, and this account switching has become an important acquisition instrument. These results contribute increasingly positive to Tatra banka's overall results. Raiffeisen Bank increased its joint market share of consumer loans by 1 per cent. The total number of clients in the segment private individuals increased by more than 18,000 thanks to Raiffeisen Bank.The bank has recorded a higher growth than Tatra banka for the last three consecutive years. Overall, the results confirm that the brand Raiffeisen Bank was a good choice.

Tatra banka's brand promise is to be leader in innovations and to regularly offer clients new useful products. Consequently, a new generation of payments by mobile phone, completely independent of mobile operators, was developed in 2016. In November, Tatra banka introduced the brand new **Mobile**Pay™ app. In addition to contactless payments by mobile phone and online card management, the application offers a unique solution for safe internet purchases using a one-off card number.

There are four versions of the **Tatra banka** app, which offer a number of new features such as an overview of the Tatra Asset Management funds or SEPA direct debit. For premium clients there is

an option to directly contact their personal banker as well. The attractivity of this form of banking services is evidenced by a 40 per cent increase in active users.

Each year, Tatra banka seeks to offer clients new and innovative features in its **Internet** banking™. In 2016, finance management tools, including **Spending** report™ and Assets and Liabilities, were added with the new feature "Goals". Clients can set short-term and long-term goals in **Internet** banking™, i.e. the creation of a financial reserve, the purchase of a car or saving for a better retirement and then monitor the goals' fulfilment.

With regards to loans, the bank has substantially extended and simplified the options to increase and consolidate consumer loans at a branch via the mobile app and **Internet** banking™. Loans for any purpose drawn with a mortgage loan with even more favourable conditions were added to the portfolio.

Thanks to a new process provided by the **DIALOG** Live call centre discussing a new mortgage or consumer loan was made easier. This allows clients to benefit from the comprehensive advice of a mortgage specialist without visiting a branch. The documents required to approve a loan are delivered electronically and the drawing of the loan only requires a single branch visit to sign the agreement.

The high standard of Tatra banka services is confirmed by awards received from a number of Slovak and international reputable institutions. The British financial magazine, Euromoney, awarded Tatra banka the Best Bank in Slovakia title for the twelfth time. Tatra banka also won the title Best Bank from the magazines Emea Finance and The Banker. My colleagues in private banking confirmed their leading position in Slovakia by winning the title of Best Private Bank from The Banker and Global Finance. My colleagues in the electronic distribution channels division and the department of brand communication and strategy can also be proud of their work: Our online banking has been evaluated as the best in Slovakia by the Global Finance magazine for the fourteenth time. The magazine also recognized our website design and our social media strategy as the best in the CEE region.

With regards to our support for the arts, 2016 was the twenty-first year of the Tatra banka Foundation Art Awards. Since introducing the awards, Tatra banka Foundation has supported 87 well-known artists, 47 new artists and seven young fashion designers. The aim of the foundation is to recognize those involved with Slovak culture and to give them support to create more top-class artwork.

As part of the foundation's "Personalities in Person" program, in 2016, the invitation to Slovakia was accepted by Pulitzer Prize holder Deborah Nelson, who gave public lectures at the Comenius University in Bratislava and Pavol Jozef Šafárik University in Prešov, and conducted several workshops with students studying journalism.

When I look towards 2017, I see a combination of difficult challenges and interesting opportunities. I am quite certain that the situation on the market will affect all players to a greater or lesser degree. However, we will look to meet the updated objectives of our strategy for the next two years. I believe that their achievement will help us to meet the challenges and take as many opportunities as possible.

In conclusion, I would like to thank our clients for the trust they place in us. Their feedback is the driving force, which constantly propels us forward. I would like to thank our shareholders for their support in this dynamic period. Further, I would also like to thank my colleagues for their inspiring ideas and enthusiasm with which they transform them into unique services and products for our clients. Finally, my thanks goes to the dedicated employees without whom these successes would not have been possible.

Michal Liday
Chairman of the Management Board and CEO

Report of the Supervisory Board

Ladies and Gentlemen,

The 2016 financial year was dominated by two key issues: Firstly, the market environment, which remained challenging due to the very low interest rate level and continuing high regulatory and political pressures; secondly, the start of the process of evaluating a merger of RBI and RZB.

The capitalization requirements for banks were increased substantially following the 2008 financial crisis and there has also been extensive tightening of regulations by the national and international regulatory authorities. February 2015 saw the implementation of a transformation program designed to strengthen the capital base – it targeted a CET1 ratio (fully loaded) of at least 12 per cent, a reduction of complexity and a substantial reduction of costs. With a CET1 ratio (fully loaded) of 13.6 per cent at 31 December 2016, RBI achieved its target ahead of schedule.

Following an extensive evaluation phase, on 5 October 2016, the Management and Supervisory Boards of RBI and RZB passed in principle a resolution to merge RBI and RZB. The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The merger was entered in the commercial register on March 18th, 2017, and has thereby taken effect.

The strengths of the merged entity will build on prior achievements. These include the geographic footprint in the attractive growth markets of CEE, with top-five market positions in 9 of a total of 14 markets, as well as a stable business in Austria. The focus will remain on long-term customer relationships in the respective local markets. As a customer-oriented universal bank, solutions to address corporate customer needs based on local market access and an extensive network, along with a comprehensive multi-channel offering for retail customers in CEE, play an important role in the overall focus.

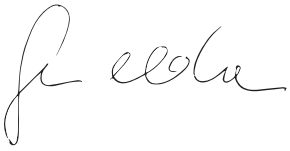
As far as Tatra banka is concerned, I am pleased that Tatra banka confirmed its position as the third largest bank on the market. Tatra banka Group ended 2016 with an almost 4.5 per cent higher profit after tax than the year before and thus continued its excellent track-record from previous years. As far as our customers are concerned, I am pleased to note that the bank remained true to its image as an innovation provider. The centrepiece was the new generation of mobile payments which provides clients with a unique solution for safe internet purchases using a one-off card number, in addition to the contactless payments using a mobile phone and online card management. I believe that with these steps we increase the level of client satisfaction and further enforce the position of the bank, which truly pushes the limits of banking.

Additionally 2016 was the fourth year of operations of Raiffeisen Bank as a separate brand on the Slovak market. According to plan, Raiffeisen Bank expanded its branch network to 62 branches last year. Raiffeisen Bank more than doubled the amount of loans year-on-year, and the number of its clients increased by 150 per cent. Moreover, according to a survey by

the independent TNS agency, Raiffeisen Bank continued to have the most satisfied clients in Slovakia with the highest TRI*M Index.

I would like to take this opportunity to thank all employees of Tatra banka for their hard work and constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

On behalf of the Supervisory Board,



Karl Sevelda
Chairman of the Supervisory Board

Mission, Vision, Values

Mission of Tatra banka

Our mission has always been and will continue to be shifting the boundaries of banking.

Vision of Tatra banka

We are the largest or the second largest bank in each of the client segments we serve.

Values

Exactingness

Together we do things the best we possibly can; we are not satisfied with only being average.

Creativity

Together we bring new solutions and we support bold and innovative thinking.

Passion

Together we inspire people and exceed their expectations.

Raiffeisen Bank International at a glance

Raiffeisen Bank International

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 30 years, RBI has been operating in CEE, where today it maintains a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. In CEE, at the end of 2016, around 46,000 RBI employees served some 14.1 million customers in around 2,500 business outlets. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and large multinational corporate customers operating in CEE. All in all, RBI employs about 49,000 people and has total assets of approximately EUR 112 billion.

Raiffeisen Zentralbank Österreich (RZB AG) was established in 1927 as “Girozentrale der österreichischen Genossenschaften” and at that time served as the liquidity balancing center for Austria’s agricultural cooperatives, as envisioned by social reformer Friedrich Wilhelm Raiffeisen.

RZB AG had one of the largest banking networks in CEE through its subsidiary, Raiffeisen Bank International (RBI AG), which has been listed on the stock exchange since 2005. At the end of 2016, RZB AG held approximately 60.7 per cent of RBI’s stock, with the remaining shares in free float. RZB AG was primarily owned by the eight Raiffeisen regional banks and served as their central institution pursuant to the Austrian Banking Act (BWG). Following the merger between RZB AG and RBI AG, effective retroactively as of 30 June 2016, RBI AG will assume the role of RBG’s central institution by way of universal succession.

Risk Management and Basel III

Well-organized and consolidated risk management plays a vital role in the sustainable, efficient operation of the bank. This is of key importance for Tatra banka given its systemic importance for the whole banking sector. Tatra banka meticulously fulfils the requirements of European directives implementing Basel III regulations. Implementation is subject to applicable Slovak legal regulations. During the negotiation and approval of Slovak legislative standards, the bank worked actively with the Slovak Banking Association and its committees and working groups. Tatra banka has also played an equally important role in multilateral meetings with regulatory authorities and other organizations.

The concept, methodology and documentation of activities concerning risk management and Basel III are prepared in close cooperation with RBI while respecting the local specificities of Tatra banka and the banking environment as a whole. The relevant methodological concepts and procedural techniques are integrated into the management process in various areas of the bank and are regularly updated in line with legislative and internal changes and are meticulously reviewed during internal audit.

The main aim of risk management activities and Basel III is to ensure the accurate evaluation, quality management and mitigation or elimination of credit, market, and operational risks and other risks to which the bank is exposed. Achieving this goal depends on:

- identifying risks resulting from bank products and processes;
- the best possible collection and storage of relevant and potentially-relevant data;
- creation of a reliable methodology for measuring individual types of risk;
- use of effective and high-quality processes for prudent management of individual risk types and predicting their development;
- use of efficient instruments to mitigate risk exposure;
- use of high-quality and secure IT systems for process automation, data collection and analysis; and
- undertaking calculations and providing outputs.

These processes, in conjunction with changes in the economic environment, are a key element for ensuring the long-term stability of the bank's risk profile and its capital requirements and its return on equity.

Pursuant to legislative requirements, the bank regularly publishes details about its activities, working procedures and results, which ensures transparency in relation to regulators, business partners and clients regarding risk management.

Credit risk

Since 1 January 2008, the bank has applied a standardized approach to quantifying risk-weighted assets and regulatory capital requirements for credit risk, which constitutes the most significant bank risk; the bank's goal is to switch to the Internal Rating Based approach (IRB approach) as soon as possible. This is based on the use of internal rating models and internal estimates of risk parameters for the management, quantification and reporting of individual types of credit-related risks in line with its implementation plan.

Since 1 January 2009, the bank has calculated capital requirements for a large part of its non-retail portfolio (i.e. for sovereigns, institutions, corporations, project financing, insurance companies, investments in funds and purchased receivables) using the approved IRB approach.

In December 2013, the bank was granted authorization to also apply the IRB approach to SME clients. Under this approach, the bank is authorized to quantify capital requirements for these clients using its own estimates of the likelihood of a counterparty default, which makes the measurement of credit risk much more sensitive and capital requirements also correspond more closely to actual risk exposure. During turbulent economic times, this approach has enabled the bank to include the effects of a period of economic decline on its portfolio in its capital requirements.

Based on its implementation plan, the bank was also granted authorization to use the IRB approach from 1 April 2010 for its retail portfolio, which allows the bank to calculate the risk profile of this portfolio using its own estimates of significant risk parameters, regarding the likelihood of retail client defaults and their exposures, losses in the event of default and credit conversion factors for off-balance sheet exposures, and the use of these estimates for comprehensive portfolio risk management. In 2011 – 2014, the bank worked intensively and successfully on optimizing estimates of these parameters.

In relation to the application of the IRB approach, the bank and the group work continuously on rating models to maximize their predictive strength. Each significant change is reviewed by the supervisory authorities.

The basic principles of managing the credit risk of non-retail clients are set out in the RBI Group Credit Manual, which is obligatory for the whole group. The management of non-retail credit risk by the bank is set out in more detail in Tatra banka's Credit Policy, which is approved by the Supervisory Board annually. The Credit Policy defines the targeted and restricted sectors for financing and the sectors excluded from financing, the minimum requirements for a client's credit transaction (rating, value of collateral, required margin) and the target structure of the loan portfolio and its key parameters for the forthcoming year. The bank is very conservative as regards its provision process and creates provisions for the non-retail credit portfolio as a whole as well as individual provisions.

Regarding retail risk, in addition to managing the quality of the retail credit portfolio, in 2016 the bank focused specifically on improving the quality of loan provision in compliance with legislative changes. The bank continues to focus on development of regular scorecard and risk management models and their updating. The aim of building the risk-management infrastructure is to create a reliable system that will facilitate flexibility when responding to external changes. A fundamental part of this process is the definition of targets for individual components of credit-risk management and for bank employees. This is a comprehensive process involving consistent preparation and subsequent application of credit-risk principles, credit policy and guidelines and effective management tools.

Market risk

In 2016, the bank continued to apply a prudent approach to security investments, which was assisted by the implemented limits which ensure protection against the risk of securities being

downgraded, and a conservative approach to the assessment of bank counterparties and limits applicable to those counterparties.

The established limits and the stress tests performed by the bank provided sufficient protection against the adverse effects of market fluctuations.

The close monitoring of all market risks remains a high priority. The methods and models used to monitor market risk remain subject to strict supervision, externally and internally, and the parameters affecting the outputs are regularly reassessed and approved by the bank's committees to reflect as accurately as possible the current situation in financial and capital markets. The limits protecting the bank against market turbulence are subject to review and are set prudently and conservatively to limit losses in the event of negative developments. One of the important aspects of market-risk management at the bank is the promotion of new, innovative products while remaining highly prudent.

Liquidity risk is closely monitored and is subject to internal limits set by the bank and the limits defined by RBI Group and the National Bank of Slovakia. The bank actively monitors new liquidity legislation and is in advance compliance with the Liquidity Coverage Ratio and Net Stable Funding Ratio requirements under Basel III.

Operational risk

The bank calculates the amount of regulatory capital required to cover operational risk using the standardized approach. The bank uses a set of qualitative and quantitative methods to identify and manage operational risk as regards the potential impact of operational incidents on its profit and goodwill. The bank takes into consideration legislative changes under preparation concerning the calculation of own funds and is preparing a transfer to a more advanced operational-risk measurement approach that more comprehensively reflects the bank's risk characteristics. As a priority, the bank also raises awareness of operational risk using various communication forms within the bank.

Pillar 2 and economic capital

The bank has implemented and continuously modifies and supplements methodological and procedural techniques for the internal determination of capital adequacy (Pillar 2). As part of this process, all relevant risks of the bank are regularly evaluated in line with the risk profile and then quantified and evaluated in the context of the risk level the bank is willing to take and the projected capital formation and subsequent reporting to bank management. The bank's risk profile and the related processes are subject to a detailed annual review by supervisory authorities (ECB and NBS) under the Supervisory Review and Evaluation Process (SREP).

Based on the above, in line with its risk profile, the bank covered the identified risks by its internal capital with a sufficient reserve in 2016.

The process of capital allocation is an integral part of this process, as it is closely linked to the budgeting process. As part of this process, individual commercial units of the bank are assigned an expected level of the Return on Risk Adjusted Capital (RORAC) performance indicator using an approved allocation key. This indicator measures the rate of return in relation to anticipated risk from individual transactions, portfolios and business units to meet the targets set by the shareholder, while maintaining an acceptable risk level. As a prerequisite for the bank's healthy growth, the risk-adjusted view of the bank's performance will remain the priority in the next period.

Capital adequacy forecasting and stress testing

Given the more advanced risk measurement methods and constant changes to the economic environment, an important aspect of capital-adequacy management is a consistent prediction of its development, including stress testing of readiness for unforeseeable adverse events.

In 2016, the bank continued to develop its stress testing of capital adequacy for credit risk using internal estimates of risk parameters in relation to potential changes to the estimated risk parameters, the migration of clients and receivables between rating levels, a fall in collateral values, economic recession and other changes in the bank's material sub-portfolios, using the stress scenarios set by the National Bank of Slovakia.

Summary of Consolidated Performance

The consolidated after-tax profit of Tatra banka Group increased 4.5 per cent year-on-year, from EUR 120.6 million in 2015 to EUR 125.9 million. The higher profit was largely due to lower provisioning for loans to customers, one-off income related to the purchase of shares of Visa Europe Ltd. by Visa Inc. Tatra banka earned income of EUR 30.3 million on the transaction, of which EUR 24.3 million was in cash and EUR 6.0 million was shares. A decrease in net fee and commission income is largely the result of legislative changes. A decrease in operating income and growth in operating expenses led to an improvement in the cost-income ratio to 60.3 per cent from last year's 52.8 per cent. At the end of December 2016, Moody's rated Tatra banka Baa1 and improved its outlook to positive.

Development of income and expenses

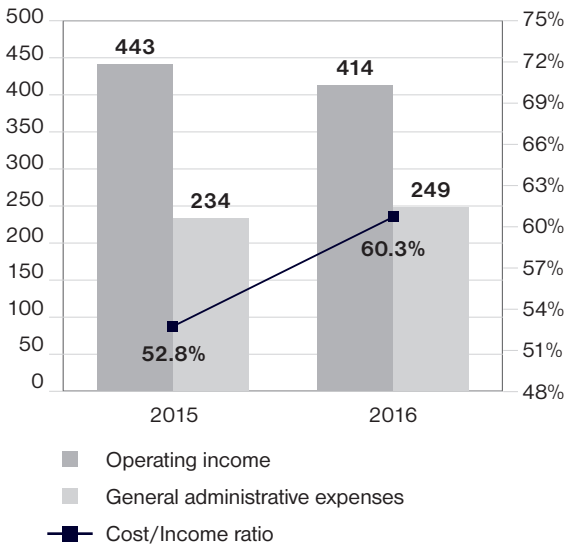
Despite significant growth in the bank's loan portfolio, net interest income decreased due to low interest rates, the highly-competitive environment and legislative changes. Since 21 March 2016, banks have been allowed to charge an early repayment charge on mortgage loans capped at 1 per cent of the amount repaid early, which is below costs. This measure caused significant changes on the market and transfers of customers between banks. This change was one of the causes of an acceleration of the decrease in interest rates on mortgage loans, making Slovakia one of the EU countries with the lowest average interest rate. Most Slovak bonds generate negative income for banks and banks often deposit available liquidity with the National Bank of Slovakia at a negative interest rate (-0.4 per cent p.a.). The decrease in interest expense on term deposits and mortgage bonds was not sufficient to compensate for the lack of interest income, which was reflected in a 5.1 per cent drop in net interest income to EUR 274.6 million.

Net fee and commission income was down 9.3 per cent year-on-year to EUR 119.4 million, largely due to legislative changes. Changes related, for example, to the introduction of a cap on the early mortgage repayment charge and a cap on interchange fees on payment cards in December 2015.

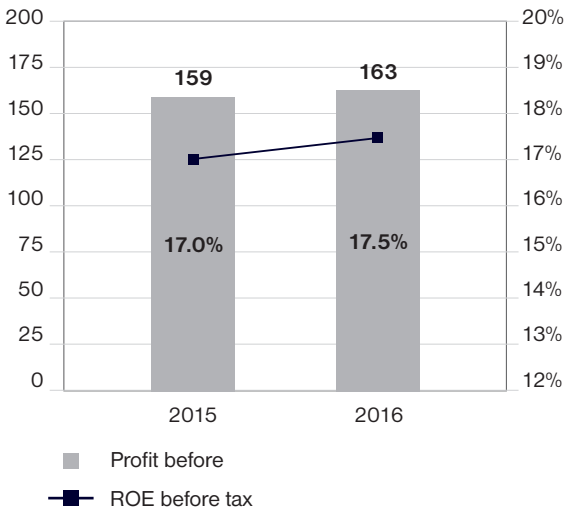
Net trading results slightly decreased by 1.8 per cent to EUR 22.8 million.

General administrative expenses increased by 6.6 per cent to EUR 249.3 million, mostly due to a growth in personnel expenses under the influence of savings on bonuses in 2015.

Development of Cost/Income ratio (mil. EUR)



Development of profit and return on equity (mil. EUR)



Development of assets

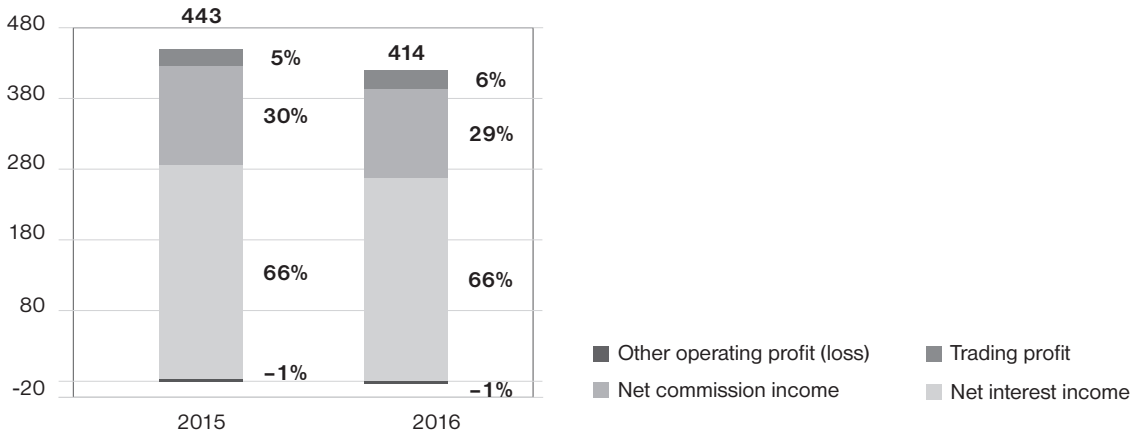
The consolidated assets of Tatra banka Group increased 1.4 per cent to EUR 11.37 billion. Loans to customers grew 5.0 per cent to a total of EUR 8.55 billion and were a significant contributor to this growth. The share of non-performing loans in the total portfolio decreased from 4.2 per cent to 3.5 per cent, which is considerably better than the rest of the banking sector and confirms the very good quality of the bank's loan portfolio. The growth in loans to customers was mainly attributed to housing loans. The value of government securities and funds with the central bank decreased.

Development of liabilities and equity

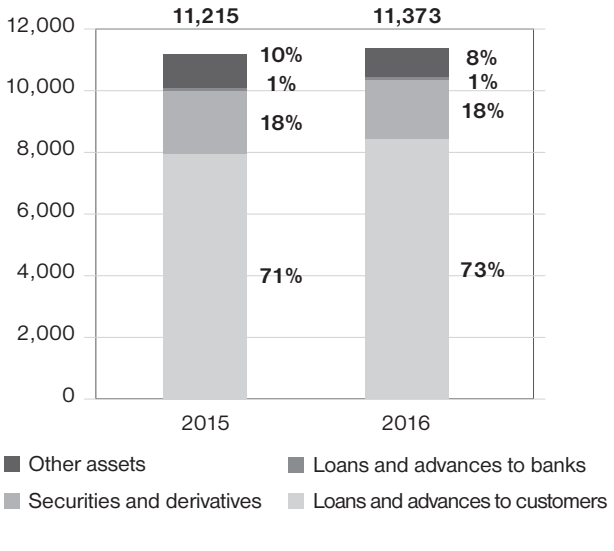
Deposits from customers increased to EUR 8.97 billion. The growth was recorded particularly in current accounts in all client segments. There was a decrease in term deposits and loans received from other banks. The consolidated ratio of loans to deposits was 95.4 per cent as of 31 December 2016.

As of 31 December 2016, the consolidated capital adequacy ratio was 19.72 per cent, which is substantially more than required by the National Bank of Slovakia and the European Central Bank.

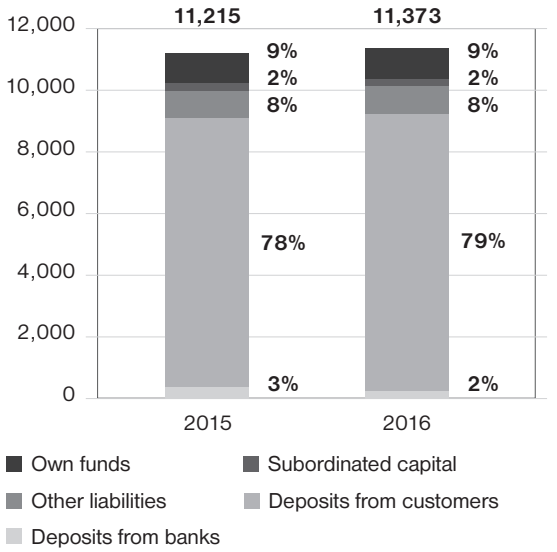
Structure of income (mil. EUR)



Structure of balance sheet assets (mil. EUR)



Structure of balance sheet liabilities (mil. EUR)



Objectives for 2017

In line with its brand promise – to be the leader in innovation – Tatra banka will continue to develop innovative services and products. The bank will also pay close attention to the adoption of innovations – i.e. raising awareness of innovations among clients and creating more opportunities for their use.

In February, Tatra banka will be the first bank in Slovakia to launch a demo internet banking app for the Microsoft HoloLens headset and the new version of the Tatra banka app for Windows 10.

At the beginning of the year, the bank will also introduce new service packages for accounts of legal entities and individual entrepreneurs. The bank plans to introduce further improvements to the account with the **Tatra Personal**™ service package to meet the requirements of the most demanding clients.

The bank will gradually align the loan offer via various channels used by clients during the year. The bank will seek to increase client satisfaction and experience.

Tatra banka will pay closer attention to improving client services using innovative payment card solutions. The bank plans joint implementations with multinational corporations such as Google.

In the segment of small business clients, the bank will focus on simplifying, unifying and optimizing loan arrangement processes.

Corporate banking will remain a strong component in the bank's portfolio of services. In addition to strengthening its market position, next year's priorities will include successful delivery of innovations to clients, and optimization of internal processes and staff development.

The main objective of the Tatra banka Foundation will be focused development of its current grant programs and partnerships to enhance its position and accomplish its chosen strategy in the fields of education, art and design.

In design, the foundation intends to strengthen its position via grants and support first-class projects of young designers and events.

Regarding education, students and the public can look forward to lectures by a Pulitzer Prize winner, a Nobel Prize winner and two globally-known economists.

Regarding the arts, the pinnacle of the season will be the twenty-second year of the Tatra banka Foundation Art Awards.

In 2017, Tatra banka will become the general partner of the Slovak National Gallery, reinforcing its position as a patron of the arts.

The main objective of the Raiffeisen Bank brand will be acquisition of new clients and maintaining long-term client satisfaction. This will be greatly assisted by easier transfers of client accounts, in which Raiffeisen Bank is already the leader on the Slovak market.

After successful rollouts in recent years, with 18 new branches opened in 2015 and an additional 11 in 2016, Raiffeisen Bank will now focus on stabilizing its branch network. The objective will be to achieve optimum sales output at new branches, which comprise almost half of the branch network, as rapidly as possible.

Top Management

Supervisory Board

Dr. Karl Sevelda
Chairman of the Supervisory Board

Ing. Igor Vida
Vice-Chairman of the Supervisory Board

Mag. Peter Lennkh
Member of the Supervisory Board

Dr. Herbert Stepic
Member of the Supervisory Board

Dr. Johann Strobl
Member of the Supervisory Board

Dkfm. Klemens Breuer
Member of the Supervisory Board

Mag. Martin Grüll
Member of the Supervisory Board

Ing. Ján Neubauer, CSc.
Member of the Supervisory Board

Prof. Ing. Peter Baláž, PhD.
Member of the Supervisory Board

Ing. Pavol Feitscher
Member of the Supervisory Board

Mag. Andreas Gschwenter
Member of the Supervisory Board

BANK MANAGEMENT

Management Board

Mgr. Michal Liday
Chairman of the Management Board and CEO

Ing. Miroslav Uličný
Vice-Chairman of the Management Board and Deputy CEO

Ing. Marcel Kaščák
Member of the Management Board

Mgr. Natália Major
Member of the Management Board

Ing. Vladimír Matouš
Member of the Management Board

Mag. Bernhard Henhappel
Member of the Management Board

Ing. Peter Matúš
Member of the Management Board

Confidential Clerk

Ing. Zuzana Koštialová

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SWIFT/BIC: PJCBBY2X
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www.rba.hr

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Statement on Corporate Governance

The corporate governance system of Tatra banka is regulated by the Code of Corporate Governance in Slovakia issued by the Central European Corporate Governance Association (CECGA). The Code can be read on the association's website: www.cecga.org.

General Meeting

The General Meeting is the supreme body of the bank via which shareholders take part in the bank's management. Every shareholder has rights that allow the shareholder to exercise influence on the bank, namely:

a. the right to attend the General Meeting
A shareholder may personally attend the General Meeting or do so via a proxy. A shareholder's right of attendance is supported primarily by the obligation of the Management Board to convene the General Meeting at least once a year, to notify each shareholder of the General Meeting by sending an invitation at least thirty days in advance and to ensure that the notice of the General Meeting is published in at least one periodical with nationwide coverage that publishes stock exchange news.

b. the right to vote at the General Meeting
The shareholder's voting right derives from the nominal value of the shares held. One share with a nominal value of EUR 800 corresponds to one vote and one share with a nominal value of EUR 4,000 corresponds to five votes. The General Meeting usually decides by a simple majority of votes of the shareholders, unless otherwise stipulated by law. Preferred shares do not carry the right to vote at the General Meeting, except where stipulated by law.

c. the right to propose motions at the General Meeting
The agenda of each General Meeting is structured to allow shareholders to present their motions, comments and suggestions concerning the bank.

d. the right to a share of the bank's profit (dividend)
The distribution of profit and dividend pay-out is decided by the General Meeting based on operating results.

e. the right to information about the bank
A shareholder has the right to request information and explanations at the General Meeting regarding the agenda of the General Meeting. This right corresponds to the obligation of the Management Board to provide the requested information and explanations at the General Meeting or, subject to statutory requirements, in writing within 15 days from the date of the General Meeting. A shareholder is also entitled to inspect documents entered into the collection of documents or the register of financial statements and minutes of general meetings at the bank's head office, and to ask for copies of such documents or to have them sent, and has the right to inspect the minutes of the Supervisory Board meetings.

f. the right to request a convening of an Extraordinary General Meeting
A motion to convene a General Meeting to discuss proposed issues may be filed by any shareholder(s) owning shares with a nominal value of at least 5 per cent of the share capital of the bank.

g. the right to a secure shareholding registration system
   Shares are registered with the Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository of the Slovak Republic).

h. the right to transfer shares
   Ordinary shares are freely transferable. The transferability of preferred shares is limited, subject to the terms and conditions stipulated in the bank's Articles of Association and pursuant to effective legal regulations.

The authority of the General Meeting includes:

a. amendments to the Articles of Association;

b. decisions to increase or decrease the share capital and to authorize the Management Board to increase the share capital;

c. approval and removal of an auditor;

d. election and removal of the Supervisory Board members, except for members who are elected and removed by bank employees;

e. approval of annual separate financial statements and extraordinary separate financial statements, decision-making on profit distribution or loss settlement and determining directors' fees;

f. decisions on other issues conferred by law or the Articles of Association to the authority of the General Meeting.

In the event of an amendment to the Articles of Association, the bank must comply with effective legal regulations and its Articles of Association. When an amendment to the Articles of Association is on the agenda of the General Meeting, an invitation to, and notice of the General Meeting, must in addition to legal requirements, contain at least the nature of the proposed amendment(s). Any draft amendment to the bank's Articles of Association is available for inspection at the bank's head office, or a copy can be sent upon request. The General Meeting decides on an amendment of the Articles of Association by a two thirds majority of the votes of shareholders present. To be valid, the Articles of Association require approval by the National Bank of Slovakia/European Central Bank, which is based on filing a written application along with the amendment to the Articles of Association and the full wording of the Articles of Association before and after such amendment.

In 2016, the General Meeting was held on 1 June. It was attended by shareholders holding ordinary shares representing a total of 65,064 votes, which accounted for 80.92 per cent of the share capital, and shareholders holding preferred shares representing a total of 862 votes, which accounted for 0.005 per cent of the share capital. The General Meeting approved the Annual Separate Financial Statements and the Consolidated Financial Statements for 2015, the Annual Report for 2015, the proposed profit distribution and directors' fees, decided on the terms of the dividend pay-out, elected a new member of the Supervisory Board, decided on the terms of acquisition of the bank's own shares and on the terms of pledging of own shares.

Supervisory Board

The Supervisory Board is the supreme control body of the bank that supervises the financial and business activities of the bank, the execution of powers by the Management Board and the bank's other activities. The Supervisory Board consists of eleven members, seven are appointed by the General Meeting and four by the bank's employees. Their terms of office are up to five years.

The Supervisory Board meets at least three times a year. A simple majority of all members is required to adopt a resolution.

The authority of the Supervisory Board includes:

a. checking adherence to the bank's Articles of Association and generally binding legal regulations;

b. monitoring that business targets set by the bank are achieved;

c. checking that accounting records are factual;

d. reviewing the bank's financial statements and proposed profit distribution or loss settlement and submitting its opinion to the General Meeting;

e. convening the General Meeting or submitting a motion for convening the General Meeting to the Management Board when required by the bank's interests;

f. electing and removing members of the Management Board, approving service contracts of members of the Management Board, approving conditions of compensation and other benefits of Management Board members;

g. granting approval or filing a motion for granting or withdrawing a power of attorney;

h. approving remuneration rules for members of the bank's bodies;

i. granting approval or filing a motion for appointment and removal of the director of internal control and internal audit division of the bank and determining the salary;

j. approving the nominated auditor;

k. granting approval to the Management Board to perform specific activities; and

l. other activities under effective legal regulations and the bank's Articles of Association.

The names of Supervisory Board members in 2016 are listed in the Top Management section.

Management Board

The Management Board is the statutory body that manages and acts on behalf of the bank.
The Management Board decides on all bank affairs, unless conferred to the authority of the General Meeting or the Supervisory Board by valid legal regulations or the Articles of Association.
All members of the Management Board are authorized to act on behalf of the bank. Two members of the Management Board jointly, or two proxies jointly, act and sign on behalf of the bank.
The Management Board consists of seven members, with office terms of up to five years.

The Management Board holds meetings as necessary, generally once a week. The Management Board has a quorum when the majority of its members are present. The consent of all members present is required to adopt a resolution.

Under the Articles of Association, the election and removal of members of the Management Board falls under the authority of the Supervisory Board. The number of nominees for an election corresponds to the number of offices of the Management Board members to be filled. A simple majority of the votes of all members of the Supervisory Board is required for appointment. When more than one member of the Management Board is to be elected the first vote will be conducted en bloc for all nominated candidates. If members of the Management Board are not elected en bloc, each candidate is voted on individually. When any of the nominated candidates is not elected, a new election with the same rules must be held to elect a member of the Management Board. The Supervisory Board also decides which member of the Management Board is to act as Chairman and which as Vice-Chairman of the Management Board.

To remove a member of the Management Board, a majority of votes of the Supervisory Board members is required. Removal is effective on the action date of the removal decision unless otherwise stipulated in the decision.

A change in members and the election of new members of the Management Board is only valid with the prior consent of the National Bank of Slovakia/European Central Bank.

The Management Board has the following competencies:

a. convening the General Meeting;

b. ensuring development, approval of, and compliance with the bank's organizational structure;

c. ensuring implementation of, and compliance with, the bank's governance system;

d. management and inspection of the performance of authorized banking activities;

e. ensuring the security and financial health of the bank;

f. adoption and regular review of general remuneration principles;

g. ensuring proper accounting is maintained by the bank;

h. ensuring the preparation and publication of the Annual Report and its submission to the General Meeting for discussion;

i. ensuring the preparation and publication of the financial statements and their submission to the General Meeting for authorization;

j. submitting the proposed profit distribution or loss settlement to the General Meeting for authorization;

k. deciding on share issuance or repurchase under an authorization granted by the General Meeting;

l. providing information concerning the principal business management objectives of the bank for the future period and the projected development of the bank's assets, funds and revenues to the Supervisory Board;

m. submitting a written report of the bank's business activities and assets compared with the anticipated development at the request of the Supervisory Board;

n. notifying the Supervisory Board immediately of all facts that could have a material effect on the development of business and the balance of the bank's assets, particularly on the bank's liquidity; and

o. other activities under effective legal regulations and the bank's Articles of Association.

The names of Management Board members in 2016 are listed in the Top Management section.

Committees

Audit Committee – its activities are performed by the bank's Supervisory Board, except for the chairman.

Risk Management Committee – monitors and reviews the bank's risk management activities and procedures and risk management strategies and other activities under legal regulations. Its members include designated Supervisory Board members.

Assets and Liabilities Committee (ALCO) – defines the bank's strategy and policy concerning management of the bank's assets and liabilities and the associated risks. Its members include the members of the Management Board and designated employees.

Credit Committee – decides on credit limits. Its members include designated members of the Management Board and designated employees.

Problem Loan Committee (PLC) – decides on strategy for handling non-performing loans. Its members include designated members of the Management Board and designated employees.

Operational Risk Committee (OPRICO) – decides on measures to mitigate operational risk at the bank and ensures alignment of approved measures and tasks with the bank's strategic interests. Its members include a designated member of the Management Board and designated employees.

Fraud Risk Management Committee – manages fraud risk as part of operational risk, in line with the bank's strategic objectives. Its members include designated employees.

Security Council – controls the bank's security policy to ensure maximum security and eliminate operational risks associated with the operation of the bank and proposes the bank's strategic objectives. Its members include designated members of the Management Board and designated employees.

Central Credit Committee – exercises defined approval authority during the provision of retail credit products. Its members include designated employees.

Damage Commission – deals with addressing damage caused to the bank's assets. Its members include a designated member of the Management Board and designated employees.

Risk Committee – fulfils defined roles in defining the framework, strategy, procedures and rules for risk management and control. Its members include designated members of the Management Board and designated employees.

Project Commission – executes entrusted project management powers. Its members include the members of the Management Board and designated employees.

Cost Management Committee – defines cost management strategy and fulfils defined tasks related to cost management. Its members include designated members of the Management Board and designated employees.

Occupational Health and Safety Commission – executes powers concerning occupational health and safety. Its members include designated employees.

Product Approval Committee – fulfils defined product management roles. Its members include designated employees.

Management methods

The bank's management methods include direct management methods, methods combining direct and technical (indirect) management and project management methods.

Direct management is executed via the setting of objectives, tasks and rules and via the operational guidance of activities of the managed organizational unit or employee.

Technical (indirect) management is performed by using internal control mechanisms, leaving space for independent management and organization by an organizational unit or an employee within their scope of work and by employing progressive economic incentives in line with efficient risk management.

Project management requires the temporary allocation of specific organizational units or employees and their temporary reporting to the project manager to a defined extent to achieve the project objective.

Information on management methods is published in the bank's Articles of Association and internal regulations.

Internal Control System

Internal controls applied at the bank constitute a system covering all levels of the organizational structure, including process control, direct and indirect, and out-of-process control.

The bank's internal control system is currently based on the guidelines of the parent RBI Group which, together with internal manuals and procedures, constitute one of the basic pillars of this system. In 2016, the bank continued to implement the standardized risk analysis process in additional processes. The implementation process was followed by a phase of regular monitoring and its results have been presented to the competent authorities and to the Supervisory Board acting as the Audit Committee. As part of continuous enhancement of the internal control system, to mitigate operational risk, the bank implemented system changes and strengthened control activities in selected processes in 2016. As part of the internal control system, the bank will continue to implement risk analysis to additional processes, focusing on areas posing the biggest risk to the bank.

There is an Internal Control System Officer responsible for implementing the process of analysis, monitoring and reporting in the Operational Risk Management department. In 2016, the Internal Control System Officer participated in working groups tasked with revising the control system in

selected ICS processes. The Control System Officer fulfils responsibilities stipulated by the bank's Management Board.

Internal controls are designed to ensure the safety and protection of assets and individuals, to guarantee the reliability and accuracy of bookkeeping, to support compliance with and communication of the strategy and goals, to enhance effectiveness and compliance with applicable regulations, and to eliminate risks to prevent losses or other damage.

Direct control represents all ongoing control measures, procedures and mechanisms at individual bank units, which are a direct and ongoing daily part of business processes. The working process is not complete without these controls. Direct process control is undertaken by employees or the organizational units directly involved in the specific processes.

Indirect control includes all ongoing control measures, procedures and mechanisms at individual units of the bank, which are an indirect part of processes. Indirect process control is carried out by managers of individual bank units responsible for controlled processes and for control results, or by their authorized employees.

Out-of-process control is independent of operational and business procedures. It is conducted by a separate and independent internal control and internal audit unit, as a regular review of the functionality of the internal control system and the evaluation of its efficiency.

Risk Management System

The bank monitors, evaluates and manages the following types of risks: credit, market, liquidity and operational risk as part of risk management. These risks and the bank's overall risk profile are also subject to internal and external controls under legislative and regulatory requirements and the bank's internal requirements. As part of the Internal Capital Adequacy Process (ICAAP), the bank also analyzes other risk types to which it is or might be exposed.

Credit risk, i.e. the risk that a counterparty will not be able to repay the full amount owed upon maturity, is monitored regularly and the financial position of each client is reviewed and assessed at least once a year. Exposure to any single debtor is restricted by capital exposure limits, which are consistently monitored and reported to the National Bank of Slovakia on a monthly basis. Retail debtors are assessed using scoring models developed for individual products. SME and corporate clients are assessed using the rating models.

The bank is exposed to **market risk** in connection with its activity from open positions, chiefly from transactions with interest-rate, cross-currency and equity products. To determine the level of market risk of its positions, the bank applies internal procedures and models for individual types of risks to which the bank is exposed. These limits are monitored daily.

By managing **liquidity risk** the bank secures its solvency, the ability to duly fulfil its financial obligations on time and to manage assets and liabilities to assure constant liquidity. Liquidity risk is closely monitored and is subject to internal limits set by the bank and the limits defined by the RBI Group and the National Bank of Slovakia. The bank actively monitors new liquidity legislation and is in advance compliance with the Liquidity Coverage Ratio and Net Stable Funding Ratio requirements under Basel III.

The bank calculates the amount of regulatory capital to cover **operational risk** using the standardized approach. The bank uses a set of qualitative and quantitative methods to identify and manage operational risk as regards the potential impact of operational incidents on its profit and goodwill. The bank takes into consideration legislative changes under preparation concerning the calculation of own funds and is preparing a transfer to a more advanced operational risk measurement approach that more comprehensively reflects the bank's risk characteristics. As a priority, the bank also raises awareness of operational risk using various communication forms at the bank.

Bank's share capital and shares

The bank's share capital amounts to EUR 64,326,228 and has the following structure:

ISIN: SK1110001502
Nominal value: EUR 800 Number: 60,616 shares
Class: ordinary share
Form: registered share
Type: book-entry security
Description of rights and obligations: the right of attendance, voting and presenting motions at the General Meeting; the right to a share of profit and liquidation balance; the right to preferential subscription of shares; the right to request the convening of the General Meeting; the right to inspect documents and minutes of the bank; the obligation to pay the issue price of shares; the obligation to refund to the bank any settlements unlawfully provided; the obligation to pay late payment interest in the event of a breach of duty to pay the share issue price.
Transferability: no restrictions
Percentage of share capital: 75.386%
Held for trading: 60,616 shares

ISIN: SK1110015510
Nominal value: EUR 4,000 Number: 2,095 shares
Class: ordinary share
Form: registered share
Type: book-entry security
Description of rights and obligations: the right of attendance, voting and presenting motions at the General Meeting; the right to a share of profit and liquidation balance; the right to preferential subscription of shares; the right to request the convening of the General Meeting; the right to inspect documents and minutes of the bank; the obligation to pay the issue price of shares; the obligation to refund to the bank any settlements unlawfully provided; the obligation to pay late payment interest in the event of a breach of duty to pay the share issue price.
Transferability: no restrictions
Percentage of share capital: 13.027%
Held for trading: 2,095 shares

ISIN: SK1110007186, SK1110008424, SK1110010131, SK1110012103, SK1110013937, SK1110014901, SK1110016237, SK1110016591
Nominal value: EUR 4
Number: 1,863,357 shares

Class: preferred share
Form: registered share
Type: book-entry security
Description of rights and obligations: the right of attendance and to present motions at the General Meeting; the priority right to a share of profit and liquidation balance; the right to vote at the General Meeting subject to statutory conditions; the right to preferential subscription of shares; the right to request a convening of the General Meeting; the right to inspect documents and minutes of the bank; the obligation to pay the issue price of shares; the obligation to refund to the bank any settlements unlawfully provided; the obligation to pay late payment interest in the event of a breach of duty to pay the share issue price.
Transferability: restricted
Percentage of share capital: 11.587%
Held for trading: 0 shares

Pursuant to Act No. 566/2001 Coll. on securities and investment services and on amendment to certain acts as amended, a qualified participation in the bank's share capital is held by the shareholder, Raiffeisen CEE Region Holding GmbH, with its registered office at Am Stadtpark 9, 1030 Vienna, Austria, with a 78.782 per cent share and an 89.107 per cent share in the bank's share capital and voting rights, respectively.

The bank's share capital does not include any shares whose holders have special control rights. The bank is not aware of any agreements between securities holders that could lead to any restrictions with respect to the transferability of securities or voting rights.

The bank has not entered into any agreements that would take effect, be subject to change or termination as a result of a change in control in relation to a takeover bid.

The bank has not entered into any agreements with members of its bodies or employees under which they are entitled to compensation should their office or employment end due to resignation, notice given by an employee, dismissal, notice given by the employer without stating a reason, or if their employment terminates as a result of a takeover bid.

Segment reports

Corporate Clients

Retail Clients – Tatra banka

Retail Clients – Raiffeisen Bank

Support of arts, education and design,
Nadácia Tatra banky

Corporate Clients

(in thousands of EUR)	12/2016	12/2015	12/2014	12/2013	12/2012[1]	12/2011[2]	12/2010[3]
Net interest income	66,282	73,394	87,928	88,541	97,070	96,870	72,636
Net provisioning	4,265	(21,631)	(35,011)	(24,300)	(24,683)	(11,152)	(33,318)
Net interest income after provisioning	70,547	51,763	52,917	64,241	72,387	85,718	39,318
Net fees and commission income	32,014	31,196	23,170	21,775	21,710	24,645	19,252
Other operating income	(4,829)	(4,618)	(6,428)	(8,395)	(8,158)	–	–
Operating expenses	(52,092)	(42,909)	(39,603)	(38,333)	(40,069)	(45,545)	(32,542)
Profi t before income taxes	45,640	35,432	30,056	39,288	45,870	64,818	26,028
Cost/Income ratio	53.00%	41.03%	35.65%	34.75%	33.73%	37.48%	35.41%

Note: Large and medium-sized corporate customers

[1]Other operating income since 2012 includes an extraordinary and special levy on selected fi nancial institutions.

[2]Due to a change in services for corporate customers with revenues of up to EUR 3.3 million some customers were moved from the retail customers segment to the corporate customers segment in 2011. This resulted in a decrease in the retail segment and an increase in the corporate segment in the year-on-year comparison (2011 against 2010).

[3]In the 2010 results a retroactive change was made to the amount of operating expenses, in line with the methodology effective since 2011 (reposting VAT from other operating income to operating expenses). This change also affected Profi t before income taxes and the Cost/Income ratio.

Figures for older periods are shown according to the original methodology.

Tatra banka is the long-term leader in corporate financing on the Slovak banking market. Last year, the bank again confirmed its leading position and had close to 22 per cent in the corporate-financing market, which is a great achievement in such a dynamic competitive environment. This excellent result reflects the bank's long-term commitment to providing professional products and services to its corporate clients. Surveys confirm that Tatra banka is one of the most frequently chosen banks as a corporate banking partner by successful entrepreneurs and companies. In 2016, the bank achieved even stronger growth in client satisfaction in the large and medium-sized enterprises segment.

The corporate management system and the Great Corporate and Incorporated Banking concepts that guarantee individual service for large corporations and medium-sized companies underwent further streamlining of processes in 2016 to ensure the provision of the highest level of professional services to more than 8,000 corporate clients.

Tatra banka serves large corporations via its relationship managers at the Bratislava head office. The needs of middle-sized clients are addressed by relationship managers at corporate centers throughout Slovakia. The financing of development and energy projects, factoring, agriculture financing and products securing business risks, e.g. bank guarantees and documentary letters of credit, are provided by product specialists in Bratislava. International clients can use the services of the bank's professionals in the department serving international corporations.

Large corporate clients

2016 was another very successful year for the segment of large corporate clients. Revenues in the segment were significantly influenced by the overall situation on the market and low interest rates. Relatively high growth was achieved due to a substantial increase in charges.

The bank participated in all major transactions on the Slovak market, as the leader of club financing and as a major party in syndicated loans.

Asset growth was achieved thanks to investments in new technologies, infrastructure and real estate financing and an increase in existing credit trades. In 2016, the bank arranged the largest syndicated real estate loan in Slovakia, totaling EUR 250 million.

There was further growth in demand for project financing during the year, and an overall recovery of the real estate market with respect to the financing of office premises and new residential properties.

During the year, the bank continued to focus on increasing client satisfaction and selling new banking products. The bank focused on increasing cross-selling activities, with respect to products and in individual client segments.

The bank continued to focus on improving processes related to corporate loans. The bank also concentrated on the acquisition of new corporate clients and new foreign investors in Slovakia.

Corporate centers

Tatra banka had an extremely successful year in the segment of medium-sized corporate clients. The bank has more than 6,400 corporate clients, which confirms the bank's leading position in corporate banking on the Slovak market. Client satisfaction as measured by the TRI*M index reached its highest level ever.

Economic recovery was reflected in a significant improvement in the quality of the bank's loan portfolio and the share of non-performing loans was consistently below the market average. New loans were mainly used to finance real estate, construction and the extension of clients' production facilities; the bank also acquired several new clients. The amount of loans drawn totaled almost EUR 1.1 billion; in 2017 the bank's goal is to achieve growth of more than 5 per cent. Current accounts dominated deposit products due to low interest rates and primary deposits also reached record levels.

Corporate products

In terms of business results, 2016 saw a stable demand for loans and other business and project-financing products from corporate entities.

Demand for property financing continued to increase. The amount of loans drawn increased to nearly EUR 930 million year-on-year, which confirmed Tatra banka's position as the leader on the Slovak market.

Factoring was again a market leader, despite lower turnover year-on-year, which totaled EUR 373 million in 2016.

There was a slight decrease in the amount of loans drawn for the financing of agricultural and renewable energy source projects. The principal reason is the regular amortization of the existing financed projects and a very low volume of new loans on renewable energy sources.

Capital market products

Many significant economic and political events occurred in 2016 (US presidential election, BREXIT, Italian referendum, central bank policies, etc.) which had a significant impact on financial markets and on the behavior of the bank's clients and their demand for capital market products.

As regards liabilities, in 2016, in connection with the ECB's exceptionally loose monetary policy and its impact on interest rate levels on the interbank market of corporate and non-bank financial institutions, Tatra banka recorded a significant year-on-year decrease in term deposits by about 75 per cent, although this mainly represented transfers to current accounts.

However, low interest rates encouraged the bank's loan clients to secure the cost of debt service via interest rate swaps and interest rate options. Their amount more than doubled year-on-year.

Foreign exchange transactions of the bank's clients showed little difference year-on-year in terms of the amount and product range. Simple forward transactions and clients' personalized option structures were the most popular hedging products. Compared to the year before, Tatra banka recorded increased interest from clients in trades in the currencies of neighboring countries.

Via cooperation with Raiffeisen Bank International (RBI), Tatra banka also mediated for its clients an investment in an RBI senior unsecured bond.

There was significant activity by corporate and institutional clients in security transactions in 2016. New issues of mortgage bonds and the final sales of older issues resulted in an increase of about EUR 30 million in sales of Tatra banka mortgage bonds in 2016 from the year before. In 2016, Tatra banka continued to be the leader on the secondary market in Slovak bonds.

Retail Clients

(in thousands of EUR)	12/2016	12/2015	12/2014	12/2013	12/2012[1]	12/2011[2]	12/2010[3]
Net interest income	182,966	187,410	194,530	189,360	178,961	168,977	187,436
Net provisioning	(17,606)	(12,344)	(18,241)	(21,781)	(13,699)	(3,118)	(11,096)
Net interest income after provisioning	165,360	175,065	176,289	167,579	165,262	165,859	176,340
Net fees and commission income	95,380	102,423	99,782	87,295	82,202	80,837	85,540
Other operating income	(11,215)	(9,578)	(12,979)	(16,899)	(9,967)	–	–
Operating expenses	(165,453)	(165,455)	(162,098)	(155,064)	(152,345)	(157,505)	(166,304)
Profi t before income taxes	84,072	102,455	100,994	82,910	85,152	89,190	95,576
Cost/Income ratio	59.44%	57.09%	55.08%	56.05%	58.33%	63.05%	60.92%

Note: Private individuals, small business clients, micro companies, private banking clients and employees

[1]Other operating income since 2012 includes an extraordinary and special levy on selected fi nancial institutions.

[2]Due to a change in services for corporate customers with revenues of up to EUR 3.3 million some customers were moved from the retail customers segment to the corporate customers segment in 2011. This resulted in a decrease in the retail segment and an increase in the corporate segment in the year-on-year comparison (2011 against 2010).

[3]In the 2010 results a retroactive change was made to the amount of operating expenses, in line with the methodology effective since 2011 (reposting VAT from other operating income to operating expenses). This change also affected Profi t before income taxes and the Cost/Income ratio.

Figures for earlier periods are shown according to the original methodology.

Retail Clients – Tatra banka

In 2016, Tatra banka prepared a new student-acquisition campaign and approached students in a non-standard way, using YouTubers. In this way, the bank tapped into current and popular trends among students. The new concept drew a strong positive response from students and more than 18,000 student accounts were opened.

In 2016, the deposit market continued to be influenced by low interest rates. The volume of deposits continued to grow on almost all types of deposit products.

Payment Cards

In 2016, a new generation of payments by mobile phone was developed. Tatra banka introduced contactless payments for its customers in 2012. However, in 2016 the bank offered a new solution that was completely independent of mobile operators. In November 2016, Tatra banka introduced a new **Mobile**Pay™ application for Android smartphones. In addition to contactless payments with a mobile phone and online card management, the application offers clients a unique solution for safe internet purchases using a one-off card number.

In the summer, Tatra banka again offered its customers a chance to obtain a credit card with a limited edition design, this time featuring the Cvernovka publication by Martin Mistrík and Villiam Csino.

The growing trend of using payment cards is significantly influenced by continual growth of contactless payments. Almost half of active users of the bank's debit cards and 40 per cent of credit card users actively use this method of payment.

Loans

Tatra banka also introduced innovations in credit products in 2016. The bank launched a new mortgage campaign with which clients choose either a waiver of the first instalment or an interest rate discount. During a media campaign for consumer loans, clients could draw the Any Purpose Classic Loan (**Bezúčelový** úver™ **Classic**) with zero interest from the mid-point of repayment. The bank also allowed clients to benefit from a free extra instalment payment and save money. Every month, clients can make an extra instalment via **Internet** banking™ or the Tatra banka mobile app and save money.

As regards the Any Purpose Classic Loan (**Bezúčelového** úveru™ **Classic**), in the summer the bank substantially extended and simplified the option to increase and consolidate consumer loans at a branch, via the mobile app and **Internet** banking™. An any purpose loan drawn with a mortgage loan with even more favorable conditions was added to the portfolio.

Comfort, in particular for premium clients, when consulting a new mortgage or consumer loan is offered by a new End-to-End process provided by the **DIALOG** Live call center. With this process, clients can benefit from the comprehensive advice of a mortgage specialist without visiting a branch. The documents required to approve a loan are delivered electronically and the drawing of the loan only requires a single branch visit to sign the agreement.

The retail loan market continued to grow in 2016 with housing loans growing 15.61 per cent and unsecured loans recording 17.27 per cent growth. Tatra banka posted growth of 12.29 per cent in the housing loan portfolio and the portfolio of unsecured loans grew 20.37 per cent year-on-year.

In 2016, Tatra banka provided 14,091 loans secured by property totaling over EUR 850 million. More than 2,000 of these loans were home equity loans with a total value of over EUR 86 million and another 12,000 were housing loans with a total value of more than EUR 764 million. The total amount of Any Purpose Classic Loans (**Bezúčelových** úverov™ **Classic**) was EUR 279 million, with more than 51,000 loans provided in 2016.

Internet banking, Mobile Applications, Acceptance of Payment Cards

Internet banking™ has long been the most-used method for making payments. Less than 2 per cent of transactions are made via branches, while **Internet** banking™ and the **Tatra banka** mobile app account for more than 40 per cent of transactions. In total, 98 per cent of transactions at Tatra banka are made electronically. In 2016, clients made more than 2 million payments in Slovakia via **Internet** banking™ and the mobile app per month.

In 2016 Tatra banka again won awards to add to those won in previous years. Tatra banka received two awards from the international monthly magazine, Global Finance: Best Consumer Digital Bank in Slovakia and Best Web Site Design in Central and Eastern Europe (CEE).

Tatra banka maintained its position as market leader in the acceptance of payment cards in 2016, which was also confirmed by the MasterCard Acquirer of 2016 award for the highest year-on-year transaction increase.

Internet banking[TB]

Internet banking[TB] is used at least once a month by almost 200,000 clients to make around 1.5 million transactions every month.

Each year, Tatra banka seeks to offer clients new and innovative features in its **Internet** banking[TB]. Since May 2016, clients can find in **Internet** banking[TB] their contract documents signed at a branch. Clients with a pre-approved any purpose loan receive an online offer in a new and clearer graphic layout. They can also choose to repay existing any purpose loans using a new loan.

In 2016, finance management tools, including **Spending** report[TB] and Assets and Liabilities, were added to with a new feature: Goals. Clients can set in **Internet** banking[TB] short-term and long-term goals, i.e. the creation of a financial reserve, purchase of a car, or saving for a better retirement and then monitor their fulfilment.

Mobile Applications

Tatra banka introduced several new features in 2016 to mobile banking clients and extended the availability of other products and services to cover this distribution channel. The four versions of the **Tatra banka** app offered a number of new features. In addition to displaying campaign offers, it allows premium clients to contact their personal banker directly via the application. Updates also offer clients an overview of the TAM funds and SEPA direct debit. The attractiveness of such banking services is confirmed by a 40 per cent increase in active users, and by awards won by the application during the year – Techbox banking application, Android code, AppsRullezz and Smartbanka.

The authorization tool, the Reader (**Čítačka**) app, underwent a complete redesign in 2016 and now gives clients the option to use it on desktop computers and notebooks with the Windows 10 operating system.

Since 2016 active users of the **Tatra banka VIAMO** app can ask their friends and acquaintances to settle the required amount by sending them a Payment Reminder.

Acceptance of Payment Cards

In 2016 Tatra banka maintained its position as the leader in the Slovak market in the acceptance of payment cards. Tatra banka's business partners generated turnover of EUR 2.99 billion on payment terminals with a total of more than 120.7 million transactions. There were 5.3 million transactions totaling EUR 235.9 million via CardPay in 2016, 45 per cent more than the year before.

At the end of 2016, Tatra banka had 15,291 active payment terminals, 98 per cent of which supported contactless payments. The share of contactless transactions on Tatra banka's payment terminals increased to 50 per cent in 2016.

In 2016 clients made more than 350,000 ATM withdrawals with a mobile phone, of a total amount of more than EUR 32.8 million.

DIALOG Live

In 2016 **DIALOG** Live continued to focus on relationship management development via remote personal bankers and remote business advisors. At the end of 2016, there were 58 relationship managers working at **DIALOG** Live, who provided a full service to tens of thousands of Tatra banka's premium clients with a comprehensive range of services and products.

Private Clients

Private banking concentrated on increasing assets under administration in 2016. This goal was achieved by increasing the assets of existing clients and by acquisition activities. Funds managed by private banking exceeded EUR 2.18 billion, confirming Tatra banka's leading position in this segment.

Private banking continued to concentrate on client satisfaction. Via constant investments in personnel development, product innovation and process improvement, it delivers a service with high added value. High client satisfaction was confirmed by an independent measurement by TNS agency using the TRI*M method.

Private banking prepared new investment solutions for its clients in cooperation with Raiffeisen Capital Management – multi-asset funds: Sicherheit, Wachstum and Ertrag. Clients could also benefit from the open architecture of investment products.Stress test of client portfolios was appreciated by clients in light of the unexpected vote of the UK for Brexit and the polarizing result of the US presidential election.

Tatra banka's private banking was recognized as the best private banking in Slovakia by the foreign magazines Global Finance, Euromoney, The Banker and World Finance.

Small Business Clients

Tatra banka again recorded growth in the volume and number of loans provided in the small business clients segment in 2016. This growth was significantly advanced by financing via the Variant Business Loan (**Business**Úver™ Variant) and Express Business Loan (**Business**Úver™ Expres).

Retail Clients – Raiffeisen Bank

2016 was the fourth year of the bank's operations on the Slovak market. At the end of 2016, the bank operated 62 business outlets, 18 as mall branches and 11 as franchise branches.

Raiffeisen Bank offers its clients a unique experience and straightforward, user-friendly products and services at fair prices. In everything the bank does, it values the following principles: simplicity, comprehensibility, transparency and a caring approach.

These are the attributes customers most appreciate about the bank, which is also confirmed by the results of surveys conducted by TNS, an independent agency measuring client satisfaction using the TRI*M index. The results show that the clients of Raiffeisen Bank are the most satisfied of all bank clients on the Slovak market since its entry into the Slovak market.

Raiffeisen Bank more than doubled the amount of loans year-on-year and the number of clients increased one and a half times. Raiffeisen bank has become a pioneer in account switching (transfer of a client's account between banks) on the market and account switching became a relevant acquisition instrument.These results have a positive impact on Tatra banka's overall results. Raiffeisen Bank increased the joint market share of consumer loans by 1 per cent. The total number of clients in the segment of private individuals increased by more than 18,000 thanks to Raiffeisen Bank, which has recorded a higher growth than Tatra banka for the last three consecutive years. Overall, the results confirm that Raiffeisen Bank was a good project choice.

Support of arts, education and design

For more than two decades, Tatra banka's sponsorship **partnerships** have focused on promoting original Slovak art. **For over thirteen years**, the Tatra banka Foundation has provided philanthropic grant programs and cooperation partnerships.

One of the main themes of the bank's promotion of the arts is support for **theatrical productions**. In addition to its long-term cooperation with regional theatres (via the Tatra banka Foundation), Tatra banka became the partner of the Slovak National Theatre for the tenth time.

Tatra banka also supports the **visual arts** and the bank continued its partnership with the Slovak Centre for Visual Arts – Kunsthalle Bratislava. Thanks to the bank's support, exhibitions and creative workshops were open to visitors free of charge.

In 2016, Tatra banka was again the general partner of a leading exhibition at the Bratislava City Gallery by the legendary Slovak painter Rudolf Fila.

For the fourth year, a strategic goal of Tatra banka was to increase support for **design**, which is seen as an inseparable part of Tatra banka Foundation's comprehensive support of the arts with significant innovation potential. This goal was realized via partnerships of the Tatra banka Foundation, the foundation's grant program that supports young designers, and the foundation's participation in events in this field. Another activity of strategic importance was the bank's partnership with the Days of Architecture and Design project as the main partner of the Open Design Studio and as the general partner of the By Design conference.

Tatra banka also regularly contributes to the development of education by supporting **established conferences** for top specialists and industries. In 2016, the bank continued its exclusive partnership with selected TREND conferences.

The bank communicated more intensively in 2016 on the topic of **startups and innovations** by acting as a partner for various conferences and events in this area.

Investments in art and education are part of a long-term process that must be continuous. The results of the work become visible gradually. They have an indisputable importance in shaping society – bringing real values, providing opportunities and helping to improve our society. Tatra banka believes that only educated people can cultivate our society and wishes to be a respectable part of such society.

The bank intends to continue in this direction.

Nadácia Tatra banky (Tatra banka Foundation)

Tatra banka Foundation is a prominent philanthropic institution that supports education in secondary schools and universities, original Slovak art, and design. The foundation seeks to assist those who want to grow, learn, create and have an ambition to achieve something in life – it is for all those wishing to be the best in their field.

Through its grants, programs and cooperation, the foundation facilitates new, inspirational meetings with global experts, **supports active groups of teachers and students at universities and secondary schools, young talented artists and designers** and creates attractive opportunities for NGOs.

In 2016, the Tatra banka Foundation supported 369 valued projects and provided almost EUR 740,000.

Grant programs

The aim of the foundation's grants is to support active groups of professors and students at universities who look to go beyond the official educational syllabus and extend it, to enrich their subject, or to link the educational process to the needs of practical experience and similar efforts. **The foundation offers eight grant programs in education, art and design and three employee grant programs.**

Partnerships in the regions

The **support of theatrical works** is one of the main artistic areas of focus for the foundation. High quality theatrical performances are created and presented throughout Slovakia and the foundation has a long record of assistance to 11 selected regional theatres.

Through the More for the Regions (**Viac pre regióny**™) grant program the foundation supported eight projects undertaken by non-governmental organizations. The support is given to NGOs in each of Slovakia's regions based on voting by Tatra banka Group employees.

Personalities in Person

Under the foundation's program Personalities in Person, Slovakia has welcomed seven Nobel Prize winners and five Pulitzer Prize winners and dozens of foreign professors and more than 80 top Slovak and Czech economists, who gave lectures to students at Slovak universities and the general public.

In 2016, the invitation was accepted by the **Pulitzer Prize holder Deborah Nelson**, who gave public lectures at Comenius University in Bratislava and Pavol Jozef Šafárik University in Prešov, and conducted several workshops with students studying journalism.

Tatra banka Foundation Art Award

For twenty-one years, the Tatra banka Foundation has recognized those whose work contributes to the development of Slovak art in film, literature, music, theatre, fine arts and design. The aim of the Tatra banka Foundation is to recognize individuals who contribute to Slovak culture and give them support to create more first-rate works of art.

To date, Tatra banka has presented the award to 87 established artists and 47 new artists.

For detailed information about grant programs and activities of the Tatra banka Foundation, please visit: www.nadaciatatrabanky.sk

Consolidated financial statements

Independent Auditor's Report

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Tatra banka, a.s.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and 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 Consolidated 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 consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the risk factors
Individual Loan Loss Provisions for Loans to Customers	
Refer to Note No. 16 of the consolidated financial statements The assessment of loan loss provisions to large loan receivables is determined on an individual basis and requires management to apply a significant level of judgement. The level of individual loan loss provisions reflects assumptions made by management in evaluating the following critical areas: a) Identification of impairment events for different loan customers, b) Valuation of collateral, c) Determination of expected future cash flows.	We tested the design and operating effectiveness of key controls management has established over the impairment evaluation processes. For loan loss provisions determined on an individual loan basis this included controls over the compilation and review of the credit watch list, regular client creditworthiness review processes, approval of expert's collateral valuation and management review and approval of the impairment evaluation results.

The loan loss provision determined on an individual basis represents EUR 178.4 million of the total recorded allowances of EUR 200.0 million as at 31 December 2016.	On a sample of large loans we evaluated appropriateness of provisioning methodologies and their application. We formed an independent view on the levels of provisions required by examining available external and internal information. This work involved assessing the work performed by experts used by the Bank to value the collateral or to assess the estimates of future cash flows. On the same sample, we also verified the correctness of discounted cash flow calculations used to derive the recoverable amount of the loan. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to assess whether there was any indication of error or management bias. The overall conclusion was overlaid by an analysis performed at the whole portfolio level aimed at identifying unusual or irregular developments.
Provision for Legal Cases Against the Bank	
Refer to Note No. 32 of the consolidated financial statements The recognition and measurement of the provision and the measurement and disclosure of contingent liabilities in respect of litigations require a significant level of judgement by the Bank's management driven by the following critical factors: a) Likelihood of successfully defending the legal case; and b) Quantification of the possible pay-out. As at 31 December 2016, the Bank recognised provisions for passive legal cases totalling EUR 41.0 million.	We tested the design and implementation of the Bank's key controls over the identification, recognition and disclosure of exposures. The tested controls included those over the timely identification of exposures; the completeness and accuracy of data used in relevant models; and the assessment of the provision and disclosure of exposures in accordance with the relevant accounting standards. We challenged the adequacy of the recognised provisions by critically assessing the key assumptions used in the provision models and by comparing the assumptions to available information obtained through correspondence with external and internal legal experts of the Bank. We also assessed the disclosures made on litigation exposures in order to determine whether the disclosures were sufficiently clear as regards the uncertainties that existed in relation to the recognised contingent liabilities and provisions.
VISA Transaction	
Refer to Note No. 6 of the consolidated financial statements The sale of shares of Visa Europe Ltd. and related exchange for shares of Visa Inc. was recognised in 2016 and required the application of management judgement to determine the net result of the transaction. Management judgment was applied in determining the appropriate recognition and measurement policies for the individual elements of the transaction, including: a) Presentation of the revenue from the cash consideration received in 2016; b) Recognition and measurement of non-cash and deferred cash consideration receivable in the future. The transaction had a material non-recurring impact on the financial statements, with the total pre-tax result of the transaction amounting to EUR 30.3 million.	We have analysed all communication received by the Bank from Visa Europe Ltd. stating the terms of the exchange transaction and the estimated value of each of the three types of consideration receivable by the Bank. We have evaluated the recognition and measurement policies applied by the Bank for each element of the transaction against the criteria of the accounting standards. We have also assessed the amount of revenue recognised by the Bank for each element of the transaction, its presentation in the consolidated financial statements and appropriateness of related disclosures.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 Consolidated Financial Statements

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

As part of 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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 consolidated financial statements stated above does not apply to other information in the annual report.

In connection with the audit of consolidated 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 consolidated financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of consolidated financial statements, the annual report was not available to us.

When we obtain the annual report, we will evaluate whether the Bank's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the consolidated financial statements, we will express an opinion on whether:

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

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Bank and its position, obtained in the audit of the consolidated financial statements.

Bratislava, 10 March 2017

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

Ing. Peter Longauer, FCCA
Responsible Auditor
Licence UDVA No. 1136

Consolidated financial statements for the year ended 31 December 2016

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

(in thousands of EUR)	Note	2016	2015
Interest and similar income		303,759	321,845
Interest and similar expenses		(29,158)	(32,459)
Net interest income	(1)	**274,601**	**289,386**
Provisions for impairment losses	(2)	(12,301)	(33,922)
Net interest after provisioning		**262,300**	**255,464**
Fees and commissions income		154,222	165,378
Fees and commissions expense		(34,773)	(33,675)
Net fees and commission income	(3)	**119,449**	**131,703**
Net profit (loss) from trading instruments	(4)	22,768	23,184
Net profit (loss) from financial instruments at fair value through profit or loss	(5)	(324)	(188)
Net profit (loss) from available-for-sale financial instruments	(6)	30,341	(8)
Net profit (loss) from investments in associated undertakings	(7)	–	1,910
General administrative expenses	(8)	(249,210)	(233,890)
Special levy of selected financial institutions	(9)	(19,365)	(17,553)
Other operating profit (loss)	(10)	(3,225)	(1,181)
Profit before income taxes		**162,734**	**159,441**
Income taxes	(11)	(36,754)	(38,879)
Consolidated profit after tax		**125,980**	**120,562**
Other components of comprehensive income, after income tax:			
Items that can be reclassified to profit or loss			
Available-for-sale financial assets	(21)	(15,672)	16,327
Cash flow hedges		778	338
Other components of comprehensive income, after income tax		**(14,894)**	**16,665**
Comprehensive consolidated profit after tax		**111,086**	**137,227**
Basic earnings per ordinary share (face value EUR 800) in EUR	(12)	**1,571**	**1,513**
Basic earnings per ordinary share (face value EUR 4,000) in EUR	(12)	**7,855**	**7,565**
Basic earnings per preference share (face value EUR 4) in EUR	(12)	**7.9**	**7.6**

Consolidated Statement of Financial Position for the year ended 31 December 2016

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

(in thousands of EUR)	Note	2016	2015
Assets			
Cash and deposits in central banks	(13)	719,244	906,546
Loans and advances to banks	(14)	147,801	125,893
Loans and advances to customers, gross	(15)	8,551,381	8,144,219
Impairment losses for loans and advances	(16)	(200,026)	(221,182)
Derivative financial assets	(17)	49,216	61,850
Held-for-trading financial assets	(18)	69,048	22,357
Financial assets at fair value through profit or loss	(19)	53,323	60,590
Held-to-maturity financial investments	(20)	1,725,976	1,729,184
Available-for-sale financial assets	(21)	32,514	156,781
Investments in associated undertakings	(22)	3	3
Non-current intangible assets	(23)	43,312	46,332
Non-current tangible assets	(23)	61,322	69,285
Investment property	(23)	40,176	42,630
Current tax asset	(24)	8,208	509
Deferred tax asset	(25)	27,493	24,749
Other assets	(26)	44,037	45,370
Total assets		**11,373,028**	**11,215,116**
Equity and liabilities			
Deposits from banks	(27)	241,182	357,083
Deposits from customers	(28)	8,966,815	8,719,428
Derivative financial liabilities	(29)	49,042	66,645
Held-for-trading financial liabilities	(30)	72,056	48,904
Liabilities from debt securities	(31)	713,670	688,570
Provisions for liabilities and charges	(32)	51,214	46,953
Current tax liability	(33)	206	3,342
Deferred tax liability	(33)	1,479	1,363
Other liabilities	(34)	47,178	50,279
Subordinated debt	(35)	236,139	236,174
Total liabilities		**10,378,981**	**10,218,741**
Equity (excluding current year profit)	(36)	868,067	875,813
Consolidated profit after tax		125,980	120,562
Total equity		**994,047**	**996,375**
Total equity and liabilities		**11,373,028**	**11,215,116**

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

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

(in thousands of EUR)	Share capital	Share capital – own shares	Share premium	Share premium – own shares	Reserve fund and other funds	Available-for-sale financial assets revaluation reserve	Cash flow hedging revaluation reserve	Retained earnings	Consolidated profit after tax	Total
Equity as at 1 January 2016	**64,326**	**(306)**	**297,224**	**(3,670)**	**15,431**	**16,830**	**338**	**485,639**	**120,562**	**996,375**
Transfer to retained earnings	–	–	–	–	–	–	–	120,562	(120,562)	–
Increase in the reserve fund	–	–	–	–	407	–	–	(407)	–	–
Dividends paid	–	–	–	–	–	–	–	(115,190)	–	(115,190)
Sale of treasury preference shares	–	453	–	5,425	–	–	–	–	–	5,878
Amortisation of discount on preference shares	–	–	–	–	–	–	–	–	–	–
Profit from the sale of ordinary and preference shares	–	–	(90)	–	–	–	–	–	–	(90)
Repurchase of preference shares	–	(311)	–	(3,700)	–	–	–	–	–	(4,011)
Comprehensive profit after tax	–	–	–	–	–	(15,672)	778	–	125,980	111,086
Equity as at 31 December 2016	**64,326**	**(164)**	**297,134**	**(1,945)**	**15,838**	**1,158**	**1,116**	**490,604**	**125,980**	**994,047**

(in thousands of EUR)	Share capital	Share capital – own shares	Share premium	Share premium – own shares	Reserve fund and other funds	Available-for-sale financial assets revaluation reserve	Cash flow hedging revaluation reserve	Retained earnings	Consolidated profit after tax	Total
Equity as at 1 January 2015	**64,326**	**(652)**	**297,439**	**(7,840)**	**15,024**	**503**	**–**	**513,784**	**114,640**	**997,224**
Transfer to retained earnings	–	–	–	–	–	–	–	114,640	(114,640)	–
Increase in the reserve fund	–	–	–	–	407	–	–	(407)	–	–
Dividends paid	–	–	–	–	–	–	–	(142,379)	–	(142,379)
Sale of treasury preference shares	–	729	–	8,783	–	–	–	–	–	9,513
Amortisation of discount on preference shares	–	–	–	–	–	–	–	–	–	–
Profit from the sale of ordinary and preference shares	–	–	(215)	–	–	–	–	–	–	(215)
Repurchase of preference shares	–	(383)	–	(4,613)	–	–	–	–	–	(4,996)
Comprehensive profit after tax	–	–	–	–	–	16,327	338	–	120,562	137,227
Equity as at 31 December 2015	**64,326**	**(306)**	**297,224**	**(3,670)**	**15,431**	**16,830**	**338**	**485,639**	**120,562**	**996,375**

Consolidated Cash Flow Statement for the year ended 31 December 2016

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

(in thousands of EUR)	2016	2015
Cash flows from operating activities		
Profit before tax	162,734	159,441
Adjustments (Note 38):	(244,954)	(219,530)
Cash flow used in operating activities before changes in working capital, interest received and paid and income taxes paid (Note 38)	***(82,220)***	***(60,089)***
(Increase)/decrease in operating assets:		
Obligatory reserve with National Bank of Slovakia	185,383	(560,353)
Loans and advances to banks	(39,775)	78,470
Loans and advances to customers	(447,962)	(824,356)
Derivative financial assets and liabilities	(1,460)	1,852
Held-for-trading financial assets	(46,453)	31,385
Financial assets at fair value through profit and loss	4,033	(8,091)
Available-for-sale financial assets	123,856	(107,571)
Deferred tax asset	–	341
Other assets	2,635	(10,561)
Increase/(decrease) in operating liabilities:		
Deposits from banks	(115,286)	41,127
Deposits from customers	249,954	1,382,228
Financial liabilities for trading	23,761	48,753
Liabilities from debt securities	25,700	(51,260)
Deferred tax liability	(2)	(506)
Other liabilities	(3,102)	597
Cash (used in) earned from operations before interest paid and received and income taxes paid	***(120,938)***	***(38,034)***
Interest paid	(33,698)	(36,380)
Interest received	278,614	274,581
Income taxes paid	(45,979)	(45,132)
Net cash flows from operating activities	**77,999**	**155,035**

(in thousands of EUR)	2016	2015
Cash flows from investing activities		
Net (increase) in held-to-maturity financial investments	(564,068)	(336,119)
Net decrease in held-to-maturity financial investments	578,620	246,203
Interest received from held-to-maturity financial investments	17,249	61,971
Proceeds from the sale or disposal of non-current tangible and intangible assets	123	290
Proceeds from the sale or disposal of investment property	408	593
Purchase of non-current tangible and intangible assets	(16,996)	(20,002)
Acquisition of goodwill	–	(3,199)
Acquisition of an ownership share in an associate	–	3,907
Dividends received	148	79
Net cash flows from investing activities	**15,484**	**(46,277)**
Cash flows from financing activities		
(Redemption) or sale of preference shares	1,777	4,300
Dividends paid	(115,189)	(142,379)
Net cash flows used in financing activities	**(113,412)**	**(138,079)**
Effects of exchange rate changes on cash and cash equivalents and other effects	172	1,988
Change in cash and cash equivalents	**(19,757)**	**(27,333)**
Cash and cash equivalents, beginning of the year (Note 38)	170,476	197,809
Cash and cash equivalents, end of the year (Note 38)	**150,719**	**170,476**

Notes to Consolidated Financial Statements as at 31 December 2016

I. GENERAL INFORMATION

Scope of activities

The Tatra banka consolidated group (hereinafter also the "Group") includes the parent company – Tatra banka, akciová spoločnosť (hereinafter also the "Bank" or the "Parent Company"), whose registered seat is at Hodžovo námestie 3, Bratislava, and 17 subsidiaries and associated undertakings. The Bank was established on 17 September 1990 and incorporated with the Commercial Register on 1 November 1990. The Parent Company's identification number is 00 686 930; the tax identification number is 202 040 8522.

The Group offers a wide range of banking and financial services. Its core activities include receipt of deposits, provision of loans, domestic and cross-border money transfers, provision of investment services, investment activities, and supplementary services under Act No. 566/2001 Coll. on Securities and Investment Services and on Amendments to and Supplementation of Certain Acts etc. The valid list of all the Group's activities is disclosed in the Commercial Register of the Parent Company, its subsidiaries and associated undertakings.

The Parent Company's shareholders as a percentage of voting rights::

(in thousands of EUR)	31 December 2016	31 December 2015
Raiffeisen CEE Region Holding GmbH, Wien	89.11%	89.11%
Other	10.89%	10.89%
Total	**100.00%**	**100.00%**

The Parent Company's shareholders as a percentage of subscribed share capital:

(in thousands of EUR)	31 December 2016	31 December 2015
Raiffeisen CEE Region Holding GmbH, Wien	78.78%	78.78%
Other	21.22%	21.22%
Total	**100.00%**	**100.00%**

The Parent Company's shareholders as absolute shares of subscribed share capital:

(in thousands of EUR)	31 December 2016	31 December 2015
Raiffeisen CEE Region Holding GmbH, Wien	50,678	50,678
Other	13,648	13,648
Total	**64,326**	**64,326**

The Parent Company performs its activities in the Slovak Republic through its 130 branches, corporate centres and corporate centre sub-agencies, **Centrum** bývania™ and **Centrum** investovania™, and 62 branches of the Organisational Unit of Raiffeisen Bank. Moreover, 7 branches of Tatra Leasing are also available to the Group.

The Parent Company's ordinary shares are publicly traded on the Bratislava Stock Exchange.

The members of the statutory and supervisory bodies of the Parent Company (Group) as at 31 December 2016:

Supervisory Board	
Chairman:	Karl SEVELDA
Vice-Chairman:	Igor VIDA
Members:	Peter LENNKH
	Herbert STEPIC
	Johann STROBL
	Klemens BREUER
	Martin GRULL
	Andreas GSCHWENTER
	Ján NEUBAUER
	Peter BALÁŽ
	Pavol FEITSCHER

Board of Directors	
Chairman:	Michal LIDAY
Vice-Chairman:	Miroslav ULIČNÝ
Members:	Marcel KAŠČÁK
	Peter MATÚŠ
	Vladimír MATOUŠ
	Natália MAJOR
	Bernhard HENHAPPEL

Changes in the Parent Company's (Group's) Supervisory Board in 2016:
There were no changes in the structure of the Parent Company's Supervisory Board in 2016.

Changes in the Parent Company's (Group's) Board of Directors in 2016:
There were no changes in the structure of the Parent Company's Board of Directors in 2016.

Business name of the ultimate parent company:
Raiffeisen-Landesbanken Holding GmbH, Vienna, Austria

Business name of the ultimate parent company preparing the consolidated financial statements:
Raiffeisen Zentralbank Österreich AG, Vienna, Austria

Business name of the immediate parent company:
Raiffeisen CEE Region Holding GmbH, Vienna

Business name of the immediate parent company preparing the consolidated financial statements:
Raiffeisen Bank International AG, Vienna, Austria

The consolidated financial statements of the Raiffeisen Zentralbank Group ("RZB Group") are maintained with the Handelsgericht Vienna Register Court at Marxergasse 1a, 1030 Vienna, Austria.

The RZB Group represents the parent company (Raiffeisen Zentralbank) and its subsidiaries and associates owned directly or indirectly through its subsidiaries.

Raiffeisen Bank International AG also prepares consolidated financial statements. The consolidated financial statements of the Raiffeisen Bank International AG Group (the "RBI Group") are deposited with the register court (Handelsgericht Wien) at Marxergasse 1a, 1030 Vienna, Austria. The shares of Raiffeisen Bank International AG are listed on the Vienna Stock Exchange.

Definition of the consolidated group:

As at 31 December 2016, the Group comprised the Parent Company and the following companies (the "consolidated entities"):

Company	Direct share in %	Share of the Group in %	Indirect share through consolidated entities	Company ID No.	Principal activities	Consolidation method	Seat
Tatra Residence, a. s.	100%	100%	n/a	35,730,561	Business activities	Full consolidation method	Bratislava
Tatra Asset Management, správ. spol., a.s.	100%	100%	n/a	35,742,968	Asset management	Full consolidation method	Bratislava
Doplnková dôchodková spoločnosť Tatra banky, a. s.	100%	100%	n/a	36,291,111	Supplementary retirement savings	Full consolidation method	Bratislava
Tatra Office, s. r. o.	-	100%	Tatra Residence, a. s.	35,780,860	Asset leasing and management	Full consolidation method	Bratislava
BA Development, s.r.o.	-	100%	Tatra Residence, a. s.	36,658,545	Asset leasing and management	Full consolidation method	Bratislava
BA Development II., s.r.o.	-	100%	Tatra Residence, a. s.	44,330,961	Asset leasing and management	Full consolidation method	Bratislava
PRODEAL, a.s.	-	100%	Tatra Residence, a. s.	36,702,196	Asset leasing and management	Full consolidation method	Bratislava
Dúbravčice, s.r.o.	-	100%	Tatra Residence, a. s.	45,945,080	Asset leasing and management	Full consolidation method	Bratislava
Tatra-Leasing, s.r.o.	100%	100%	n/a	31,326,552	Leasing	Full consolidation method	Bratislava
Eurolease RE Leasing, s.r.o.	-	100%	Tatra-Leasing, s.r.o.	45,985,812	Mediation activities	Full consolidation method	Bratislava
Rent CC, s.r.o.	-	100%	Tatra-Leasing, s.r.o.	35,824,999	Leasing	Full consolidation method	Bratislava
Rent GRJ, s.r.o.	-	100%	Tatra-Leasing, s.r.o.	36,804,738	Leasing	Full consolidation method	Bratislava
Rent PO, s.r.o.	-	100%	Tatra-Leasing, s.r.o.	35,823,267	Leasing	Full consolidation method	Bratislava
Slovak Banking Credit Bureau, s.r.o.	33.33%	33.33%	n/a	35,869,810	Services	Not consolidated due to insignificance	Bratislava

Changes in the Group during 2016

Tatra Residence, s. r. o. and TL leasing, s.r.o. merged with ELIOT, a.s. as at the decisive date (1 September 2016) and ELIOT, a.s. became the successor company. The original companies, Tatra Residence, s. r. o. and TL leasing, s.r.o. were deleted from the Commercial Register including all data registered in the Commercial Register as at 1 October 2016. As at the same date (1 October 2016), ELIOT, a.s. (successor company) was renamed Tatra Residence, a. s.

Distribution of the Parent Company's profit for 2015

Contribution to retained earnings from previous years	115,787
Total	**115,787**

Payment of dividends from the Parent Company's retained earnings

Dividends – ordinary shares	102,371
Dividends – preference shares	12,819
Total	**115,190**

A dividend per ordinary share with a face value of EUR 800 amounted to EUR 1,440. A dividend per ordinary share with a face value of EUR 4,000 amounted to EUR 7,200. A dividend per preference share with a face value of EUR 4 amounted to EUR 7.20.

The annual separate and consolidated financial statements for 2015, the Annual Report for 2015, the profit distribution, retained earnings and the determination of royalties to the Supervisory Board members for 2015 were approved by the Parent Company's General Meeting held on 1 June 2016. Dividends to which no title arose as at the date of the General Meeting in the amount of EUR 598 thousand were recognised in the retained earnings from previous years as at 30 June 2016.

Regulatory requirements

The Group is subject to the regulatory requirements of the National Bank of Slovakia, which include limits and other restrictions pertaining to minimum capital adequacy requirements, provisioning to cover credit risk, liquidity, interest rate, and foreign currency position. In 2016, the Group fulfilled all such regulatory requirements.

II. PRINCIPAL ACCOUNTING POLICIES

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

a) Statement of compliance

The consolidated financial statements of the Group (hereinafter also the "financial statements") for 2016 and comparatives 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 in accordance with the current interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Commission Regulation (EC) 1126/2008 of 3 November 2008 was issued to combine in a single document all standards presented by the International Accounting Standards Board (IASB) and all interpretations presented by the International Financial Reporting Interpretations Committee (IFRIC), which were fully endorsed in the Community as at 15 October 2008, except for IAS 39 (relating to recognition and measurement of financial instruments). Commission Regulation (EC) 1126/2008 of 3 November 2008 replaces Commission Regulation (EC) 1725/2003 of 29 September 2003.

IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for certain requirements for portfolio hedge accounting under IAS 39, which has not been approved by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not have significant impact on the financial statements had it eventually been approved by the EU at the balance sheet date.

Standards and Interpretations effective in the current period

The Group 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 accounting periods beginning on 1 January 2016. The following amendments to the existing standards issued by the International Accounting Standards Board 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 IFRS (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 to be applied for annual periods beginning on or after 1 February 2015); and

- **Amendments to various standards "Improvements to IFRS (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 to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these standards and amendments to the existing standards has not led to any changes in the Group's accounting policies.

As at the authorisation date of these financial statements, the following standards, amendments to the existing standards and interpretations issued by the IASB were endorsed for issue by the EU, but were 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); and

- **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 Group has elected not to adopt these standards, revisions, and interpretations in advance of their effective dates.

The Group anticipates that applying IFRS 9 in the future may have an impact on the amounts recognised in respect of the Group's financial assets and financial liabilities. It is anticipated that IFRS 9 will increase the overall level of risk provisions. The estimate is based on a requirement to recognise a risk provision in the amount of the expected loan defaults.

The Group anticipates that adopting other standards, revisions, and interpretations will have no material impact on its financial statements in the period of initial application.

At present, IFRS as adopted by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to the existing standards, and interpretations that were not endorsed for use in the 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 for 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 a 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 IFRS (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); and

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Group's management anticipates that the adoption of these standards, revisions and interpretations will have no significant impact on the financial statements in the initial application period.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the Group's estimates, application of hedge accounting for the 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.

Purpose of preparation

The purpose of preparing these annual consolidated financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll. The Group prepares its separate and consolidated 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). The separate and consolidated financial statements prepared in compliance with IFRS as at 31 December 2016, dated 10 March 2017, will be available in the Financial Statements Register in accordance with Act No. 431/2002 Coll. on Accounting, as amended. The financial statements are intended for general use and information; they 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.

Basis of preparation

The financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and reported in the financial statements of the periods to which they relate and on the going concern assumption.

The financial statements are prepared under the historical cost convention; certain financial instruments were revalued to fair value.

The reporting currency used in the financial statements is the euro ("EUR") with accuracy to EUR thousand, unless otherwise indicated.

Significant accounting judgements

The presentation of financial statements in conformity with IFRS requires the preparation of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their 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 subsequently result in a change in estimates or other adjustments that could have a material impact on the reported financial position and results of operations.

The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

Significant areas of judgement include the following:

- Provisioning for incurred loan losses and identified contingent liabilities involves many uncertainties concerning the outcomes of the risks mentioned above and requires the Group's management to make many subjective assessments when estimating the amount of losses. The Group creates provisions for the impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are impacted negatively. These provisions are based on the Group's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to crystallise in loan default, as well as subjective judgments of the Parent Company's management about estimated future cash-flows. Given the current economic conditions, the result of such estimates may differ from the impairment provisions recognised as at 31 December 2016.

  Amounts recognised as provisions for liabilities are based on the management's judgement and represent the best estimate of expenses needed to settle a liability with uncertain timing or an uncertain amount payable.

- The income taxes rules and regulations have recently experienced significant changes; there is limited historical precedent and/or interpretation judgement with respect to the extensive and complex issues affecting the banking sector. Furthermore, tax authorities have broad powers as regards the interpretation of tax laws and regulations during the tax audit of a taxpayer. As a result, there is a higher degree of uncertainty as to the final outcome of any potential review conducted by the tax authorities.

- Provisions for investments in subsidiaries and associated undertakings represent the best estimate of a loss taking into account objective factors affecting the future cash flows in subsidiaries and associated undertakings.

- Provisions for litigation take into account a significant degree of judgment in the expected future development of the respective litigation based on the facts available at the time of their creation. However, the actual outcome of the respective litigation may ultimately differ significantly from the expected state as a result of the development of the litigation itself.

b) Consolidation principles

Subsidiary undertakings are companies in which the Parent Company, directly or indirectly, has an interest of more than 50% of the voting rights or otherwise has power to exercise control over their operations; these were included in consolidation using the full consolidation method except for those where the influence was insignificant. Subsidiaries were consolidated as of the date when the Parent Company gained control over them, and deconsolidated on the date of their disposal or loss of the controlling interest. All receivables and payables, disposals and purchases, as well as expenses, revenues, profits, and losses on transactions within the Group were eliminated.

Investments in associated undertakings represent entities in which the Parent Company has a share in the share capital and voting rights of more than 20% but less than 50%, and in which the Parent Company has significant influence. Investments in associated undertakings are valued using the equity method in the consolidated financial statements. Under the equity method, investments are initially measured at cost and subsequently adjusted for post-acquisition changes in the Parent Company's share of the net assets of an entity wherein the investment was made.

The profit or loss of investors includes their share in the profit or loss of the entity wherein the investment was made. *Gains/(losses)* resulting from the revaluation of associates using the equity method are disclosed as *"Net gains/(losses) from investments in associated undertakings"* in the income statement.

All acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Parent Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. If the cost of the business combination exceeds the Parent Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised, the difference is disclosed as goodwill in note j) in Section II. – Principal Accounting Policies.

c) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into euros and reported in the financial statements as at the exchange rate declared by the European Central Bank (ECB) valid as at the balance sheet date. Income and expenses denominated in foreign currencies are recorded in euros in the underlying accounting system of the Group and are reported in the financial statements at the actual exchange rate of the European Central Bank valid as at the date of the transaction.

Exchange rate gains (losses) from all foreign exchange transactions are included in the Statement of Comprehensive Income item *"Net profit (loss) from trading instruments"*.

Off-balance sheet transactions denominated in foreign currency are translated into euros in the Group's off-balance sheet using the ECB spot exchange rate valid as at the balance sheet date.

The unrealised gain or loss from fixed term transactions is calculated using the anticipated forward rate based on a standard mathematical formula, which takes into account the European Central Bank spot rate and interest rates effective as at the balance sheet date and is reported in the item *"Derivative financial assets"* or in the item *"Derivative financial liabilities"* in the statement of financial position, and *"Net profit (loss) from trading instruments"* in the statement of comprehensive income.

d) Cash and deposits in central banks

Cash and deposits in central banks comprise cash held, and cash balances with the National Bank of Slovakia, including the compulsory minimum reserve with the National Bank of Slovakia.

The compulsory minimum reserve with the National Bank of Slovakia is a required deposit with restricted drawing to be held by all commercial banks licensed in the Slovak Republic. The interest rate is determined by the European Central Bank on a regular basis after the end of each period.

e) Government and other treasury bills

Government and other treasury bills are debt securities with maturity of up to 12 months issued by the National Bank of Slovakia or the Ministry of Finance of the Slovak Republic. Accounting principles stated in paragraph f) 2a) are applied to measure and recognise government and other treasury bills from the portfolio of securities held for trading. Treasury bills from the portfolio of securities held for trading are recognised as *"Held-for-trading financial assets"*.

The accounting principles stated in paragraph f) 2c) are applied to measure and recognise government and other treasury bills from the portfolio of securities at fair value through profit or loss. Treasury bills from the portfolio of securities at fair value through profit or loss are recognised as *"Financial assets at fair value through profit or loss"*. Accounting principles stated in paragraph f) 3) are applied to measure and recognise government and other treasury bills from the portfolio of securities held to maturity. Treasury bills from the portfolio of securities held to maturity are recognised as *"Held-to-maturity financial investments"*.

Financial instruments

A financial instrument is any contract that results in a financial asset in one entity and a financial liability in another.

The Group classifies financial instruments in six categories, in accordance with the Group's intention to acquire the instruments and pursuant to the Group's investment strategy, as follows:

1. Loans and receivables
2. Financial assets at fair value through profit or loss
   a. Financial assets held for trading
   b. Derivative financial instruments
   c. Financial assets at fair value through profit or loss
3. Held-to-maturity financial investments
4. Available-for-sale financial assets
5. Hedging derivatives
6. Financial liabilities

1. Loans and receivables

Loans and other receivables represent non-derivative financial assets with fixed or determinable payments unlisted in an active market. Loans are measured at amortised costs using the effective interest rate method less impairment provisions.

When signing a loan agreement, the Parent Company records the issued loan commitment on the off-balance sheet. A loan is recognised in the statement of financial position when the funds are provided to debtor. During the performance of their activities, the Parent Company records contingent liabilities with inherent credit risk. The Parent Company accounts for these contingent liabilities in off-balance sheet accounts, and records a provision for such liabilities that reflects the level of risk of issued guarantees, letters of credit, and unused credit limits as at the balance sheet date. For unused retail credit lines no provisions are recorded.

Provisions for loan impairment

Provisions are recorded to cover estimated losses from receivables for which objective evidence of impairment exists. The provision for possible loan losses is calculated to reduce loans to their recoverable amount representing expected future cash flows discounted to the present value using the original effective interest rate implicit in the loan at inception or the fair value of the related collateral.

Provisions for losses from loans to customers are charged as *"Provisions for impairment losses"* in the statement of comprehensive income. If there is no reason to record a provision or the amount of provisions is not adequate, excessive provisions are released using the same line of the statement of comprehensive income.

The Parent Company records two types of provision: specific and portfolio provisions. Specific provisions for identified potential losses on loans are assessed with reference to the credit standing and financial performance of the borrower and collateral (a portfolio model is used for retail provisions). Portfolio provisions cover losses that have not been individually identified, but based on historical experience it is clear that they are inherent in the portfolio at the reporting date.

Loans and advances to corporate clients are individually significant and are analysed on an individual basis. The Group adjusts the value of a corporate receivable if there is reason to believe that the receivable demonstrates characteristics that would cause the receivable to be impaired. These characteristics mainly include: overdue receivables, information that a large-scope foreclosure procedure is pending against the debtor, that the debtor is in bankruptcy, liquidation or statutory restructuring, if an identified fraud is associated with the receivable, if the receivable was restructured due to the fact that the debtor did not have sufficient funds to repay the receivable in line with the original repayment schedule, or if the Group concludes – based on the regular monitoring of the client's financial position – that the client will be unable to fully repay the amount outstanding.

The calculation of specific provisions is based on an estimate of expected cash flows reflecting estimated delinquency in loan repayments, as well as income from loan collateral. The impairment amount is determined by the difference between the loan's carrying amount and the net present

value ("NPV") of the estimated cash flows and income from loan collateral discounted by the loan's original effective interest rate. Specific provisions are recorded when there is objective evidence of a loss event that occurred after initial recognition.

For loans and advances to corporate clients where no impairment was identified on an individual basis, loans and advances are divided into groups with similar credit risk characteristics and portfolio-based provisions are calculated. Portfolio-based provisions cover losses that have not yet been individually identified, but based on historical experience, are deemed to be inherent in the portfolios of the balance sheet date. The provision depends on the client rating, historical default rate for the given client rating, collateral value, and recovery rate.

For groups where the Parent Company does not have a sufficiently long time period to calculate a historical default rate, the Group uses default probabilities derived from other similar groups or from RBI Group data.

Portfolio-based provisions are created for retail receivables which show no impairment on an individual basis. The amount of provisions is determined based on whether it is an IRB portfolio (IRB methodology), or a portfolio for which RWA is calculated using a standardised approach (flow rate model). Portfolio-based provisions cover losses that were not identified individually, but based on historical experience they are inherent in the portfolios as at the balance sheet date. As regards the IRB model, expected losses are calculated using internal models (scoring cards, estimated losses in the event of default, and estimates of the credit conversion factor). The flow rate model (also known as the roll rate model) is used to calculate provisions based on the principle of a percentage flow of overdue receivables into saturation status (more than 180 days overdue and/or in default).

For individually-impaired receivables, the Parent Company uses the model of best estimated expected losses for the unsecured IRB portfolio and/or the vintage based recovery rate with the horizon capped at 36 months for other portfolios. For receivables in saturation status, the Parent Company creates 100% provisions, except for collateralised loans where the collateral value, less a liquidation coefficient adjusting the property value to "adjusted market value", is deducted for such receivables.

For the IRB models, flow rate model and vintage based recovery, the Parent Company uses portfolio segmentation by product and type (according to their risk characteristics), and 12-month flow rate averages are used to calculate the final flow rate (if a significant change is seen in the population's behaviour, 6- or 3-month averages can be used).

The Parent Company adjusts the measurement of retail receivables on a monthly basis or when the receivable demonstrates indicators of its impairment. If the Parent Company identifies such indicators (fraud, debtor's death, foreclosure in the specific amount), the Parent Company creates a specific provision.

In line with the internal policy, according to a valid decision on ceasing the recovery of claims issued by the competent court, the Board of Directors, or other Parent Company bodies (Problem Loan Committee, Executive Committee), the Parent Company writes off its loans to customers against the recorded provision. Should the amount of the receivable written-off exceed the amount of

recorded provisions, the difference is recognised through the statement of comprehensive income. Receivables written off that are still in the collection process under law are recorded in off-balance sheet accounts.

If, after the write off, the Parent Company collects additional amounts from the client or obtains control of collateral worth more than initially estimated, a recovery is recognised through the statement of comprehensive income in the caption *"Provisions for impairment losses"*.

Loan collateral

In terms of handling collateral, the Parent Company places great emphasis mainly on valuing and revaluing individual items of collateral, determining the value of pledged collateral for secured loans, determining collateral acceptability to mitigate credit risk, and collateral enforcement, should the client be in default.

The Parent Company mainly accepts the following types of collateral:
- Financial collateral
- Guarantees
- Real estate
- Chattel
- Receivables
- Life insurance

In terms of legal instruments, the Parent Company uses:
- Pledges
- Assignments of receivable intended to serve as security
- Transfers of title intended to serve as security
- Blockages of cash
- Contracts for purchase of securities
- Agreements on liability replacement

The methodology of collateral valuation and the frequency of such revaluation depend on the type of collateral and the minimum requirements pursuant to the effective legislative standards implemented in the Parent Company's internal regulations. The method of determining the value of collateral is specific for each type of collateral, and the Parent Company respects an adequate degree of prudence.

The value of pledged collateral is determined on a case-by-case basis for each type of collateral depending on the type of collateral and transaction, and individual risk characteristics. The value of pledged collateral is obtained by discounting the initial value of collateral obtained in valuation and revaluation. Factors based on which discounting factors are determined relate mainly to the enforceability of collateral if the counterparty defaults (e.g. type, location and condition of real estate), potential default of the security provider (e.g. credit quality and maturity of financial collateral), and other factors (business strategy and Parent Company orientation). The discounting factors applied are subject to regular revaluation.

The claim value of collateral is derived from the value of pledged collateral up to the amount of the current amount receivable. If the value of pledged collateral is lower than the balance of the receivable, the Parent Company will determine the claim value of collateral up to the amount of the value of pledged collateral.

The claim value of collateral contains a number of uncertainties and risks. The amounts that may be recovered in the course of liquidating the collateral for bad debts could differ from the estimated amounts, and the difference could be material.

The Parent Company's decisions on the enforcement of collateral is individual and depends on factors such as the current condition and value of the collateral, the current amount receivable, the promptness of the satisfaction of the receivable, collection-related costs etc. The relevant competent body of the Parent Company decides which security instrument will be used in the specific case.

The Parent Company mainly uses the following forms of enforcement of collateral:
- Voluntary auction
- Foreclosure procedure
- Realisation of the collateral for the receivable in a bankruptcy procedure
- Sale of receivables

2. Financial assets or financial liabilities at fair value through profit or loss

a. Held-for-trading financial assets

The Group has acquired held-for-trading financial assets to utilise short-term price fluctuations in order to generate profits. In this category, the Group recognises securities - equity investments, debt securities, treasury bills and shares. Equity and debt securities, treasury bills and shares are recognised by the Group in the statement of financial position line *"Held-for-trading financial assets"*.

All purchases and sales of trading securities are recognised as at the settlement date.

Held-for-trading financial assets are initially recognised at cost net of transaction costs and are subsequently remeasured to fair value through the statement of comprehensive income.

The Group discloses unrealised gains and losses on revaluing such assets to fair value and net interest income in the statement of comprehensive income line *"Net profit (loss) from trading instruments"*.

Refinancing costs of trading securities is disclosed in the statement of comprehensive income line *"Net profit (loss) from trading instruments"*. Refinancing costs represent costs of refinancing positions contracted in trading activity.

Dividend income from held-for-trading securities is disclosed in the statement of comprehensive income line *"Net profit (loss) from trading instruments"*.

b. Derivative financial instruments

In this category, the Group discloses derivative financial instruments - interest rate swaps, currency swaps, index swaps, currency forwards, interest rate options, currency options, share index options, currency, interest rate and index futures and commodity derivatives.

All purchases and sales that require delivery within the time frame established by regulation or market convention ("standard way") are recognised as spot transactions. Transactions that do not meet the "standard way" settlement criteria are treated as financial derivatives.

Derivatives are recognised as *"Derivative financial assets"* or *"Derivative financial liabilities"*. Certain financial derivative transactions, while providing effective economic hedges under the Parent Company's risk management policy, do not qualify for hedge accounting under the specific rules stipulated by IAS 39.

Derivatives embedded in other financial instruments or other host contracts are treated, in terms of accounting, as separate derivatives if no close linkage exists between their risks and attributes, and risks and attributes of the host contract, and if the host contract is not recognised at fair value and changes in fair value are recognised in the statement of comprehensive income.

The Group records unrealised gains and losses from the revaluation of derivative instruments to their fair values and net interest income in the statement of comprehensive income line *"Net profit (loss) from trading instruments"*. The fair value of held-for-trading financial derivatives is disclosed in item *"Financial derivatives"*.

c. Financial assets at fair value through profit or loss ("FVTPL")

Based on the Group's documented risk management strategy and in accordance with its investment strategy, the Group mainly recognises debt securities in the given portfolio. The performance of these securities is evaluated on a fair value basis. The aforementioned debt securities are treated by the Group at initial recognition as financial assets at fair value through profit or loss (FVTPL) and they are recognised in the statement of financial position as *"Financial assets at fair value through profit or loss"*.

Financial assets at fair value through profit or loss are initially recognised at cost, excluding costs of transaction, and are subsequently re-valued to fair value through the statement of comprehensive income.

The Group recognises unrealised gains and losses from the revaluation of these assets to their fair values in the statement of comprehensive income line *"Net profit (loss) from financial instruments at fair value through profit or loss"*.

Net interest income is accrued on a daily basis and recorded in the statement of comprehensive income line *"Interest and similar income"*.

3. Held-to-maturity financial investments

This portfolio is a non-derivative financial asset with fixed or floating payments and fixed maturity that the Parent Company intends and is able to hold to maturity. The held-to-maturity portfolio includes debt securities in line with the approved strategy for the creation of a strategic securities portfolio. It mainly includes securities issued by the government and other creditworthy securities.

Held-to-maturity financial investments are measured at amortised cost using the effective interest rate method less impairment. Interest income and discounts and premiums on held-to-maturity securities are recognised as *"Interest and similar income"* in the statement of comprehensive income.

4. Available-for-sale financial assets (AFS)

The AFS portfolio includes debt securities and the Group's investments in other entities, with a share of less than 20% of share capital and voting rights.

Debt securities in the portfolio of available-for-sale financial assets are measured at cost less transaction costs; subsequently, they are remeasured to fair value. Unrealised profits and losses resulting from changes in the fair value of available-for-sale financial assets are recognised as *"Available-for-sale assets revaluation reserve"* in the Group's equity until the disposal or impairment of the respective available-for-sale financial asset. In the case of the disposal or impairment of available-for-sale financial assets, accumulated profits and losses from the respective available-for-sale financial asset recognised as *"Available-for-sale financial assets revaluation reserve"* are reclassified to the statement of comprehensive income as *"Net profit (loss) from available-for-sale financial instruments"*.

Equity investments in the portfolio of available-for-sale financial assets are measured at cost less provisions for impairment losses that are recognised in the statement of comprehensive income as *"Net profit (loss) from available-for-sale financial instruments"*, since their market value on the active market cannot be determined reliably. The aforementioned portfolio mainly includes shares in privately-held companies for which no market exists or companies in which participation is mandatory (Burza cenných papierov v Bratislave a. s., S.W.I.F.T. s. c., VISA INC., USA). As a result, in respect of these shares the Group applies the level 3 for fair value measurements (see Note f).

For companies against which bankruptcy proceedings are underway, 100% provisions are created and the participation shares will be written off after the completion of the bankruptcy proceedings.

Dividend income from available-for-sale financial assets is reported as *"Interest and similar income"* in the statement of comprehensive income. Profit or loss from the sale of financial assets available-for-sale is recognised in the statement of comprehensive income as *"Net profit (loss) from available-for-sale financial instruments"*.

5. Hedging Derivatives

Hedging derivatives are derivatives designed in the Parent Company's strategy to hedge certain risks and which meet all classification criteria for hedging derivatives under international accounting standards. The relationship between the hedging instrument and the hedged item is documented at the origin of the hedging transaction. At the origin and during the existence of the hedging relationship the hedging effectiveness is tested so that the changes in fair values or cash flows from hedged or hedging items are set off with the final results within the range from 80% to 125%.

Fair value hedges

Changes in the fair value of hedging derivatives which are regarded as fair-value hedges are recognised in the statement of comprehensive income together with any changes in the fair value of hedged assets or liabilities to which a hedge risk can be attributed. Hedge accounting is discontinued if the Group cancels the hedging relationship, the derivative instrument expires or is sold, terminated, or exercised, or when the hedging relationship no longer meets the criteria for fair-value hedge accounting.

The positive fair value of a hedging derivative is recognised in the statement of financial position line *"Derivative financial assets"*. The negative fair value of a hedging derivative is recognised in the statement of financial position line *"Derivative financial liabilities"*.

Any change in the fair value of a hedging derivative and a hedged instrument relating to the hedged risk is recognised in the statement of comprehensive income line *"Net profit (loss) from trading instruments"*. Interest income and expenses related to the hedging derivative are recognised together with interest expenses related to the hedged instruments in the statement of comprehensive income as *"Interest and similar expenses"*.

Cash flow hedges

The Group uses derivative financial instruments – interest rate swaps to hedge the risk of the variability of future cash flows associated with floating rate assets, which could result in unexpected losses in the event of changes in interest rates on the interbank market. The structure of such derivatives is strictly adjusted to the structure of a secured loan, as a result of which the Group is not exposed to the risk of changes in interest rates and the risk of cash flows. The efficiency of such hedging transactions is regularly monitored and the hedges were efficient during the respective period.

The positive fair value of a hedging derivative is recognised in the statement of financial position line *"Derivative financial assets"*. The negative fair value of a hedging derivative is recognised in the statement of financial position line *"Derivative financial liabilities"*. Any change in the fair value of a hedging derivative is recognised in the statement of other comprehensive income line *"Cash flow hedges"*. Interest income and expenses related to the hedging derivative are recognised together with interest income related to the hedged instruments in the statement of comprehensive income as *"Interest and similar income"*.

6. Financial Liabilities

All of the Group's liabilities, except for held-for-trading financial liabilities, derivative financial liabilities and issued debt securities hedged by interest rate swaps (hedging under IAS 39), are stated at amortised cost.

Derecognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities only when the Group's obligations are discharged or cancelled, or when they expire.

Inland securities in the Group's portfolio are mainly listed and traded on the Bratislava Stock Exchange; foreign securities are listed on the foreign stock exchange, where they are traded. Foreign securities are traded in an inter-bank market.

f) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching the maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Fair value of derivative instruments is also subject to credit value adjustment.

- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally-accepted pricing models based on discounted cash flow analysis.

- *Level 1* – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- *Level 2* – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

- *Level 3* – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Insofar as market prices are available (which was mainly the case for securities traded on the stock exchange and active markets), the Group groups the respective financial instrument based on an observable market price into Level 1. If the security is not traded on the stock exchange or the NBS benchmark for the security is not disclosed, the Group measures the security at fair value derived from other inputs than quoted prices.

An analysis of the amount of financial instruments recognised at fair value divided according to their fair value measurement levels is disclosed as *"Fair value of financial instruments"*.

With respect to the definition of the fair value of financial instruments not revalued to fair value, the Group applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market rates adjusted for an average mark-up for systematic risk. More-detailed information on the methods of calculating the fair values of financial instruments not revalued to fair value is disclosed as *"Fair value of financial instruments"*.

Transfers between valuation levels

If the security is measured at fair value derived from quoted prices – Level 1 and the security is removed from trading on the stock exchange as well as from the NBS benchmark, the Group transfers such security to Level 2.

If at the initial recognition, the security was measured primarily at a notional price – Level 2, the Group changes the security's grouping from Level 2 to Level 1 by making the first deal on the stock exchange and disclosing its price. If the security is not traded in the following days and the security's price is not disclosed, such security will be transferred back to Level 2.

g) Sale and repurchase agreements – repo transactions

Securities sold under sale and repurchase agreements ("repo transactions") are recorded as assets in the statement of financial position lines *"Held-for-trading financial assets"*, *"Financial assets at fair value through profit or loss"* or *"Held-to-maturity financial investments"*, and the counterparty liabilities are included in *"Deposits from banks"* or *"Deposits from customers"*.

Securities purchased under agreements to purchase and resell ("reverse repos") are recorded as assets in the statement of financial position line *"Loans and advances to banks"* or *"Loans and advances to customers, gross"* as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

h) Non-current tangible and intangible assets

Non-current tangible and intangible assets are stated at historical cost less accumulated depreciation/amortisation together with accumulated impairment losses. Non-current assets are depreciated using the straight–line method based on the estimated useful life. Tangible assets in progress, land, and artwork are not depreciated.

The estimated useful economic lives (in years) are set out below:

Machinery and equipment, computers, vehicles	Up to 8
Software	Up to 11
Fixtures, fittings and equipment	6 – 10
Energy machinery and equipment	10 – 15
Optical network	30
Buildings and structures	Up to 40

i) Investment property

Investment property represents assets held by the Group in order to earn rentals or for further capital appreciation. Investment property is recognised at cost less accumulated depreciation and provisions for impairment. The net book value of investment property, depreciation charges and rentals are described in *"Development of non-current tangible and intangible assets"*. The creation and release of provisions due to the impairment of investment property is recognised as *"Other operating profit (loss)"* as *"Creation of provisions for investment property"* or *"Release of provisions for investment property"*.

To determine the level of provisions, the Group uses a proprietary model to determine the fair value of investment property, which is based on discounted future income from rentals less direct operating expenses. The fair value of investment property that is not leased but held for appreciation is determined using an independent appraiser's calculation.

The estimated useful life of buildings classified as investment property is 20 to 40 years.

j) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company as at the acquisition date. Goodwill is initially recognised at cost and subsequently its value is adjusted for accumulated losses by its impairment. Goodwill is tested once or several times a year provided that the events or changes in circumstances indicate that the impairment of value is in compliance with IAS 36 – Impairment of assets. Impairment of goodwill cannot be reversed in the following reporting periods.

k) Impairment of tangible and intangible assets

At each balance sheet date, the Group 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 the impairment loss (if any).

The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows expected to derive from the asset. If any of the amounts above 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 through the statement of comprehensive income.

l) Assets held for development and construction

The Group applies the principles of IAS 2 to assets held for development and construction that are designated for subsequent sale. The aforementioned assets are measured at the lower of the cost and the net realisable value. The Group recognises assets held for development and construction in "Other assets" as *"Assets held for development and construction"*.

m) Leases

A lease is classified as a finance lease when the terms of the lease provide for transferring all the risks and rewards of ownership of the leased asset to the lessee. All other leases are classified as operating leases.

1. The Group as lessor

Amounts due from leases under finance lease are recognised as receivables at the amount of the Group's net lease investment. Finance lease income is allocated to reporting periods so as to express a constant periodic rate of return on the Group's net investment in respect of the lease.

The present value of future lease payments is recognised in the statement of financial position as *"Loans and advances to customers, gross"*, line "Finance lease receivables".

Operating lease income is recognised in income on a straight-line basis over the lease term as *"Other operating profit/(loss)"*.

The Group presents the leased assets (operating lease) as part of non-current tangible assets. Depreciation charges of leased assets are on a basis identical to the current depreciation policy for similar assets.

Seized assets under a finance lease are presented as inventories and recognised at their fair value.

2. The Group as lessee

Assets under finance lease are recognised as the Group's assets at fair value as at the acquisition date, or if the fair value is lower, at the present value of minimum lease payments. The relevant payable to a lessor is recognised in the statement of financial position as a finance lease payable. Finance lease payments are apportioned between financial charges and reduction of outstanding lease payable (to produce a constant periodic rate of interest on the outstanding balance). Financial charges are recognised directly in the statement of comprehensive income, unless they are allocated directly to the relevant asset. In this case, financial charges are capitalised.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of the rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

n) Liabilities from debt securities

Debt securities issued by the Group are stated at amortised cost using the effective interest rate method. The Group issues mortgage bonds and other debt securities. Interest expense arising on the issue of securities is included in the statement of comprehensive income line *"Interest and similar expenses"*.

o) Subordinated debt

Subordinated debt refers to the Parent Company's external funds and, in the event of bankruptcy, composition or Parent Company's liquidation, the entitlement to its repayment is subordinated to liabilities to other creditors. The Parent Company's subordinated debt is recognised in the separate statement of financial position as *"Subordinated debt"*. Interest expense paid on the received subordinated debt is recognised through the statement of comprehensive income in "*Interest and similar expenses"*.

Subordinated debt is a financial liability initially measured at fair value, net of transaction costs. It is subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

p) Cash and cash equivalents in the cash flow statement

Cash and cash equivalents for the purpose of cash flow statement preparation comprise cash held and cash balances with the National Bank of Slovakia, except for the statutory minimum reserve. Cash equivalents include treasury bills with a residual maturity of up to three months, demand deposits with other banks, and short-term government bonds.

q) Provisions for liabilities

The amount of provisions for liabilities and charges is recognised as an expense and a liability when the Group has legal or constructive obligations as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle such obligation and a reasonable estimate of the amount of the resulting loss can be made. Any loss resulting from the recognition of provision for liability is recognised in the statement of comprehensive income for the period.

r) Provision for employee benefits

The Parent Company has a long-term employee benefit program comprising a lump-sum retirement benefit. As at 31 December 2016, the Parent Company had 3,625 employees (full-time equivalent) who were included in the program (31 December 2015: 3,571 employees).

The method of calculating the liability applies actuarial calculations, based on employee's age, number of years worked, employee turnover, mortality tables, and discount rates.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, measured as the present value of the estimated future cash outflows discounted by interest approximating yield on investment grade fixed income securities. Actuarial gains and losses from the post-employment defined benefit obligation are charged to the statement of comprehensive income in the current year in *"General administrative expenses"*. The provision for employee benefits is recognised in the statement of financial position as *"Provision for liabilities"*.

Key assumptions used in actuarial valuation

Long-term employee provisions were calculated in accordance with the currently-valid mortality tables issued by the Statistical Office of the Slovak Republic.

Real annual discount rate	2%
Annual future real rate of salary increases	2%
Annual employee turnover	3% – 10%
Retirement age	Based on valid law

The Group also has a defined contribution plan for employees. All company contributions are included in personnel expenses as *"General administrative expenses"*.

s) Accrued interest

Accrued interest income and expenses related to financial assets and liabilities are presented together with the corresponding assets and liabilities in the statement of financial position.

t) Recognition of income and expense

1) Interest income and expense, and interest related charges
Interest income and expenses, and interest related charges arising on all interest-bearing instruments except for *"Held-for-trading financial assets"* are accrued in the statement of comprehensive income using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period.

Interest income from *"Held-for-trading financial assets"* is recognised in the statement of comprehensive income as "Net profit (loss) from trading instruments".

Interest income (expense) from securities includes revenues from coupons with fixed and floating rates, and amortised discount or premium.

2) Fees and commissions income/expense
Fees and commissions that do not form part of the effective interest rate are recognised as expenses and income in the statement of comprehensive income in *"Net fees and commission income"* from financial assets and liabilities not restated to fair value on an accrual basis as earned.

3) Dividend income
Dividend income is recognised when the dividend is approved to the Group in the statement of comprehensive income line *"Interest and similar income"*.

u) Basic and diluted earnings per share

The Group reports earnings per share attributable to the holders of each class of share. The Group calculated earnings per share as profits attributable to each class of shares divided by the weighted average number of each class of shares outstanding during the reporting period.

The profit attributable to each class of share is determined based on the face value of each class of share in relation to the percentage of the total face value of all shares.

The Group does not report diluted earnings per share as there were no dilutive potential ordinary shares in issue as at 31 December 2016 nor 31 December 2015.

v) Taxation and deferred taxation

The Group calculated income tax in accordance with the provisions of the relevant legislation of the Slovak Republic, based on taxable profit. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rate anticipated for future periods was used to determine deferred income tax, ie 21%. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally-enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The Group recognises the due corporate income tax in the statement of financial position line *"Current tax asset"* or *"Current tax liability"* and the deferred tax in *"Deferred tax asset"* or *"Deferred tax liability"*.

The Group is a payer of various local taxes and value added tax (VAT). Various local taxes are recognised in the statement of comprehensive income line *"Other operating profit (loss)"*. VAT that is non-deductible for the Group is recognised as *"General administrative expenses"* and VAT on the acquisition of non-current tangible and intangible assets is included in the cost of non-current tangible and intangible assets.

III. SEGMENT REPORTING

When reporting by segment, the Group applies IFRS 8 – "Operating Segments". The accounting principles related to the reported segments are consistent with the Group's accounting principles.

The basis for classifying by segment is an internal principle for the Parent Company management that is customer oriented. It also reflects the segmentation principle of the majority shareholder (Raiffeisen Bank International AG). The segmentation applied by the Parent Company is as follows:

- Corporate clients
- Financial institutions and public sector
- Retail customers
- Investment Banking and Treasury
- Equity investments and others

Corporate companies include all resident and non-resident companies, including state-owned companies. In terms of products, corporate clients were mainly provided with investment and operating loans in the form of instalment credits or overdraft facilities, factoring and documentary financing, project financing of commercial real estate projects, office premises, construction of shopping centres etc.

Financial institutions and the public sector consist of:

Banks/Supra-Nationals, which include all local and international banks and their majority-owned subsidiaries in the country and all institutions such as the World Bank, EBRD, EIB, IMF, and KfW. In terms of products on the side of assets, exposures to banks mainly included nostro accounts

and term placements made. On the side of liabilities, they included mainly loro accounts, term placements received and loans received from banks.

Brokers & Asset Management Companies, which include foundations, all broker houses, mutual fund companies, leasing companies, investment banks, and other banks like these entities. Insurance companies include, for example, pension funds. These entities were mainly provided with investment and operating loans.

Public sector, which includes all government entities, ministries, municipalities, and similar institutions. Corporations that are owned by the public sector (state-owned) are shown under the corporate clients segment. Banks that belong to the government are defined as financial institutions. Securities of the Slovak Republic are disclosed in the Investment Banking and Treasury segment. Embassies and trade representatives are shown in this segment.

Retail Customers consist of *Individuals (Consumers)*, which include all consumer customers, from low-income to high-income. The retail customers segment also includes micro businesses. For private banking, individuals are defined locally, with special treatment to individually manage their assets. In terms of products, retail customers – micro businesses and sole traders – were mainly provided with operating loans called **Business**Úver™ **Expres**, **Business**Úver™ **Hypo** and **Business**Úver™ **Variant**, company credit cards (VISA Standard/Gold) and other products.

Retail customers – households were mainly provided with mortgage loans, equity home loans, **Hypotéka**™, **Bezúčelový** úver™ **Classic**, **Bezúčelový** úver™ **Garant**, private credit cards (Visa Standard/Visa Gold/Visa Platinum) and other products. Retail customers placed their financial funds mainly in current accounts and term deposits.

Treasury and Investment Banking consist of business transactions conducted on the Parent Company's own account and risk originated from managing market risk positions like FX-dealing, securities and derivatives trading, money market trading, liquidity management and funding, strategic placement positioning (investment portfolio), interest rate gapping (maturity transformation).

Segment reporting is based on the schemes of contribution margins that are calculated as a basis for the management of the Parent Company. In the schemes, revenues and expenses are allocated under the principles of causality, i.e. revenues and expenses are allocated to individual segments based on their place of origin.

General administrative expenses consist of direct and indirect expenses. Direct expenses (personnel expenses and other administrative expenses) are allocated per individual segment and indirect expenses are allocated in line with the approved ratios.

Special levy of selected financial institutions was allocated to individual segments according to the daily balances of all liabilities and to all segments.

The structure of items presented in Note III "Segment Reporting" is consistent with similar items of the statement of comprehensive income.

Geographically, operating profit was primarily generated by the provision of banking services in the Slovak Republic. Some assets and liabilities are placed outside the Slovak Republic. The summary of the most significant exposures of total assets and liabilities to customers in foreign countries is included in *"Foreign assets and liabilities"*. The Group decided not to report the total amount of revenues from foreign entities owing to their immateriality.

The Parent Company's management monitors the interest income of individual segments on a net basis.

The consolidated statement of comprehensive income and other indicators by segment as at 31 December 2016:

(in thousands of EUR)	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net interest income	68,653	2,037	187,981	3,675	12,255	274,601
Provisions and provisions for losses	4,796	247	(17,344)	–	–	(12,301)
Net interest income after provisioning	**73,449**	**2,284**	**170,637**	**3,675**	**12,255**	**262,300**
Net fees and commissions income	27,512	4,815	88,579	(853)	(604)	119,449
Net profit (loss) from financial trading instruments	6,828	337	10,225	5,310	68	22,768
Net profit (loss) from financial instruments at fair value through profit or loss	–	–	–	(324)	–	(324)
Net profit (loss) from available-for-sale financial instruments	–	–	–	–	30,341	30,341
General administrative expenses	(60,843)	(4,399)	(172,571)	(4,610)	(6,787)	(249,210)
Special levy of selected financial institutions	(4,829)	(1,561)	(11,215)	(1,531)	(229)	(19,365)
Other operating profit (loss)	–	–	–	–	(3,225)	(3,225)
Profit before income taxes	**42,117**	**1,476**	**85,655**	**1,667**	**31,819**	**162,734**
Total assets	**3,764,112**	**121,498**	**4,519,564**	**2,634,667**	**333,187**	**11,373,028**

The consolidated statement of comprehensive income and other indicators by segment as at 31 December 2015:

(in thwousands of EUR)	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net interest income	73,720	957	187,749	12,171	14,790	289,386
Provisions and provisions for losses	(21,581)	13	(12,333)	–	(22)	(33,922)
Net interest income after provisioning	**52,139**	**971**	**175,416**	**12,171**	**14,768**	**255,464**
Net fees and commissions income	34,264	4,859	91,589	–	992	131,703
Net profit (loss) from financial trading instruments	6,367	266	10,855	5,691	5	23,184
Net profit (loss) from financial instruments at fair value through profit or loss	–	–	–	(188)	–	(188)

(in thwousands of EUR)	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net profit (loss) from available-for-sale financial instruments	–	–	–	–	(8)	(8)
Net profit (loss) from investments in subsidiaries and associated undertakings	–	–	–	–	1,910	1,910
General administrative expenses	(50,999)	(3,536)	(165,455)	(8,010)	(5,890)	(233,890)
Special levy of selected financial institutions	(4,618)	(1,907)	(9,578)	(1,450)	–	(17,553)
Other operating profit (loss)	–	–	–	–	(1,181)	(1,181)
Profit before income taxes	**37,153**	**653**	**102,827**	**8,213**	**10,595**	**159,441**
Total assets	**3,703,963**	**151,151**	**4,033,045**	**2,932,295**	**394,662**	**11,215,116**

IV. OTHER NOTES

1. Net interest income

(in thousands of EUR)	2016	2015
Interest and similar income:	**303,759**	**321,845**
From loans and advances to banks	1,211	600
Of which: from loans and advances to central banks	*11*	*37*
From loans and advances to customers	264,260	281,817
From finance lease receivables	8,765	1,138
From held-to-maturity securities	28,593	37,404
From securities at fair value through profit or loss	417	417
From available-for-sale securities	358	390
From received dividends from available-for-sale financial assets	148	79
From other interest income	7	
Interest and similar expenses:	**(29,158)**	**(32,459)**
On deposits from banks	(4,129)	(1,469)
Of which, from central banks	*(1,083)*	*(367)*
On deposits from customers	(9,521)	(11,785)
On subordinated debts	(8,865)	(9,405)
On liabilities from debt securities issued by the Group	(6,427)	(9,707)
Other interest expenses	(216)	(93)
Net interest income	**274,601**	**289,386**

2. Provisions for impairment losses

Movement in provisions for impairment losses for loans disclosed in the statement of financial position and provisions for off-balance sheet liabilities are as follows:

(in thousands of EUR)	2016	2015
Specific provisions for loan receivables:	**(22,964)**	**(30,079)**
Additions to provisions	(61,112)	(60,835)
Released provisions	44,408	32,340
Written-off loans	(6,382)	(1,701)
Recovery from written-off loans	122	117
Portfolio provisions for loan receivables:	**2,054**	**(192)**
Additions to provisions	(3,402)	(1,156)
Released provisions	5,456	964
Specific provisions for off-balance sheet items:	**8,533**	**(4,503)**
Additions to provisions	(568)	(6,252)
Released provisions	9,101	1,749
Portfolio provisions for off-balance sheet items:	**76**	**852**
Additions to provisions	(432)	(1)
Released provisions	508	853
Total	**(12,301)**	**(33,922)**

More information on provisions for loan losses is stated in Note 16 *"Impairment losses for loans and advances"*; information on provisions for off-balance sheet items is stated in Note 32 *"Provisions for liabilities and charges"*.

3. Net fees and commission income

(in thousands of EUR)	2016	2015
Fees and commission income:	**154,222**	**165,378**
From payment transfers business	92,153	95,257
From credit processing and guarantee business	20,209	25,461
From securities business	9,003	9,016
From activities regarding management of investment and pension funds	26,682	30,871
From activities regarding mediation for third parties	4,578	4,073
For other banking services	1,597	700
Fees and commission expense:	**(34,773)**	**(33,675)**
From payment transfers business	(26,350)	(27,244)
From credit processing and guarantee business	(443)	(90)
From securities business	(1,759)	(1,549)
From activities regarding management of investment and pension funds	(4,334)	(2,812)
From activities regarding mediation for third parties	(967)	(1,086)
For other banking services	(920)	(894)
Net fees and commission income	**119,449**	**131,703**

4. Net profit (loss) from trading instruments

(in thousands of EUR)	2016	2015
Interest-rate contracts – Securities:	**3,489**	**2,888**
Interest income, net	(125)	65
Revaluation to fair value	(4,336)	(744)
Profit (loss) from securities sold	7,950	3,572
Refinancing costs	–	(5)
Interest-rate contracts – Liabilities from hedged debt securities:	**(717)**	**278**
Revaluation to fair value	(724)	278
Profit (loss) on redemption of securities	7	–
Interest-rate contracts – Derivatives:	**1,246**	**173**
Interest income (expense)	(698)	(2,350)
Realised profit (loss) from derivatives	(430)	(79)
Revaluation to fair value	2,582	2,794
Revaluation to fair value – derivatives to hedge fair value	(208)	(192)
Currency contracts:	**6,788**	**6,958**
Interest income (expense)	2,394	2,043
Realised profit (loss) from derivatives	3,584	2,690
Revaluation to fair value of derivatives	830	1,993
Exchange differences from securities held for trading	(20)	232
Index-related contracts:	**10**	**5**
Interest income (expense)	(1,038)	(1,363)
Realised profit (loss) from derivatives	1,053	1,356
Revaluation to fair value – derivatives	(5)	12
Commodity contracts:	**(1)**	**11**
Realised profit (loss) from derivatives	1	26
Revaluation to fair value – derivatives	(2)	(15)
Foreign exchange gains (losses)	**11,953**	**12,871**
Total	**22,768**	**23,184**

5. Net profit (loss) from financial instruments at fair value through profit or loss ("FVTPL")

(in thousands of EUR)	2016	2015
Interest-rate contracts – Securities:		
Revaluation to fair value	(327)	(188)
Profit (loss) on the sale of securities	3	–
Total	**(324)**	**(188)**

6. Net profit (loss) from available-for-sale financial instruments

(in thousands of EUR)	2016	2015
Interest-rate contracts – securities:		
Net profit (loss) on the sale of equity investments	30,326	–
Profit (loss) on the sale of securities	15	(8)
Total	**30,341**	**(8)**

In 2016, the Parent Company sold its investment in VISA Europe, Ltd. from the portfolio of available-for-sale financial instruments and reported a profit of EUR 30,326 thousand, which comprised a cash component (EUR 24,276 thousand) and a non-cash (equity) component (EUR 6,050 thousand). The cash component included funds with a deferred maturity to be paid to the Parent Company in the third quarter of 2019. As at 31 December 2016, the funds were recognised at the present value of EUR 1,901 thousand.

As at 31 December 2016 the Parent Company valued the planned sale of its investment in VISA Europe, Ltd. to EUR 20,998 thousand representing the best estimate of the transaction's value at that time.

7. Net profit (loss) from investments in associated undertakings

(in thousands of EUR)	2016	2015
Share of profits of associated undertakings after taxes	–	*1,929*
Profit (loss) from derecognition of share in associated undertaking	–	*(19)*
Total	**–**	**1,910**

8. General administrative expenses

The Group's general administrative expenses comprise staff expenses, other administrative expenses, depreciation, amortisation, and write-downs of non-current tangible and intangible assets. Such expenses break down as follows:

(in thousands of EUR)	2016	2015
Staff expenses:	**(119,316)**	**(107,809)**
Wages and salaries	(86,861)	(77,821)
Social security costs	(28,445)	(26,009)
Other social expenses	(3,892)	(3,172)
(Creation) release of provisions for employee benefits	(118)	(807)
Other general expenses:	**(99,376)**	**(99,618)**
Costs on premises	(21,277)	(20,074)
Costs on information technology	(22,432)	(21,807)
Communication costs	(7,432)	(5,126)
Legal and consultancy costs	(10,305)	(9,578)
Of which: Costs of audit firm's services in respect of an audit of the financial statements	*(343)*	*(357)*
Of which: Costs of audit firm's services in respect of other assurance services	*(82)*	*(75)*
Advertising and entertainment expenses	(16,913)	(18,308)
Deposits guarantee fund	(1,509)	(1,329)
Contribution to the resolution fund*	(5,988)	(8,303)
Consumption of stationeries	(1,685)	(1,660)
Transport and processing of cash	(763)	(901)
Travelling expenses	(1,710)	(1,653)
Education of employees	(1,545)	(1,529)
Sundry administrative expenses	(7,817)	(9,350)
Depreciation and amortisation of non-current tangible and intangible assets:	**(30,518)**	**(26,463)**
Non-current tangible assets	(17,849)	(13,433)
Investment property	(1,873)	(1,995)
Non-current intangible assets	(10,796)	(11,035)
Total	**(249,210)**	**(233,890)**

*The resolution fund represents an annual contribution for banks in the EU, which are members of the Banking Union; the contribution amount depends on the size and risk profile of the bank pursuant to Bank Recovery and Resolution Directive No 2015/59/EU.

The Group does not have pension arrangements separate from the state pension system of the Slovak Republic. Pursuant to Slovak legal regulations, an employer is 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 gross salary. These expenses are charged to the statement of comprehensive income in the period in which the employee was entitled to a salary.

9. Special levy of selected financial institutions

(in thousands of EUR)	2016	2015
Special levy of selected financial institutions:		
Special levy of selected financial institutions	(19 365)	(17 553)
Total	**(19 365)**	**(17 553)**

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 a Special Levy of Selected Financial Institutions and on the Amendment to and Supplementation of Certain Acts (hereinafter the "Special Levy Act"). Banks and branches of foreign banks are obliged to pay the special levy in four quarterly instalments in the amount of one fourth of the annual rate (annual rate: 0.2% in 2016) of the amount of the liabilities defined in line with the Special Levy Act.

10. Other operating profit (loss)

Other operating profit (loss) comprises revenues and expenses from non-banking activities, disposal of non-current tangible and intangible assets, creation and release of litigation provisions, other taxes and charges and other revenues and expenses from non-banking activities:

(in thousands of EUR)	2016	2015
Revenues from non-banking activities:	**12,546**	**15,182**
Revenues from lease of tangible assets – operating lease	*388*	*30*
Revenues from release of litigation provisions	*81*	*6,974*
Revenues from disposals of tangible and intangible assets	*1,391*	*883*
Release of provisions for investment property	*413*	*73*
Revenues from lease of investment property	*3,473*	*3,135*
Profit from sale of assets held for development and construction	*2,649*	*215*
Other revenues from non-banking activities	*3,795*	*3,872*
Expenses arising from non-banking activities:	**(16,322)**	**(12,962)**
Other taxes and charges	*(601)*	*(763)*
Creation of litigation provisions	*(13,401)*	*(8,422)*
Creation of provisions for investment property	*(113)*	*(2,700)*
Disposals of tangible and intangible assets and investment property	*(1,075)*	*(1,030)*
Other expenses for non-banking activities	*(1,132)*	*(55)*
Other operating income	2,846	4,003
Other operating expenses	(2,295)	(7,396)
Total	**(3,225)**	**(1,181)**

11. Income taxes

(in thousands of EUR)	2016	2015
Current tax expense	(35,144)	(41,315)
Deferred tax (expense)/benefit	(1,610)	2,436
Total	**(36,754)**	**(38,879)**

Slovak legal entities must individually report taxable income and remit corporate income taxes thereon to the appropriate authorities. In 2016, the corporate income tax rate amounted to 22% (2015: 22%).

Act No. 341/2016 Coll. amending Act No. 595/2003 Coll. on Income Tax, as amended, was approved on 23 November 2016 with effect from 1 January 2017. The Act changes the corporate income tax rate applicable in 2017 to 21%. The income tax rate of 21% was used for the deferred tax calculation.

The tax on pre-tax profit differs from the theoretical tax that would arise if the valid income tax rate were applied as follows:

(in thousands of EUR)	2016	2015
Income before tax	**162,734**	**159,441**
Theoretical tax calculated at the tax rate of 22% (2015: 22%)	35,801	35,076
Tax effects of:		
Non-taxable income	(5,899)	(4,072)
Non-deductible expenses	4,335	3,478
Provisions for assets and provisions for liabilities, net	3,898	5,117
Additional taxation from previous periods	339	14
Creation/(release) of provisions for uncertain utilisation of deferred tax assets	(5,298)	506
Effect of decrease in corporate income tax from 22% to 21% on deferred tax	1,328	–
Effect of decrease in corporate income tax from 22% to 21% on uncertain utilisation of deferred tax assets	1,040	–
Tax losses carried forward	(856)	–
Effect of non-tax losses	415	180
Effect of consolidation	1,651	(1,420)
Income tax expense	**36,754**	**38,879**
Effective tax for the reporting period	**22.59%**	**24.39%**

Deferred tax assets and liabilities as at 31 December 2016 and as at 31 December 2015 relate to the following items:

(in thousands of EUR)	Book value	Tax value	Temporary difference (gross)	2015	2016
Deferred tax assets					
Loans and advances to customers (net of impairment provisions)	8,351,355	8,538,696	183,962	38,632	44,394
Non-current tangible assets and investment property	101,498	109,727	7,629	1,602	1,186
Other assets	44,037	45,497	307	64	(135)
Provisions for liabilities and charges	51,214	271	10,032	2,107	3,178
Other liabilities	47,177	18,374	28,803	6,049	6,441
Total				**48,454**	**55,064**
Deferred tax liabilities					
Available-for-sale financial assets	32,514	31,095	(1,465)	(308)	(4,747)
Derivative financial receivables	49,216	47,804	(1,412)	(297)	–
Total				**(605)**	**(4,747)**
Net deferred tax asset/(liability)				**47,849**	**50,317**
Allowance for uncertain realisation of deferred tax asset				(21,835)	(27,134)
Net deferred tax asset/(liability)				**26,014**	**23,183**

As at 31 December 2016, the Group did not recognise deferred tax assets of EUR 21,835 thousand (2015: EUR 27,134 thousand), which mainly related to tax-deductible temporary differences resulting from provisions, due to their uncertain timing and realisation in future reporting periods.

12. Earnings per share

2016 (in thousands of EUR)	Ordinary shares Face value EUR 800	Ordinary shares Face value EUR 4,000	Preference shares Face value EUR 4
Profit after tax in the accounting period attributable to	95,241	16,459	14,280
Weighted average number of shares outstanding during the period	*60,616*	*2,095*	*1,817,525*
Earnings per share	**1,571**	**7,855**	**7.9**

2015 (in thousands of EUR)	Ordinary shares Face value EUR 800	Ordinary shares Face value EUR 4,000	Preference shares Face value EUR 4
Profit after tax in the accounting period attributable to	91,697	15,846	13,019
Weighted average number of shares outstanding during the period	*60,616*	*2,095*	*1,721,143*
Earnings per share	**1,513**	**7,565**	**7.6**

Information on method of calculation of earnings per share is stated in Section II – Principal accounting policies u).

13. Cash and deposits in central banks

(in thousands of EUR)	2016	2015
Cash in hand	97,919	99,838
Balances at central banks:	621,325	806,708
Obligatory minimum reserves	*621,325*	*806,708*
Total	**719,244**	**906,546**

The minimum obligatory reserve is maintained as an interest-bearing deposit under the regulations of the National Bank of Slovakia. The amount of the reserve depends on the level of deposits accepted by the Parent Company. The Parent Company's ability to withdraw the reserve is restricted by the applicable legislation, and therefore it is not included in "Cash and cash equivalents" for the purposes of cash flow statement preparation (see Note 38 *"Information for Cash Flow Statement"*).

14. Loans and advances to banks

(in thousands of EUR)	2016	2015
Giro and interbank clearing business	52,800	70,638
Money-market business	15,571	2,441
Reverse repo transactions	76,418	50,688
Other loans to banks	3,012	2,126
Total	**147,801**	**125,893**

Loans and advances to banks broken down along geographical lines:

(in thousands of EUR)	2016	2015
Slovak Republic	77,833	51,483
Other countries*	69,968	74,409
Total	**147,801**	**125,893**

*For further information on the Group's exposure to other states, see Note 41 "Foreign assets and liabilities".

An overview of the quality of loans extended to banks is stated in Note 52 *"Risk report"*.

15. Loans and advances to customers, gross

Analysis of loans and advances to customers:

(in thousands of EUR)	2016	2015
Overdraft loans and current account overdrafts	878,458	803,249
Receivables from credit cards	86,132	85,368
Factoring and loans backed by bills of exchange	47,033	84,901
Housing loans	2,053,504	1,709,243
Mortgage loans	881,057	897,387
American mortgages	427,631	407,525
Consumer loans	615,658	441,711
Finance lease receivables	215,089	227,197
Investment, operating and other loans	3,346,819	3,487,638
Total	**8,551,381**	**8,144,219**

As at 31 December 2016, the total amount of syndicated loans managed by the Parent Company was EUR 996,965 thousand (31 December 2015: EUR 752,923 thousand). The Parent Company's share amounted to EUR 375,703 thousand (31 December 2015: EUR 307,637 thousand). Syndicated loans are included in *"Investment, operating and other loans"*.

Analysis of loans by customer group:

(in thousands of EUR)	2016	2015
Public sector	8,212	13,801
Corporate clients	4,126,034	4,154,423
Retail clients	4,417,135	3,975,995
Total	**8,551,381**	**8,144,219**

Analysis of loans by contractual maturity period:

(in thousands of EUR)	2016	2015
Short-term loans (up to 1 year)	1,625,013	1,627,820
Medium-term loans (1 year to 5 years)	1,195,599	1,155,186
Long-term loans (over 5 years)	5,730,769	5,361,213
Total	**8,551,381**	**8,144,219**

Analysis of loans and advances to customers by geographical segment:

(in thousands of EUR)	2016	2015
Slovak Republic	8,311,042	7,900,403
Other countries	240,339	243,816
Total	**8,551,381**	**8,144,219**

An overview of the quality of loans extended to customers is stated in Note 52 *"Risk report"*.

16. Impairment losses for loans and advances

The movement in provisions for loan losses during 2016 is as follows:

(in thousands of EUR)	As at 1 January 2016	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2016
Specific provision – for loans assessed on an individual and collective basis	**197,508**	**61,112**	**(44,408)**	**(35,846)**	**36**	**178,402**
Public sector	–	–	–	–	–	–
Corporate clients	131,265	31,041	(27,664)	(29,469)	19	105,192
Retail clients	66,243	30,071	(16,744)	(6,377)	17	73,210
Portfolio provision	**23,678**	**3,402**	**(5,456)**	**–**	**–**	**21,624**
Banks	4	–	–	–	–	4
Corporate clients	14,017	924	(5,197)	–	(113)	9,631
Retail clients	9,657	2,478	(259)	–	113	11,989
Total	**221,186**	**64,514**	**(49,864)**	**(35,846)**	**36**	**200,026**

The movement in provisions for loan losses during 2015 is as follows:

(in thousands of EUR)	As at 1 January 2015	Consolidation Adjustments*	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2015
Specific provision – for loans assessed on an individual and collective basis	**192,298**	**11,093**	**60,835**	**(32,340)**	**(34,420)**	**42**	**197,508**
Public sector	–	–	–	–	–	–	–
Corporate clients	125,560	7,374	32,503	(15,792)	(18,410)	30	131,265
Retail clients	66,738	3,719	28,332	(16,548)	(16,010)	12	66,243
Portfolio provision	**20,580**	**2,894**	**1,156**	**(964)**	**–**	**8**	**23,674**
Banks	4	–	–	(4)	–	–	–
Corporate clients	11,124	2,600	1,006	(713)	–	–	14,017
Retail clients	9,452	294	150	(247)	–	8	9,657
Total	**212,878**	**13,987**	**61,991**	**(33,304)**	**(34,420)**	**50**	**221,182**

*Consolidation adjustments due to changes in the Group during 2015.

17. Derivative financial assets

(in thousands of EUR)	2016	2015
Positive fair value of financial derivatives for trading	**46,116**	**59,632**
Interest-rate contracts	32,691	42,876
Currency contracts	10,888	12,504
Index-related contracts	–	1,466
Commodity contracts	2,537	2,786
Positive fair value of financial derivatives for fair value hedging	**1,685**	**1,784**
Interest-rate contracts	1,685	1,784
Positive fair value of financial derivatives for cash flow hedging	**1,415**	**434**
Interest-rate contracts	1,415	434
Total	**49,216**	**61,850**

Fair value hedges relating to interest rate risk

The Parent Company uses interest rate swaps to hedge the interest rate risk related to issued debt securities – mortgage bonds and debentures from the debt securities portfolio. Changes in the fair values of these interest rate swaps as a result of interest rate changes set off, to a large extent, changes in the fair values of issued mortgage bonds and debentures caused by changes in risk-free interest rates. Hedging was effective during the reporting period.

With respect to the hedging instruments, as at 31 December 2016 the Parent Company recognised a net loss in the amount of EUR 208 thousand. With respect to the hedging instruments, the Parent Company recognised a net loss of EUR 192 thousand as at 31 December 2015. Net loss from hedged items that related to the hedged risk amounted to EUR 724 thousand. As at 31 December 2015, the Parent Company recognised a net profit of EUR 278 thousand. Both items are recognised in Note 4 “Net profit (loss) from trading instruments”.

Cash flow hedges

The Parent Company uses derivative financial instruments (interest rate swaps) to hedge the risk of variability of future cash flows associated with floating rate assets, which could result in unexpected losses in the event of interest rate changes on the interbank market. The structure of such derivatives is strictly adjusted to the structure of a secured loan, as a result of which the Bank is not exposed to the risk of an interest rate change or cash flow risk. The efficiency of such hedging transactions is regularly monitored and the hedges were efficient during the respective period.

As at 31 December 2016, in relation to the hedging instruments, the Parent Company recognised a net profit in the amount of EUR 778 thousand, which is recognised in Other components of comprehensive income under “Cash flow hedges”. As at 31 December 2015, in relation to the hedging instruments, the Parent Company recognised a net profit of EUR 338 thousand.

18. Held-for-trading financial assets

(in thousands of EUR)	2016	2015
Debt securities and other fixed-interest securities	**69,048**	**22,357**
Slovak government bonds	69,048	22,357
Total	**69,048**	**22,357**

19. Financial assets at fair value through profit or loss (FVTPL)

(in thousands of EUR)	2016	2015
Debt securities and other fixed income securities	**53,323**	**60,590**
Slovak government bonds	53,323	60,590
Total	**53,323**	**60,590**

20. Held-to-maturity financial investments

(in thousands of EUR)	2016	2015
Debt securities and other fixed income securities	**1,693,971**	**1,684,171**
Government treasury bills	70,141	–
Slovak government bonds	1,525,946	1,610,969
Bonds issued by the banking sector	97,884	73,202
Shares, debt and other floating-rate securities	**32,005**	**45,013**
Slovak government bonds	–	25,009
Bonds issued by the banking sector	32,005	20,004
Total	**1,725,976**	**1,729,184**

In November 2011, the Parent Company reclassified selected Slovak government bonds from the held-for-trading financial assets portfolio to the held-to-maturity financial investments portfolio. As at the reclassification date, the fair value of reclassified debt securities amounted to EUR 80,503 thousand (including an aliquot portion of interest income).

As at 31 December 2016, the carrying amount of the aforementioned held-to-maturity securities represented EUR 3,314 thousand (31 December 2015: EUR 13,410 thousand). The fair value amounted to EUR 3,707 thousand (including an aliquot portion of interest income) (31 December 2015: EUR 13,927 thousand). A decrease in the amount of reclassified securities as at 31 December 2016 resulted from the maturity of 1 issue of government bonds in January 2016 in the total amount of EUR 10,000 thousand (face value of redeemed government bonds issues).

If the reclassification were not performed, the Parent Company would have recognised an additional net loss from revaluation for 2016 in the amount of EUR 78 thousand (2015: net loss of EUR 432 thousand). In 2011, until the moment of reclassification, the Parent Company recognised a net loss from revaluation in the amount of EUR 1,250 thousand in the statement of comprehensive income. If the reclassification had not been performed, the Parent Company would have recognised an additional net loss from revaluation as at 31 December 2011 in the amount of EUR 449 thousand.

With respect to the reclassified securities there were no changes in future cash flows that would have an impact on the amount of the effective interest rate and their impairment at the end of 2016.

21. Available-for-sale financial assets

Debt securities available for sale:

(in thousands of EUR)	2016	2015
Debt securities and other securities with fixed income	**24,743**	**74,171**
Government bonds	–	49,192
Bonds issued by other sectors	24,743	24,979
Equity investments, debt securities and other securities with floating income	**7,771**	**82,609**
Equity investments	7,355	21,612
Government bonds	–	60,809
Unit trust certificates	416	189
Total	**32,514**	**156,781**

Available-for-sale equity investments broken down per company:

Company (in thousands of EUR)	Group investment (%)	Cost	Provision, revaluation	Carrying amount 31 December 2016	Carrying amount 31 December 2015
RVS, a. s.	0.65	46	(46)	–	–
Burza cenných papierov v Bratislave, a. s.	0.09	10	–	10	10
S.W.I.F.T. s. c., Belgium	0.03	52	–	52	52
D. Trust Certifikačná Autorita, a. s.	10.00	37	–	37	37
VISA INC., USA	N/A	515	–	515	515
VISA INC., USA (Class C shares)	N/A	6,050	691	6,741	–
VISA Europe, Ltd	0.01	–	–	–	20,998
Total		**6,710**	**645**	**7,355**	**21,612**

In 2016, the Parent Company sold its investment in VISA Europe, Ltd. from the portfolio of available-for-sale financial instruments and reported a profit as stated in *Note Net profit (loss) from available-for-sale financial instruments*. The share component of the transaction amounting to EUR 6,050 thousand was transferred to an increase of the value of the VISA INC., USA investment.

The above sale of the VISA Europe, Ltd. investment had an impact on *Other components of comprehensive income/loss, after income tax*. After reflecting the effect of deferred tax, the impact of the transaction on the Parent Company's financial statements for the year ended 31 December 2016 was a net amount of EUR 15,672 thousand.

There were no changes in the provisions for available-for-sale equity investments in 2016.

22. Investments in associated undertakings

Associated undertaking	Ownership interest in %	Cost	Provision	Net book value	Share in net assets at 31 December 2016	Share in net assets at 31 December 2015
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	–	3	3	3
Celkom		**3**	**–**	**3**	**3**	**3**

(in thousands of EUR)	2016	2015
At 1 January	3	22,154
Share in profits of associated undertakings after tax (Note 7)	–	1,929
Disposal of an investment in an associate	–	(3,907)
Transfer from equity consolidation to full consolidation	–	(18,493)
Elimination of received dividends	–	(1,680)
Total	**3**	**3**

23. Development of non-current tangible and intangible assetsu

Development of non-current tangible assets for own use as at 31 December 2016:

(in thousands of EUR)	Land and buildings – operating lease	Land and buildings	Machinery & equipment	Other non--current assets	Means of transport	Assets in progress	Total
Cost							
1 January 2016	**3,536**	**75,971**	**89,642**	**21,816**	**4,385**	**5,690**	**201,040**
Additions	–	(5,060)	–	–	–	14,117	9,057
Disposals	–	(1,821)	(11,788)	(3,710)	(421)	–	(17,740)
Transfer from own use to investment property	–	1,380	5	–	–	(15)	1,370
Transfer from tangible assets in progress	–	6,836	4,020	5,332	553	(16,741)	–
31 December 2016	**3,536**	**77,306**	**81,879**	**23,438**	**4,517**	**3,051**	**193,727**
Accumulated depreciation and provisions							
1 January 2016	**(1,310)**	**(33,465)**	**(76,372)**	**(18,367)**	**(2,241)**	**–**	**(131,755)**
Depreciation charge	(238)	(8,835)	(5,341)	(1,766)	(713)	–	(16,893)
Disposals	–	1,701	11,255	3,657	360	–	16,973
Provision	–	(9)	(85)	–	–	–	(94)
Transfer from own use to investment property	–	(636)	–	–	–	–	(636)
31 December 2016	**(1,548)**	**(41,244)**	**(70,543)**	**(16,476)**	**(2,594)**	**–**	**(132,405)**
Net book value at 1 January 2016	**2,226**	**42,506**	**13,270**	**3,449**	**2,144**	**5,690**	**69,285**
Net book value at 31 December 2016	**1,988**	**36,062**	**11,336**	**6,962**	**1,923**	**3,051**	**61,322**

Development of non-current tangible assets for own use as at 31 December 2015:

(in thousands of EUR)	Land and buildings – operating lease	Land and buildings	Machinery & equip-ment	Other non--current assets	Means of transport	Assets in progress	Total
Cost							
1 January 2015		**75,443**	**87,499**	**22,314**	**3,975**	**2,916**	**192,147**
Additions	–	–	–	–	–	11,603	11,603
Additions due to consolidation adjustments*	3,536	193	25	126	278	2	4,160
Disposals	–	(987)	(4,233)	(984)	(663)	–	(6,867)
Transfer from tangible assets in progress	–	1,322	6,351	360	795	(8,831)	(3)
31 December 2015	**3,536**	**75,971**	**89,642**	**21,816**	**4,385**	**5,690**	**201,040**
Accumulated deprecia-tion and provisions							
1 January 2015	**–**	**(30,414)**	**(72,320)**	**(18,252)**	**(2,043)**	**–**	**(123,029)**
Depreciation charge	(24)	(3,737)	(6,644)	(961)	(600)	–	(11,966)
Addition to accumulated depreciation due to consolidation adjustments*	(1,286)	(192)	(24)	(102)	(100)	–	(1,704)
Disposals	–	878	4,083	948	502	–	6,411
Provision	–	–	(1,467)	–	–	–	(1,467)
31 December 2015	**(1,310)**	**(33,465)**	**(76,372)**	**(18,367)**	**(2,241)**	**–**	**(131,755)**
Net book value at 1 January 2015	**–**	**45,029**	**15,179**	**4,062**	**1,932**	**2,916**	**69,118**
Net book value at 31 December 2015	**2,226**	**42,506**	**13,270**	**3,449**	**2,144**	**5,690**	**69,285**

*Consolidation adjustments due to changes in the Group during 2015.

Movements in the accounts of investment property as at 31 December 2016:

(in thousands of EUR)	Land and buildings	Machinery & equipment	Assets in progress	Total
Cost				
1 January 2016	**62,048**	**3,771**	**314**	**66,133**
Additions	–	–	132	132
Disposals	(302)	(5)	–	(307)
Transfer from own use to investment property	(1,370)	–	–	(1,370)
Transfer from tangible assets in progress	56	9	(65)	–
31 December 2016	**60,432**	**3,775**	**381**	**64,588**
Accumulated depreciation and provisions				
1 January 2016	**(21,981)**	**(1,522)**	**–**	**(23,503)**
Depreciation charge	(1,522)	(351)	–	(1,873)
Disposals	27	2	–	29
Provision	299	–	–	299
Transfer from own use to investment property	636	–	–	636
31 December 2016	**(22,541)**	**(1,871)**	**–**	**(24,412)**
Net book value at 1 January 2016	**40,067**	**2,249**	**314**	**42,630**
Net book value at 31 December 2016	**37,891**	**1,904**	**381**	**40,176**

Movements in the accounts of investment property as at 31 December 2015:

(in thousands of EUR)	Land and buildings	Machinery & equipment	Assets in progress	Total
Cost				
1 January 2015	**62,974**	**3,720**	**895**	**67,589**
Additions	–	–	235	235
Additions due to consolidation adjustments*	–	–	–	–
Disposals	(1,687)	(4)	–	(1,691)
Transfer from tangible assets in progress	761	55	(816)	–
31 December 2015	**62,048**	**3,771**	**314**	**66,133**
Accumulated depreciation and provisions				
1 January 2015	**(18,782)**	**(1,171)**	**(45)**	**(19,998)**
Depreciation charge	(1,641)	(354)	–	(1,995)
Addition to accumulated depreciation due to consolidation adjustments*	(45)	–	45	–
Disposals	1,114	3	–	1,117
Provision	(2,627)	–	–	(2,627)
31 December 2015	**(21,981)**	**(1,522)**	**–**	**(23,503)**
Net book value at 1 January 2015	**44,192**	**2,549**	**850**	**47,591**
Net book value at 31 December 2015	**40,067**	**2,249**	**314**	**42,630**

*Consolidation adjustments due to changes in the Group during 2015.

As at 31 December 2016, the Group did not recognise any liabilities under contracts for the purchase of non-current tangible assets (2015: EUR 0 thousand).

As at 31 December 2016, the Group owns buildings that are leased to third parties at the net book value of EUR 33,060 thousand (2015: EUR 36,270 thousand). In 2016, the total income from the rent amounted to EUR 3,473 thousand (2015: EUR 3,135 thousand) and is recognised as *"Other operating profit (loss)"*. Depreciation charges on buildings held for lease are recognised as *"General administrative expenses"* in line *"Depreciation and amortisation on non-current tangible and intangible assets"* and amount to EUR 1,873 thousand (2015: EUR 1,955 thousand).

The buildings are recognised in movements in the accounts of tangible assets as *"Investment property"*. In addition to the buildings, *"Investment property"* also includes plots of land that are intended for further capital appreciation with a net carrying amount of EUR 6,207 thousand (31 December 2015: EUR 6,375 thousand).

As at 31 December 2016, the estimated fair value of investment property amounted to EUR 42,017 thousand (31 December 2015: EUR 46,921 thousand). Owing to a change in the fair value of investment property as at 31 December 2016, the Group released a provision in the amount of EUR 413 thousand (31 December 2015: EUR 2,397 thousand).

Insurance coverage

The Parent Company concluded an insurance policy for insurance of assets and business interruption (international insurance programme) under which the Parent Company's assets are insured for EUR 72,732 thousand, insurance of electronics (local amendment to the fronting contract) under which the Parent Company's electronics are covered up to EUR 12,393 thousand and liability insurance – damage to third person's assets, life and health, expenses for insured person's defence with an insured amount of EUR 10,000 thousand. Transportation means are insured under the CASCO insurance up to a maximum risk of EUR 3,993 thousand.

Non-current assets leased by a lessee are insured against all insurable risks; the insurance premium is usually paid by a lessee in instalments:

Type of non-current assets	Insured risk	Territory
Motor, freight and utility vehicles, including trailers	Accident, natural disaster, theft, vandalism	Europe
Machines, technology, equipment	Damage, destruction, theft, vandalism, flood from water mains, business interruption, machinery break-down, electronics	Slovak Republic/place of equipment operation
Real estate	Fire, explosion, lightning, crash of a crew-controlled flying object, natural disaster (including floods), flood from water mains, vandalism (unknown offender)	Real estate registration No. recorded in the real estate register

Development of non-current intangible assets as at 31 December 2016:

(in thousands of EUR)	Software	Goodwill	Intangible assets in progress	Total
Cost				
1 January 2016	**125,628**	**44,120**	**4,879**	**174,627**
Additions	–	–	7,807	7,807
Disposals	(154)	–	–	(154)
Transfer from intangible assets in progress	7,167	–	(7,167)	–
31 December 2016	**132,641**	**44,120**	**5,519**	**182,280**
Accumulated amortisation				
1 January 2016	**(98,652)**	**(29,643)**	**–**	**(128,295)**
Amortisation charge	(9,586)	–	–	(10,796)
Disposals	123	–	–	123
Provision	–	(1,210)	–	–
31 December 2016	**(108,115)**	**(30,853)**	**–**	**(138,968)**
Net book value at 1 January 2016	**26,976**	**14,477**	**4,879**	**46,332**
Net book value at 31 December 2016	**24,526**	**13,267**	**5,519**	**43,312**

Development of non-current intangible assets as at 31 December 2015:

(in thousands of EUR)	Software	Goodwill	Intangible assets in progress	Total
Cost				
1 January 2015	**115,251**	**40,921**	**6,529**	**162,701**
Additions	–	–	5,781	5,781
Consolidation adjustments	1,131	3,199	1,867	6,197
Disposals	(52)	–	–	(52)
Transfer from intangible assets in progress	9,298	–	(9,298)	–
31 December 2015	**125,628**	**44,120**	**4,879**	**174,627**
Accumulated amortisation				
1 January 2015	**(86,588)**	**(29,643)**	**–**	**(116,231)**
Amortisation charge	(11,035)	–	–	(11,035)
Consolidation adjustments	(1,081)	–	–	(1,081)
Disposals	52	–	–	52
Provision	–	–	–	–
31 December 2015	**(98,652)**	**(29,643)**	**–**	**(128,295)**
Net book value at 1 January 2015	**28,663**	**11,278**	**6,529**	**46,470**
Net book value at 31 December 2015	**26,976**	**14,477**	**4,879**	**46,332**

24. Current tax asset

(in thousands of EUR)	2016	2015
Tax asset – current	8,208	509
Total	**8,208**	**509**

25. Deferred tax asset

(in thousands of EUR)	2016	2015
Tax asset – deferred	27,493	24,749
Total	**27,493**	**24,749**

Net deferred income tax asset resulted mainly from temporary deductible differences described in Note 11 *"Income taxes"*.

26. Other assets

(in thousands of EUR)	2016	2015
Prepayments and other deferrals	5,074	5,053
Other receivables from the state budget	1,779	1,089
Values in transit	16,192	11,350
Assets held for development and construction	5,563	12,188
Seized assets under a finance lease	2,081	2,821
Other assets	13,348	12,869
Total	**44,037**	**45,370**

In *"Values in transit"* the Parent Company recognises a receivable from an entity that provides services related to the operation of ATMs and cash transports.

The Group recognises assets held for development and construction that are designated for subsequent sale in line *"Assets held for development and construction"*.

The Group recognises seized assets under a finance lease as other assets in the line *"Seized leased assets"*.

27. Deposits from banks

(in thousands of EUR)	2016	2015
Giro and interbank clearing business	10,668	40,066
Money-market business	1,987	101
Loans received	173,317	261,619
Loans received – repo deals from the NBS	55,210	55,297
Total	**241,182**	**357,083**

Deposits from banks by geographical segment:

(in thousands of EUR)	2016	2015
Slovak Republic	97,248	140,928
Other countries	143,934	216,155
Total	**241,182**	**357,083**

An analysis of loans received by type of counterparty is as follows:

Type of loan (in thousands of EUR)	Currency	Type of loan according to maturity	Contractual maturity	2016	2015
Loans received from banks:					
– Reconstruction and development banks	EUR	Long-term	Mar 2016	–	1,160
– Reconstruction and development banks	EUR	Long-term	Oct 2027	–	66,022
– Commercial bank	EUR	Long-term	Mar 2021	31,052	52,084
– Commercial bank	EUR	Long-term	Oct 2019	3,030	15,059
– Commercial bank	EUR	Long-term	Mar 2017	37,558	32,261
– Reconstruction and development banks	EUR	Long-term	May 2024	101,677	95,033
Total				**173,317**	**261,619**
REPO loans received from banks:					
– National Bank of Slovakia	EUR	Long-term	Sep 2018	55,210	55,297
Total				**55,210**	**55,297**

Within the TLTRO programme (targeted longer-term refinancing operations), the Parent Company received a REPO loan from the National Bank of Slovakia in the amount of EUR 55,210 thousand. As collateral for the received repo deals, the Parent Company provided loan receivables amounting to EUR 62,741 thousand from the portfolio of loans and advances to customers.

As at 31 December 2016, the Parent Company does not recognise any loans received from banks secured by Slovak government bonds included in the securities portfolios. Loans received from banks for reconstruction and development with an original maturity in October 2027 were fully repaid in 2016.

As at 31 December 2015, some of the loans received from banks were secured by Slovak government bonds included in the securities portfolios in the amount of EUR 92,251 thousand in favour of the following entities (in thousands of EUR):

Description (in thousands of EUR)	Carrying amount of debt securities	Carrying amount of received loan	Guarantee expiry date	In favour of
Government bond EUR	92,251	66,022	Dec 2032	Reconstruction and development banks

28. Deposits from customers

Deposits from customers by product group are as follows:

(in thousands of EUR)	2016	2015
Current accounts	7,655,313	6,522,411
Time deposits	1,090,000	2,006,675
Savings deposits	207,914	190,342
Received loans	13,588	–
Total	**8,966,815**	**8,719,428**

Deposits from customers by customer segment are as follows:

(in thousands of EUR)	2016	2015
Public sector	48,443	52,687
Corporate clients	2,770,099	3,398,463
Retail clients	6,148,273	5,268,278
Total	**8,966,815**	**8,719,428**

Deposits from customers by geographical segment are as follows:

(in thousands of EUR)	2016	2015
Slovak Republic	8,650,273	8,418,658
Other countries	316,542	300,770
Total	**8,966,815**	**8,719,428**

29. Derivative financial liabilities

(in thousands of EUR)	2016	2015
Negative fair value of held-for-trading financial derivatives	**49,017**	**66,645**
Interest-rate contracts	37,265	49,972
Currency contracts	9,237	12,445
Index-related contracts	–	1,461
Commodity contracts	2,515	2,767
Negative fair value of financial derivatives for fair value hedging	**25**	**–**
Interest–rate contracts	25	–
Total	**49,042**	**66,645**

30. Held-for-trading financial liabilities

(in thousands of EUR)	2016	2015
Liabilities from held-for-trading debt securities*	72,056	48,904
Total	**72,056**	**48,904**

*Securities received as collateral in a reverse REPO transaction were sold in a short sale.

31. Liabilities from debt securities

(in thousands of EUR)	2016	2015
Issued debt securities – mortgage bonds	702,024	644,471
Issued debt securities – bonds	10,037	39,437
Investment notes	1,609	4,662
Total	**713,670**	**688,570**

The fair value of the interest rate swap designated for hedging is stated in Note 17 *"Derivative financial assets"*. The effect of the revaluation of mortgage bonds and interest rate swaps on the results of operations is outlined in Note 4 *"Net profit (loss) from trading instruments"*.

The Parent Company issued mortgage bonds with the following conditions:

Name (in thousands of EUR)	Interest rate	Curr.	Number of mortgage bonds issued	Mortgage bonds unit face value in currency	Issue date	Maturity date	Coupon payment	2016	2015
MB 062 – repaid	3.75%	EUR	–	1,000	31. 3. 2011	31. 3. 2016	Annually	–	58,924
MB 067	3.875%	EUR	870	10,000	14. 10. 2011	14. 10. 2018	Annually	8,743	8,727
MB 068	5.00%	EUR	1,000	10,000	14. 10. 2011	14. 10. 2031	Annually	10,005	10,000
MB 072 – repaid	1.00%	EUR	–	100,000	29. 5. 2013	29. 5. 2016	Annually	–	40,218
MB 073	1.375%	EUR	500	100,000	19. 8. 2013	19. 1. 2017	Annually	50,651	50,608
MB 074	1.70%	EUR	482	100,000	3. 9. 2013	3. 9. 2018	Annually	49,690	50,160
MB 075 – repaid	1.150%	EUR	–	100,000	24. 9. 2013	24. 2. 2016	Annually	–	50,492
MB 076	6M EURIBOR + 0.70%	EUR	400	100,000	21. 11. 2013	21. 11. 2017	Semi-annually	40,039	40,068
MB 077	1.25%	EUR	4,000	10,000	19. 12. 2013	19. 5. 2017	Annually	40,296	40,257
MB 078	0.85%	EUR	500	100,000	13. 3. 2014	13. 3. 2017	Annually	50,342	50,292
MB 079	0.50%	EUR	300	100,000	7. 10. 2014	7. 4. 2020	Annually	29,962	29,917
MB 080	0.388%	EUR	500	100,000	28. 10. 2014	28. 10. 2019	Annually	50,100	50,154
MB 081	6M EURIBOR + 0.25%	EUR	500	100,000	29. 1. 2015	29. 1. 2018	Semi-annually	50,013	50,064
MB 082	6M EURIBOR + 0.30%	EUR	500	100,000	25. 3. 2015	25. 3. 2018	Semi-annually	49,970	49,966
MB 083	1.110%	EUR	500	100,000	29. 4. 2015	29. 4. 2025	Annually	49,909	44,541
MB 084	6M EURIBOR + 0.50%	EUR	511	100,000	19. 8. 2015	19. 8. 2020	Semi-annually	51,254	100
MB 085	6M EURIBOR + 0.50%	EUR	200	100,000	17. 12. 2015	17. 12. 2020	Semi-annually	19,987	19,984

Name (in thousands of EUR)	Interest rate	Curr.	Number of mortgage bonds issued	Mort-gage bonds unit face value in currency	Issue date	Maturity date	Coupon payment	2016	2015
MB 086	0.75%	EUR	600	100,000	15. 2. 2016	15. 2. 2023	Annually	60,037	–
MB 087	0.50%	EUR	408	100,000	21. 3. 2016	21. 9. 2021	Annually	40,721	–
MB 088	1.00%	EUR	500	100,000	16. 11. 2016	16. 11. 2026	Annually	50,305	–
Total MB								**702,024**	**644,472**

The Parent Company also issued other debt securities with the following conditions:

Name (in thousands of EUR)	Interest rate	Curr.	Number of debt securities issued	Face value per debt security in currency	Issue date	Maturity date	Coupon payment	2016	2015
BOND 04 – repaid	3.75%	EUR	38,679	1,000	22. 9. 2011	22. 9. 2016	Annually	–	39,437
BOND 6 AUV	0.83%	EUR	3,000	1,000	21. 6. 2016	21. 6. 2018	Annually	3,013	–
BOND 6 AUV	0.64%	EUR	7,000	1,000	21. 6. 2016	21. 6. 2017	Annually	7,024	–
Total bonds								**10,037**	**39,437**
Total liabilities from debt securities								**712,061**	**683,908**

In accordance with Act on Banks No. 483/2001 Coll., the Parent Company is obliged to finance mortgage loans at least in the amount of 90% by issuing and selling mortgage bonds. Under its decision, the NBS set special conditions for financing of mortgage loans for the Parent Company, where the mortgage loans must be financed at least in the amount of 70%. As at 31 December 2016, the Parent Company met the aforementioned condition.

Mortgage bonds and bonds are in the form of bearer securities and all mortgage bonds and other debt securities are registered securities.

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.

Some issued mortgage bonds of the Parent Company are quoted on the Bratislava Stock Exchange.

In addition to mortgage bonds and debt securities, the Group also recognised investment notes issued by Tatra-Leasing, s.r.o. in the amount of EUR 1,609 thousand (31 December 2015: EUR 4,662 thousand).

As at 31 December 2016 and 31 December 2015, mortgage bonds and other bonds issued by the Parent Company were not secured by any form of collateral.

32. Provisions for liabilities and charges

As at 31 December 2016 movements in provisions for liabilities and charges were as follows:

(in thousands of EUR)	1 January 2016	Allocated	Released	Used	31 December 2016
Provisions for employee benefits	3,385	190	(29)	–	3,546
Other provisions for labilities	622	348	(250)	(140)	580
Legal disputes (Note 42)	28,231	13,570	(83)	(736)	40,982
Specific provision for guarantees and irrevocable loan commitments	11,866	568	(9,101)	–	3,333
Portfolio provision for off-balance sheet items	2,849	432	(508)	–	2,773
Total	**46,953**	**15,108**	**(9,971)**	**(876)**	**51,214**

As at 31 December 2015 movements in provisions for liabilities and charges were as follows:

(in thousands of EUR)	1 January 2015	Consolidation adjustments*	Allocated	Released	Used	Transfers, exchange differences	31 December 2015
Provisions for employee benefits	2,485	–	900	–	–	–	3,385
Other provisions for labilities	–	–	97	(350)	(121)	996	622
Legal disputes (Note 42)	28,468	213	8,422	(6,974)	(1,898)	–	28,231
Specific provision for guarantees and irrevocable loan commitments	7,362	–	6,252	(1,749)	–	1	11,866
Portfolio provision for off-balance sheet items	3,651	50	1	(853)	–	–	2,849
Total	**41,966**	**263**	**15,672**	**(9,926)**	**(2,019)**	**997**	**46,953**

*Consolidation adjustments due to changes in the Group during 2015.

33. Income tax liabilities

(in thousands of EUR)	31 December 2016	31 December 2015
Current tax liability	206	3,342
Deferred tax liability	1,479	1,363
Total	**1,685**	**4,705**

34. Other liabilities

(in thousands of EUR)	2016	2015
Deferred items	2,511	2,146
Social fund	651	200
Employee liabilities	17,786	21,986
Other liabilities to the state budget	641	386
Liabilities from unpaid dividends	542	350
Other liabilities	25,047	25,211
Total	**47,178**	**50,279**

The summary of social fund balances, additions, and drawings is as follows:

(in thousands of EUR)	2016	2015
At 1 January	**200**	**323**
Additions	1,124	1,063
Drawing	(673)	(1,186)
At 31 December	**651**	**200**

Owing to insignificance, the Group classified the current and deferred tax liability as *"Other liabilities"* in the statement of financial position.

35. Subordinated debt

(in thousands of EUR)	2016	2015
Subordinated debt	236,139	236,174
Total	**236,139**	**236,174**

Subordinated debt analysed by individual banks:

Type of loan (in thousands of EUR)	Curr.	Type of loan by maturity	Start of loan drawdown	Contractual maturity	2016	2015
Subordinated debt from banks:						
– Commercial banks	EUR	Long-term	Aug 2013	Aug 2023	100,440	100,453
– Commercial banks	EUR	Long-term	Nov 2015	Nov 2024	135,699	135,721
Total					**236,139**	**236,174**

Subordinated debt is a loan that falls due only after all other liabilities have been settled and its repayment cannot be requested before the contractual maturity period. The Parent Company drew the subordinated debt from a related party.

36. Equity

Equity, except for the profit for the current year, breaks down as follows:

(in thousands of EUR)	2016	2015
Share capital – ordinary shares	56,873	56,873
Share capital – preference shares	7,453	7,453
Own shares	(164)	(306)
Share premium – ordinary shares	226,612	226,613
Share premium – preference shares	70,522	70,612
Share premium – own shares	(1,945)	(3,670)
Reserve and other funds	15,838	15,431
Cash flow hedging revaluation reserve	1,116	338
Available-for-sale financial assets revaluation reserve	1,158	16,830
Retained earnings (excluding current year net profit after tax)	490,604	485,639
Total	**868,067**	**875,813**

The type, form, nature, and par value of equity shares and preference shares issued by the Parent Company:

Type	Ordinary shares	Ordinary shares	Preference shares
Form	Registered	Registered	Registered
Nature	Non-certified	Non-certified	Non-certified
Number	60,616 shares	2,095 shares	1,863,357 shares
Par value	EUR 800	EUR 4,000	EUR 4
Issue No. (ISIN)	SK1110001502 01-05 series	SK1110015510	SK1110007186 SK1110008424 SK1110010131 SK1110012103 SK1110013937 SK1110014901 SK1110016237 SK1110016591

Description of rights:

Each holder of an equity share is the Parent Company's shareholder. Each shareholder enjoys its fundamental shareholder rights resulting from the Commercial Code and from the Parent Company's Articles, namely:

- The right to share in the Parent Company's profit (dividend), based on the proportion of total face value of their shares to the total face value of all shareholders;
- The right to attend the General Meeting, vote at the General Meeting, ask for information thereon and explanations regarding the Parent Company's issues and/or issues concerning the controlled entities and related to the agenda of the General Meeting, make motions at the General Meeting; and
- The right to share in the liquidation balance.

Each holder of preference shares enjoys similar rights as holders of equity shares; the only difference is that the preference shares are not equipped with the right to vote at a General Meeting, except for cases for which the law assigns voting power to such shares. Preference shares are assigned a preferential right applicable to dividends, ie if the Company generates a minimum net profit in Euro equal to the number of issued preference shares, the holders of preference shares will be paid a dividend at least in the amount EUR 0.03 (in words three eurocents) per preference share.

Voting power exercisable at the General Meeting is determined by the face value of the share, where one vote is assigned to each share at face value of EUR 800 and five voting rights to each ordinary share at face value of EUR 4 000. If the law requires voting by the preference shares' holders, their voting is conducted separately and each preference share at face value of EUR 4 is assigned one vote.

Ordinary shares are publicly tradable on stock markets, preference shares are not publicly tradable.

The following table shows the Group's contributions to consolidated share premium, equity restricted funds, and retained earnings (except for current year profits). The use of equity-restricted funds is restricted (legal reserve fund) as per the Commercial Code valid in the Slovak Republic.

(in thousands of EUR)	2016	2015
Parent Company	757,561	770,224
Entities consolidated using full consolidation method	46,345	41,569
Total share premium, equity restricted funds, and retained earnings	**803,906**	**811,793**

The contribution of the Group entities to the consolidated profit after tax for the respective period:

(in thousands of EUR)	2016	2015
Parent Company (Bank)	126,583	115,787
Entities consolidated using full consolidation method	(603)	4,775
Consolidated profit after tax	**125,980**	**120,562**

37. Capital management

For capital management purposes, the Group defines regulatory capital, capital adequacy, internal capital and economic capital.

Regulatory capital is the capital defined by the capital adequacy rules under Pillar 1. When quantifying regulatory capital, the Group complies with current legislation, defining its structure and minimum amount.

Regulatory capital designated as own funds comprises Tier 1 regulatory capital, Tier 1 supplementary capital and Tier 2 capital. Regulatory capital serves to cover credit risk from activities in the Banking book, counterparty risk from activities in the Trading book, market risks (position risk for activities in the Trading book, foreign exchange risk and commodity risk from all trading activities), settlement risk, CVA risk, off-exchange derivatives and operational risk.

Capital adequacy is monitored with regard to Tier 1 regulatory capital expressed as its percentage of the total risk exposure, and with regard to Tier 1 capital expressed as its percentage of the total risk exposure and as own funds expressed as a percentage of the total risk exposure. The methodology for its quantification is regulated. Additional information on the Bank's capital requirement is disclosed in Note 52 *"Risk report"*, part *"BASEL III"*.

During 2016, the Group complied with the level defined for the Group.

Capital represents such own sources of the Bank's financing that are internally held and placed by the Bank to cover its risks. The capital consists of capital components supplemented by other additional funds available to the Group. The Group's objective is to maintain the required amount of capital. For 2016, the Group met this objective.

Economic capital is the necessary capital and/or it responds to the minimum capital requirement to cover unexpected losses resulting from internal risks, which are defined by the Bank as material. Economic capital ensures the financial stability of the Group at the reliability level corresponding to the Group's credibility. The benefits of the knowledge of economic capital are important for the Group, for active portfolio management, valuation, controlling etc.

The below table provides the outline of the structure of the Group's regulatory capital, including the capital adequacy ratios for the years ending 31 December:

(in thousands of EUR)	2016*	2015*
The original own funds (TIER 1)	**866,316**	**859,098**
Paid-up share capital	64,326	64,326
(–) Treasury shares	(164)	(306)
Share premium	297,134	297,226
(–) Share premium – treasury shares	(1,945)	(3,670)
Funds from profit and other capital reserves	15,432	15,430
Other specific items of original own funds	491,011	485,640
Other temporary adjustments to Tier 1 capital	522	452
(–) Items deductible from the original own funds	**(43,312)**	**(46,332)**
(–) Intangible assets	(30,046)	(31,856)
(–) Goodwill	(13,266)	(14,476)
Additional own funds (TIER 2)	**235,000**	**235,000**
Subordinated debts	235,000	235,000
(–) Items deductible from the original and additional own funds	**(19,244)**	**(13,300)**
(–) From the original own funds	(19,244)	(13,300)
Total own funds	**1,038,760**	**1,034,466**

*Since 1 January 2009 the Group applies a combination of the standardised approach and the IRB approach for calculating risk-weighted assets. In the event of a positive difference between the created provisions and expected losses, the Group may add this positive difference to the original and additional own funds. If the difference is negative, it is deducted from own funds. These negative differences are included in "Items deductible from the Group's original and additional own funds" in the amount of EUR 19,244 thousand (2015: EUR 13,300 thousand).

Adequacy of own funds (%)	**19.72**	**18.21**
Own funds	**1,038,760**	**1,034,466**
Risk-weighted assets (RWA)	**5,267,502**	**5,680,165**
RWA from receivables recorded in the Banking book	4,430,342	4,781,252
RWA from positions recorded in the Trading book	70,994	122,550
RWA from operating risk – standardised approach	766,166	776,363

38. Information for Cash Flow Statement

Profit from operating activities before changes in working capital and interest received and paid is summarised as follows:

(in thousands of EUR)	2016	2015
Cash flows from operating activities		
Profit before income taxes	**162,734**	**159,441**
Adjustments:	**(244,954)**	**(246,350)**
Interest expense	29,158	32,459
Interest income	(303,611)	(321,766)
Dividend income	(148)	(79)
Provisions for impairment losses on loans and advances and provisions for liabilities and charges, net	25,136	23,803
(Profit) loss on sale and other disposals of non-current assets	545	147
Unrealised (profit) loss from financial derivative instruments and held-for-trading securities	(3,633)	(4,224)
Unrealised (profit) loss from securities at fair value through profit or loss	327	–
Unrealised (profit)/loss from available-for-sale securities	(678)	–
Unrealised (profit)/loss from hedging derivatives	(182)	626
Share in retained earnings of associated undertakings	–	(1,929)
Net (profit)/loss from available-for-sale securities	(20,998)	–
Depreciation and amortisation non-current tangible and intangible assets	29,562	24,996
Provision for investment property	(299)	2,627
(Profit)/loss from foreign exchange and other transactions with cash and cash equivalents	**(133)**	**(3,010)**
Cash flow of operating activities before changes in working capital, interest received and paid and income taxes paid	**(82,220)**	**(86,909)**

Cash and cash equivalents as at 31 December 2016, 31 December 2015, and 31 December 2014 comprise of the following:

(in thousands of EUR)	2016	2015	2014
Cash in hand (Note 13)	97,919	99,838	91,637
Giro and interbank clearing business (Note 14)	52,800	70,638	106,172
Total	**150,719**	**170,476**	**197,809**

39. Related parties

Related parties as defined by IAS 24 are those counterparties that represent:

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2016:

Related Parties* (in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board**	Other related parties	Total
Loans and advances to banks and customers	47,301	18,374	–	2,888	4,571	**73,134**
Receivables from financial derivative transactions	19,953	2,985	–	–	–	**22,938**
Other assets	1,851	306	–	–	–	**2,157**
Deposits from banks and customers	3,999	4,119	–	5,549	1,274	**14,941**
Liabilities from financial derivative transactions	34,799	20	–	–	–	**34,819**
Subordinated debt	236,139	–	–	–	–	**236,139**

Related Parties* (in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board**	Other related parties	Total
Other liabilities	2,103	582	–	–	–	**2,685**
Guarantees issued	10,124	1,979	–	–	–	**12,103**
Commitments	35,598	5,597	–	675	2,180	**44,050**
Guarantees received	6,174	2,044	–	–	–	**8,218**

*Groups of related parties under the IAS 24 definition
**Including members of RZB and RBI Boards of Directors

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2015:

Related Parties* (in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board**	Other related parties	Total
Loans and advances to banks and customers	63,349	6,691	–	2,859	4,716	**77,615**
Receivables from financial derivative transactions	25,217	2,786	–	–	–	**28,003**
Other assets	187	178	–	–	–	**365**
Deposits from banks and customers	3,875	3,874	–	5,478	851	**14,078**
Liabilities from financial derivative transactions	43,831	123	–	–	–	**43,954**
Subordinated debt	236,174	–	–	–	–	**236,174**
Other liabilities	1,735	778	–	–	–	**2,513**
Guarantees issued	4,700	2,294	–	–	–	**6,994**
Commitments	32,810	4,618	–	538	1,803	**39,769**
Guarantees received	3,037	6,792	–	–	–	**9,829**

*Groups of related parties under the IAS 24 definition
**Including members of RZB and RBI Boards of Directors

The following are revenues and expenses with related parties as at 31 December 2016:

Related Parties* (in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board**	Other related parties	Total
Interest and similar income	519	83	–	34	112	**748**
Fees and commissions income	657	1,223	–	–	–	**1,880**
Unrealised gain (loss) on financial derivative transactions	19,337	302	–	–	–	**19,639**
Operating revenues	917	687	–	–	–	**1,604**

Related Parties* (in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar expenses	(8,962)	(29)	–	(24)	(38)	**(9,053)**
Expenses on charges and commissions	(656)	(5,470)	–	–	–	**(6,126)**
Administrative expenses	(7,044)	(2,169)	–	(5,326)**	–	**(14,539)**
Total	**4,768**	**(5,373)**	**–**	**(5,316)**	**74**	**(5,847)**

*Groups of related parties under the IAS 24 definition
**Salaries and bonuses of the members of the Board of Directors, Supervisory Board and proxies

The following are revenues and expenses with related parties as at 31 December 2015:

Related Parties* (in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	120	89	–	44	123	**376**
Fees and commissions income	591	1,066	–	–	–	**1,657**
Unrealised gain (loss) on financial derivative transactions	4,261	(618)	–	–	–	**3,643**
Operating revenues	828	924	–	–	–	**1,752**
Interest and similar expenses	(9,429)	–	–	(26)	(50)	**(9,505)**
Expenses on charges and commissions	(698)	(5,084)	–	–	–	**(5,782)**
Administrative expenses	(6,181)	(1,570)	–	(4,324)**	–	**(12,075)**
Total	**(10,508)**	**(5,193)**	**–**	**(4,306)**	**73**	**(19,934)**

*Groups of related parties under the IAS 24 definition
**Salaries and bonuses of the members of the Board of Directors, Supervisory Board and proxies

40. Foreign currency items

The Financial Statements contain the following volumes of assets and liabilities denominated in foreign currencies:

(in thousands of EUR)	2016	2015
Assets	**136,929**	**87,242**
Of which: USD	*72,320*	*26,298*
Of which: CZK	*53,799*	*44,499*
Of which: other currencies (PLN, HUF, GBP and other)	*10,810*	*16,445*
Liabilities	**438,895**	**497,667**
Of which: USD	284,336	353,202
Of which: CZK	52,770	50,598
Of which: other currencies (PLN, HUF, GBP and other)	101,789	93,867

41. Foreign assets and liabilitiesy

Assets and liabilities with entities outside the Slovak Republic are as follows:

(in thousands of EUR)	2016	2015
Assets	**461,064**	**457,206**
Of which: Austria	188,692	169,541
Of which: Czech Republic	165,667	119,606
Of which: Germany	9,528	16,598
Of which: Netherlands	38,425	75,764
Of which: United Kingdom	3,721	25,224
Of which: Other countries (mostly EU member states)	55,031	50,472
Liabilities	**926,852**	**977,633**
Of which: Austria	428,746	400,917
Of which: Other countries (mostly EU member states)	498,106	576,716

As at 31 December 2016 and 31 December 2015, the Group did not hold in its portfolio any securities issued by central governments, central banks, other banks or corporate clients based in Portugal, Italy, Ireland, Greece and Spain. As at 31 December 2016 and 31 December 2015, the Group had no other exposure to the aforementioned entities.

As at 31 December 2016, the Group recorded loan receivables mainly from retail customers from Portugal, Italy, Ireland, Greece and Spain in the amount of EUR 1,448 thousand (31 December 2015: EUR 1,529 thousand).

42. Contingent liabilities and other off-balance-sheet items

The Group reports the following contingent liabilities and other off-balance sheet items:

(in thousands of EUR)	2016	2015
Contingent liabilities:	**448,481**	**496,591**
From guarantees	440,516	469,257
From letters of credit	7,965	27,334
Commitments:	**2,600,349**	**2,585,918**
From irrevocable loan commitments	1,217,066	1,143,407
Up to 1 year	*858,653*	*800,057*
More than 1 year	*358,413*	*343,350*
From revocable loan commitments	1,383,283	1,442,511
Up to 1 year	*1,230,536*	*1,278,562*
More than 1 year	*152,747*	*163,949*
Total	**3,048,830**	**3,082,509**

Off-balance sheet commitments from guarantees represent obligations that the Parent Company will make payments in the event that a customer cannot fulfil its obligations against third parties.

A documentary letter of credit is an irrevocable undertaking of the issuing Parent Company acting at the request of a customer (buyer) to make a payment to the beneficiary (seller) or to pay or accept bills of exchange drawn by the beneficiary against stipulated documents, provided all terms and conditions of the letter of credit are complied with. The documentary letters of credit are collateralised depending on the creditworthiness of the customer and on the same basis as guarantees or loans.

The primary purpose of unused credit facilities (loan commitments) is to ensure that funds are available to a customer as required. Commitments to grant loans issued by the Parent Company represent issued loan commitments and the unused part of approved overdraft loans.

The risk associated with off-balance sheet financial commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Parent Company issued the guarantee and taking into account the collateral obtained. As at 31 December 2016, the Group created reserves for these risks amounting to EUR 6,106 thousand (2015: EUR 14,715 thousand), Note 32 *"Provisions for liabilities and charges"*.

An overview of the quality of contingent liabilities and other off-balance sheet items is stated in Note 52 *"Risk report"*.

Legal disputes

In the ordinary course of business, the Group is subject to legal actions and complaints. Each dispute is subject to special monitoring and regular re-assessment as a part of the Group's standard procedures. It is the policy of the Group not to disclose details of pending legal actions and to defend unjustified claims rigorously. If it is probable that the Group will be required to settle the claim and a reliable estimate of the amount can be made, provisions are recorded. The total provision for litigation amounts to EUR 40,982 thousand (31 December 2015: EUR 28,231 thousand), Note 32 *"Provisions for liabilities and charges"*.

Contingent liabilities from operating lease

The Group recognises contingent liabilities from non-cancellable operating leases as a lessee on the off-balance sheet as follows:

(in thousands of EUR)	2016	2015
Total non-cancellable payments for operating leases	**53,366**	**63,557**
Less than 1 year	7,770	10,144
1 year to 5 years	19,890	24,366
More than 5 years	25,706	29,047
Operating lease expense in other administrative costs	11,706	10,552

The Group adjusted the reported figures of contingent liabilities from non-cancellable operating leases in year 2015.

43. Finance lease

The movements in finance lease receivables are analysed as follows:

(in thousands of EUR)	2016	2015
Gross investment	**230,924**	**236,230**
Up to 3 months	24,056	18,678
From 3 months up to 1 year	58,175	54,769
From 1 year up to 5 years	125,229	136,320
More than 5 years	23,464	26,463
Unearned finance income	**15,835**	**19,201**
Up to 3 months	1,752	1,978
From 3 months up to 1 year	4,319	4,999
From 1 year up to 5 years	8,121	10,244
More than 5 years	1,643	1,981

(in thousands of EUR)	2016	2015
Net investment	**215,089**	**217,029**
Up to 3 months	22,304	16,699
From 3 months up to 1 year	53,856	49,771
From 1 year up to 5 years	117,108	126,077
More than 5 years	21,821	24,482

Finance lease receivables include lease receivables recognised in Note 15 as *"Loans and advances to customers, gross"*.

Assets leased under finance lease contracts:

(in thousands of EUR)	2016	2015
Lease of cars	108,428	94,329
Lease of real estate	48,240	55,157
Lease of movable assets	58,421	67,543
Total	**215,089**	**217,029**

44. Operating lease

Future lease receivables from an operating lease are as follows:

(in thousands of EUR)	2016	2015
Gross investment	**1,776**	**2,051**
Up to 3 months	268	357
From 3 months up to 1 year	1,508	1,427
From 1 year up to 5 years	–	267

45. Values in custody and management

(in thousands of EUR)	2016	2015
Values in custody	**23,517**	**40,673**
Investment notes	1,646	4,772
Merchandise and trust receipts	20,752	29,769
Gold	1,119	6,132
Total	**23,517**	**40,673**

The Parent Company reported values received in custody and administration at fair values. Values received in custody and administration does not represent the Parent Company's property and accordingly they are not part of the Parent Company's assets.

In addition to amounts in the table above, in accordance with the depository function for Tatra Asset Management, správ. spol., a.s. (TAM), as at 31 December 2016 the Parent Company reported deposited securities in custody of the TAM Unit Trusts in the amount of EUR 1,105,772 thousand (as at 31 December 2015: EUR 1,024,335 thousand). The Group also administers 24 open-end unit trusts with the net asset value of EUR 1,932,302 thousand (2015: EUR 2,049,910 thousand) through its management company, Tatra Asset Management, správ. spol., a. s., and 7 supplementary pension funds with the net asset value of EUR 522,277 thousand (2015: EUR 472,331 thousand) through Doplnková dôchodková spoločnosť Tatra banky, a.s.

46. Repurchase agreements

As at 31 December 2016, the following repurchase agreements were concluded (within reverse repo deals):

(in thousands of EUR)	2016	2015
Repo deals (debtor)		
Deposits from banks	55,210	55,297
Total	**55,210**	**55,297**

Within the TLTRO programme (targeted longer-term refinancing operations), the Parent Company received a REPO loan from the National Bank of Slovakia in the amount of EUR 55,210 thousand. As collateral for the received repo deals, the Parent Company provided loan receivables amounting to EUR 62,741 thousand from the portfolio of loans and advances to customers.

(in thousands of EUR)	2016	2015
Reverse repo deals (creditor)		
Loans and advances to banks	76,418	50,688
Total	**76,418**	**50,688**

As part of the reverse repo deals, the Parent Company received government debt securities as collateral with a fair value of EUR 75,776 thousand.

47. Assets pledged as collaterala

Liabilities secured by the Group's assets:

(in thousands of EUR)	2016	2015
Loans received from banks	–	66,022
REPO loans received from banks	55,210	55,297
Derivative financial liabilities	34,799	43,831
Total	**90,009**	**165,150**

The pledge attributable to the aforementioned liabilities comprised the following assets recognised in the statement of financial position:

(in thousands of EUR)	2016	2015
Loans and advances to banks	43,268	60,828
Loans and advances to customers	62,741	62,741
Held-to-maturity financial investments	–	92,251
Total	**106,009**	**215,820**

Other pledged assets without a liability:

(in thousands of EUR)	2016	2015
Held-to-maturity financial assets	600,189	996,368
Total	**600,189**	**996,368**

For information on securities pledged as collateral for the Group's liabilities, see Note 27 *"Deposits from banks"*, and Note 31 *"Liabilities from debt securities"*.

The Parent Company opened margin accounts as a collateral for derivative transactions. The amount of cash deposited by the Parent Company in margin accounts depends on the volume and risk exposures of the deals made. The amount of cash deposited in margin accounts equals the amount of assets pledged as collateral and is recognised in *"Loans and advances to banks"*.

The Parent Company pledged in favour of the NBS government bonds and bonds issued by the banking sector, which are held in the held-to-maturity securities portfolio in the amount of EUR 600,189 thousand (31 December 2015: EUR 996,368 thousand). For the pledged securities, the Parent Company can draw an intraday credit in the amount of EUR 400,000 thousand (31 December 2015: EUR 400,000 thousand). As at 31 December 2016, no funds were drawn against the said collateral (31 December 2015: no drawing).

48. Default loan portfolio

To determine the client's default, the Parent Company uses mainly the following indicators also depending on the client's segment: permanent delay in the repayment of a material portion of a receivable of more than 90 days, declaration of early maturity, bankruptcy or insolvency, a portion of the loan receivables from the client written off, legal restructuring, suspended interest on receivables, sale of the receivables from the client resulting in a loss or an anticipated loss from a deal. For the retail portfolio, the threshold which the receivable must exceed is set in the amount of EUR 10.

There is no definition of default loans in the methodology of International Financial Reporting Standards.

The following summary analyses the default loan portfolio (balance sheet amounts) as at 31 December 2016:

(in thousands of EUR)	Corporate clients	Retail clients	Total
Default loans	163,997	136,247	**300,244**
Provisions for default loans	104,992	73,363	**178,355**
Claim value of received collateral for default loans	47,822	54,720	**102,542**

The following summary analyses the default loan portfolio (off-balance sheet balances) as at 31 December 2016:

(in thousands of EUR)	Corporate clients	Retail clients	Total
Default contingent liabilities and other off-balance-sheet items	55,760	1,329	**57,089**
Provisions for contingent liabilities and other off-balance-sheet items	3,089	244	**3,333**
Claim value of received collateral for contingent liabilities and other off-balance-sheet items	5,969	261	**6,230**

The following summary analyses the default loan portfolio (balance sheet amounts) as at 31 December 2015:

(in thousands of EUR)	Corporate clients	Retail clients	Total
Default loans	198,482	140,255	**338,737**
Provisions for default loans	130,657	66,392	**197,050**
Claim value of received collateral for default loans	73,491	67,414	**140,905**

The following summary analyses the default loan portfolio (off-balance sheet balances) as at 31 December 2015:

(in thousands of EUR)	Corporate clients	Retail clients	Total
Default contingent liabilities and other off-balance-sheet items	76,885	7	**76,892**
Provisions for contingent liabilities and other off-balance-sheet items	11,866	–	**11,866**
Claim value of received collateral for contingent liabilities and other off-balance-sheet items	11,961	196	**12,157**

49. Average number of staff

The following is information on the Group's average headcount:

(in thousands of EUR)	2016	2015
Group employees	3,795	3,637
Of which: Members of the Board of Directors	7	7
Total	**3,795**	**3,637**

50. Derivative financial instruments

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2016:

	Nominal amounts by maturity				Fair values	
(in thousands of EUR)	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 17)	Negative (Note 29)
a) Interest-rate contracts for hedging	**–**	**75,745**	**76,252**	**151,997**	**3,100**	**(25)**
OTC products:						
Interest rate swaps	–	75,745	76,252	151,997	3,100	(25)
b) Interest-rate contracts for trading	**514,061**	**1,571,730**	**100,535**	**2,186,326**	**32,690**	**(37,265)**
OTC products:						
Interest rate swaps	390,719	1,285,690	70,484	1,746,893	32,262	(36,629)
Interest rate options – buy	1,587	154,741	15,301	171,629	428	(208)
Interest rate options – sell	1,455	131,299	14,750	147,504	–	(428)
Stock exchange products:						
Interest rate futures	120,300	–	–	120,300	–	–
c) Currency contracts for trading	**878,157**	**82,908**	**–**	**961,065**	**10,889**	**(9,238)**
OTC products:						
Currency swaps	477,366	–	–	477,366	3,147	(1,979)
Currency – interest rate swaps	–	45,930	–	45,930	613	(817)
Currency forwards	83,447	–	–	83,447	1,341	(745)
Currency options – buy	160,116	18,489	–	178,605	5,784	(1)
Currency options – sell	157,228	18,489	–	175,717	4	(5,696)
Stock exchange products:						
Currency futures	–	–	–	–	–	–
d) Index-related contracts for trading	**–**	**–**	**–**	**–**	**–**	**–**
OTC products:						
Index options – buy	–	–	–	–	–	–
Index options – sell	–	–	–	–	–	–
Index swaps	–	–	–	–	–	–
Stock exchange products:						
Index futures	–	–	–	–	–	–
e) Commodity contracts for trading	**–**	**131,147**	**–**	**131,147**	**2,537**	**(2,514)**
OTC products:						
Commodity swaps	–	–	–	–	–	–
Commodity options – buy	–	65,865	–	65,865	2,537	–
Commodity options – sell	–	65,282	–	65,282	–	(2,514)
Total	**1,392,218**	**1,861,530**	**176,787**	**3,430,535**	**49,216**	**(49,042)**

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2015:

	Nominal amounts by maturity				Fair values	
(in thousands of EUR)	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 17)	Negative (Note 29)
a) Interest-rate contracts for hedging	**–**	**45,000**	**59,625**	**104,625**	**2,218**	**–**
OTC products:						
Interest rate swaps	–	45,000	59,625	104,625	2,218	–
b) Interest-rate contracts for trading	**2,863,678**	**971,651**	**595,630**	**4,430,959**	**42,876**	**(49,972)**
OTC products:						
Interest rate swaps	290,212	908,242	561,494	1,759,948	42,645	(49,635)
Interest rate options – buy	16,763	32,000	17,386	66,149	231	(92)
Interest rate options – sell	394	31,409	16,750	48,553	–	(245)
Stock exchange products:						
Interest rate futures	2,556,309	–	–	2,556,309	–	–
c) Currency contracts for trading	**1,586,014**	**36,137**	**–**	**1,622,151**	**12,504**	**(12,445)**
OTC products:						
Currency swaps	554,026	–	–	554,026	1,703	(1,582)
Currency – interest rate swaps	11,806	–	–	11,806	99	(102)
Currency forwards	117,080	5,081	–	122,161	985	(1,088)
Currency options – buy	455,978	15,528	–	471,506	9,701	(15)
Currency options – sell	447,124	15,528	–	462,652	16	(9,658)
Stock exchange products:						
Currency futures	–	–	–	–	–	–
d) Index-related contracts for trading	**75,626**	**–**	**–**	**75,626**	**1,466**	**(1,461)**
OTC products:						
Index options – buy	–	–	–	–	–	–
Index options – sell	–	–	–	–	–	–
Index swaps	75,626	–	–	75,626	1,466	(1,461)
Stock exchange products:						
Index futures	–	–	–	–	–	–
e) Commodity contracts for trading	**210**	**131,320**	**–**	**131,530**	**2,786**	**(2,767)**
OTC products:						
Commodity swaps	–	–	–	–	–	–
Commodity options – buy	105	65,865	–	65,970	2,785	–
Commodity options – sell	105	65,455	–	65,560	1	(2,767)
Total	**4,525,528**	**1,184,108**	**655,255**	**6,364,891**	**61,850**	**(66,645)**

51. Fair value of financial instruments

Financial instruments at fair value

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices were available (which was mainly the case for securities and derivative instruments traded on stock exchanges and functioning markets), they were used. All other financial instruments were valued using internal measurement models, including present value models or accepted option price models in particular, or use was made of external expert opinions.

The following table shows a summary of financial instruments recognised at fair value divided into Level 1 to Level 3 based on fair value measurements as at 31 December 2016:

Financial assets at fair value (in thousands of EUR)	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**–**	**49,216**	**–**	**49,216**
Positive fair value of financial derivative instruments for trading	–	46,116	–	46,116
Positive fair value of financial derivatives for fair value hedging	–	1,685	–	1,685
Positive fair value of financial derivatives for cash flow hedging	–	1,415	–	1,415
Held-for-trading financial assets	**46,016**	**23,032**	**–**	**69,048**
Debt securities and other fixed income securities	46,016	23,032	–	69,048
Shares, debt and other floating rate securities	–	–	–	–
Financial assets at fair value through profit or loss	**39,717**	**13,606**	**–**	**53,323**
Debt securities and other fixed income securities	39,717	13,606	–	53,323
Available-for-sale financial assets	**24,743**	**–**	**7,771**	**32,514**
Debt securities and other fixed income securities	24,743	–	–	24,743
Shares, debt and other floating rate securities	–	–	7,771	7,771
Total	**110,476**	**85,854**	**7,771**	**204,101**

Financial liabilities at fair value (in thousands of EUR)	Level 1*	Level 2**	Level 3***	Total
Derivative financial liabilities	**–**	**49,042**	**–**	**49,042**
Negative fair value of financial derivative instruments for trading	–	49,017	–	49,017
Negative fair value of financial derivatives for fair value hedging	–	25	–	25
Held-for-trading financial liabilities	**72,056**	**–**	**–**	**72,056**
Debt securities and other fixed income securities	72,056	–	–	72,056
Total	**72,056**	**49,042**	**–**	**121,098**

*Level 1 – derived from listed prices on active markets.
**Level 2 – derived on the basis of active markets other than prices for identical assets or liabilities.
***Level 3 – inputs for assets or liabilities, which are not based on observable market data (unobservable inputs).

The following table shows a summary of financial instruments recognised at fair value divided into Level 1 to Level 3 based on fair value measurements as at 31 December 2015:

Financial assets at fair value (in thousands of EUR)	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**–**	**61,850**	**–**	**61,850**
Positive fair value of financial derivative instruments for trading	–	59,632	–	59,632
Positive fair value of financial derivatives for fair value hedging	–	1,784	–	1,784
Positive fair value of financial derivatives for cash flow hedging	–	434	–	434
Held-for-trading financial assets	**21,628**	**729**	**–**	**22,357**
Debt securities and other fixed income securities	21,628	729	–	22,357
Shares, debt and other floating rate securities	–	–	–	–
Financial assets at fair value through profit or loss	**60,590**	**–**	**–**	**60,590**
Debt securities and other fixed income securities	60,590	–	–	60,590
Available-for-sale financial assets	**74,171**	**60,808**	**21,801**	**156,780**
Debt securities and other fixed income securities	74,171	–	–	74,171
Shares, debt and other floating rate securities	–	60,808	21,801	82,609
Total	**156,389**	**123,387**	**21,801**	**301,577**

Financial liabilities at fair value (in thousands of EUR)	Level 1*	Level 2**	Level 3***	Total
Derivative financial liabilities	**–**	**66,645**	**–**	**66,645**
Negative fair value of financial derivative instruments for trading	–	66,645	–	66,645
Held-for-trading financial liabilities	**48,904**	**–**	**–**	**48,904**
Debt securities and other fixed income securities	48,904	–	–	48,904
Total	**48,904**	**66,645**	**–**	**115,549**

*Level 1 – derived from listed prices on active markets.
**Level 2 – derived on the basis of active markets other than prices for identical assets or liabilities.
***Level 3 – inputs for assets or liabilities, which are not based on observable market data (unobservable inputs).

Movements between Level I and Level II

In 2016, there was a movement in bonds in the amount of EUR 14,129 thousand, which were transferred from Level I to Level II based on a change in the price source of the respective bonds.

Movements in Level III financial instruments at fair value

If there is at least one significant parameter of the measurement that is not observable in the market, this instrument is assigned to Level III measured at fair value. The following table shows changes in the financial instruments at fair value whose valuation models are based on unobservable inputs:

(in thousands of EUR)	At 1 Jan 2016	Increase	Decrease	Profit/loss in comprehensive income	At 31 Dec 2016
Unit trust certificates	189	227	–	–	416
Equity investments	21,612	6,050	(20,998)	691	7,355
Total	**21,801**	**6,277**	**(20,998)**	**691**	**7,771**

Qualitative information on financial instruments for Level III measurement:

Financial instrument (in thousands of EUR)	Valuation method	Fair value	Significant unobservable inputs	Range of unobservable inputs
Unit trust certificates	Net asset value	416	deduction	20 – 50%
Equity investments	Market value	7,355	deduction	20%*
Total		**7,771**		

*The Parent Company applied a deduction of 20% to the value of shares of VISA INC., USA (Class C shares) reflecting uncertainty related to the liquidity of the respective asset.

Financial instruments recognised at amortised cost

Fixed-interest receivables from and payables to banks or customers were re-measured to fair values different from their carrying amount in the statement of financial position only if they had a remaining term of more than one year. Variable-rate receivables and payables were only taken into account if they had an interest rollover period of more than one year. Only in those cases does discounting based on an assumed interest rate in line with market rates have a significant effect.

To determine the fair value of receivables from and payables to banks or customers, the Group applied an income approach. Under the income approach, the Group applied the present value technique. To discount future contractual cash flows the Group used a discount rate, which was calculated by adjusting the discount rate.

With respect to held-to-maturity securities and liabilities from debt securities, if market prices were available, the securities were grouped by the Group into Level 1. If the security is not traded on the stock exchange or the NBS benchmark for the security is not disclosed, the Group measures the security at fair value, which is derived from inputs other than quoted prices, and the security is grouped into Level 2.

(in thousands of EUR)	Fair value 2016	Carrying amount 2016	Difference 2016	Fair value 2015	Carrying amount 2015	Differ-ence 2015
Assets						
Loans and advances to banks, net	**147,801**	**147,801**	**–**	**125,893**	**125,893**	**–**
of which Level 1	–	–	–	–	–	–
of which Level 2	–	–	–	*67,033*	*67,033*	–
of which Level 3	*147,801*	*147,801*	–	*58,860*	*58,860*	–
Loans and advances to customers, net	**8,495,698**	**8,351,355**	**144,343**	**8,144,219**	**7,923,037**	**221,182**
of which Level 1	–	–	–	–	–	–
of which Level 2	–	–	–	–	–	–
of which Level 3	*8,495,698*	*8,351,355*	*144,343*	*8,144,219*	*7,923,037*	*221,182*
Held-to-maturity financial investments	**1,803,433**	**1,725,976**	**77,457**	**1,814,331**	**1,729,184**	**85,147**
of which Level 1	*1,329,021*	*1,254,838*	*74,183*	*1,162,942*	*1,101,127*	*61,815*
of which Level 2	*474,412*	*471,138*	*3,274*	*651,389*	*628,057*	*23,332*
of which Level 3	–	–	–	–	–	–
Investments in associated undertakings	**3**	**3**	**–**	**3**	**3**	**–**
of which Level 1	–	–	–	–	–	–
of which Level 2	–	–	–	–	–	–
of which Level 3	*3*	*3*	–	*3*	*3*	–
Liabilities						
Deposits from banks	**243,274**	**241,182**	**2,092**	**357,083**	**357,083**	**–**
of which Level 1	–	–	–	–	–	–
of which Level 2	–	–	–	*3,921*	*3,921*	–
of which Level 3	*243,274*	*241,182*	*2,092*	*353,162*	*353,162*	–
Deposit from customers	**8,967,820**	**8,966,815**	**1,005**	**8,720,085**	**8,719,428**	**657**
of which Level 1	–	–	–	–	–	–
of which Level 2	–	–	–	–	–	–
of which Level 3	*8,967,820*	*8,966,815*	*1,005*	*8,720,085*	*8,719,428*	*657*
Liabilities from debt securities	**722,080**	**713,670**	**8,410**	**695,342**	**688,570**	**6,772**
of which Level 1	–	–	–	–	–	–
of which Level 2	*722,080*	*713,670*	*8,410*	*695,342*	*688,570*	*6,772*
of which Level 3	–	–	–	–	–	–
Subordinated debt	**236,139**	**236,139**	**–**	**236,174**	**236,174**	**–**
of which Level 1	–	–	–	–	–	–
of which Level 2	–	–	–	–	–	–
of which Level 3	*236,139*	*236,139*	–	*236,174*	*236,174*	–

52. Risk report

Credit risk

The Parent Company bears a credit risk, ie the risk that the counterparty will not be able to repay the amounts owed at their maturity in full. The Parent Company classifies loan exposure borne by the Parent Company by setting limits of risk accepted with respect to one debtor, or a group of debtors, and with respect to individual countries. The aforementioned risks are monitored on a regular basis and reviewed at least annually. Exposure to one debtor, including banks and securities dealers, is also limited by partial limits set for balance sheet and off-balance sheet exposures, and by daily limits of exposure in relation to items traded, such as forward foreign currency contracts. The actual exposure is compared to set limits on a daily basis.

The loan exposure is managed based on regular analyses of the ability of debtors and potential debtors to repay the principal amount and interest, and using potential adjustments to such loan limits. Credit risks are also partially managed by collaterals and guarantees received from private individuals or legal entities.

Retail debtors are assessed by the Parent Company using the scoring models developed for individual products, or an individual client. Credit risk in the retail loan portfolio is managed using the following main tools: credit scoring is a tool used by the Parent Company in the loan decision-making process for private individuals and retail legal entities. The second most-important tool in credit quality management is the system of credit underwriting by risk assessment specialists, whose goal is to optimise revenues from the portfolio in relation to the risk borne by the Parent Company. The regular monitoring of the existing loan portfolio quality and trends in the portfolio together with appropriate strategies to secure the quality of the existing portfolio are also a very important component that contributes to retaining the entire portfolio quality and the targeted level of risk charges of the Parent Company.

When collecting receivables, the Parent Company uses a very broad scale of tools and collection strategies depending on the amount and type of receivable. The Parent Company uses both internal and external resources to collect receivables. In the event of an unsuccessful collection of receivables from clients, the receivables are subsequently forwarded to external agencies specialising in the enforcement of receivables via the courts. Receivables with higher amounts and specific receivables are dealt with by an in-house expert team in co-operation with the legal department and other professional units of the Bank.

As part of credit risk monitoring and management, the Parent Company also closely observes the area of exposure and residual risks.

Exposure risk represents the risk resulting from the concentration of the Parent Company's transactions with an entity, a group of economically-related parties, state, geographical area, industry sector, collateral provider, etc. The risk is closely related to both exposures in the Banking book and exposures in the Trading book. To manage exposure risk effectively, the Parent Company's focuses on quality portfolio management and its adequate diversification while adhering to set exposure limits (large assets exposure and others). The Parent Company also develops methods for exposure risk quantification.

Residual risk represents the risk stemming from the insufficient enforceability of rights arising to the Parent Company from security received against credit risk. The Parent Company eliminates this risk in particular by means of consistently observing legal and operational requirements, and conservative valuation and revaluation methods, and by applying appropriate discounts depending on the type and quality of the received collateral.

The table below shows the maximum amount of credit risk regardless of received collateral:

(in thousands of EUR)	**2016**	**2015**
Credit risk related to balance sheet assets:		
Loans and advances to banks	147,801	125,893
Loans and advances to customers, net	8,351,355	7,923,037
Derivative financial assets	49,216	61,850
Held-for-trading securities	69,048	22,357
Financial assets at fair value through profit or loss	53,323	60,590
Held-to-maturity financial investments	1,725,976	1,729,184
Available-for-sale financial assets	32,514	156,781
Investments in associated undertakings	3	3
Current tax asset	8,208	509
Deferred tax asset	27,493	24,749
Other assets	44,037	45,370
Total	**10,508,974**	**10,150,323**
	2016	**2015**
Credit risk related to off-balance sheet items:		
Contingent commitments from guarantees and letters of credit	448,481	496,591
Irrevocable loan commitments/stand-by facility	1,217,066	1,143,407
Revocable loan commitments/stand-by facility	1,383,283	1,442,511
Total	**3,048,830**	**3,082,509**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2016:

(in thousands of EUR)	Total carrying amount	Not impaired	Impaired	Specific provisions – assessed on an individual basis	Specific provisions – assessed on a collective basis	Portfolio provision	Net carrying amount	Claim value of received collateral
Loans and advances to banks	**147,801**	**147,801**	**–**	**–**	**–**	**–**	**147,801**	**88,138***
Loans and advances to customers	**8,551,381**	**8,295,901**	**255,480**	**151,841**	**26,516**	**21,669**	**8,351,355**	**4,946,507**
Public sector	*8,212*	*8,212*	*–*	*–*	*–*	*–*	*8,212*	*12,466*
Corporate clients	*4,126,034*	*3,976,046*	*149,988*	*100,780*	*4,212*	*9,868*	*4,011,174*	*1,797,790*
Retail clients	*4,417,135*	*4,311,643*	*105,492*	*51,061*	*22,304*	*11,801*	*4,331,969*	*3,136,251*
Total	**8,699,182**	**8,443,702**	**255,480**	**151,841**	**26,516**	**21,669**	**8,499,156**	**5,034,645**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2015:

(in thousands of EUR)	Total carrying amount	Not impaired	Impaired	Specific provisions – assessed on an individual basis	Specific provisions – assessed on a collective basis	Portfolio provision	Net carrying amount	Claim value of received collateral
Loans and advances to banks	**125,893**	**125,893**	**–**	**–**	**–**	**–**	**125,893**	**53,375***
Loans and advances to customers	**8,144,219**	**7,868,384**	**275,835**	**170,747**	**26,711**	**23,723**	**7,923,038**	**4,698,757**
Public sector	*13,801*	*13,801*	*–*	*–*	*–*	*–*	*13,801*	*499*
Corporate clients	*4,154,423*	*3,965,411*	*189,012*	*123,792*	*7,273*	*14,254*	*4,009,104*	*1,900,305*
Retail clients	*3,975,995*	*3,889,172*	*86,823*	*46,955*	*19,438*	*9,469*	*3,900,133*	*2,797,953*
Total	**8,270,112**	**7,994,277**	**275,835**	**170,747**	**26,711**	**23,723**	**8,048,931**	**4,701,910**

The table below provides an overview of the quality of contingent liabilities and other off-balance sheet items as at 31 December 2016:

(in thousands of EUR)	Total carrying amount	Not impaired	Assessed on an individual basis – impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Contingent liabilities and other off-balance sheet liabilities to banks	**100,839**	**100,839**	**–**	**–**	**3**	**100,836**	**26,799**
Contingent liabilities and other off-balance sheet liabilities to clients	**2,947,991**	**2,942,467**	**5,524**	**3,333**	**2,770**	**2,941,888**	**355,113**
Public sector	*5,243*	*5,243*	*–*	*–*	*–*	*5,243*	*658*
Corporate clients	*2,120,335*	*2,115,668*	*4,667*	*3,089*	*2,349*	*2,114,897*	*232,856*
Retail clients	*822,413*	*821,556*	*857*	*244*	*421*	*821,748*	*121,599*
Total	**3,048,830**	**3,043,306**	**5,524**	**3,333**	**2,773**	**3,042,724**	**381,912**

The table below provides an overview of the quality of contingent liabilities and other off-balance sheet items as at 31 December 2015:

(in thousands of EUR)	Total carrying amount	Not impaired	Assessed on an individual basis – impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Contingent liabilities and other off-balance sheet liabilities to banks	**89,889**	**89,889**	**–**	**–**	**2**	**89,887**	**13,253**
Contingent liabilities and other off-balance sheet liabilities to clients	**2,992,620**	**2,915,728**	**76,892**	**11,866**	**2,847**	**2,977,907**	**426,818**
Public sector	*7,868*	*7,868*	*–*	*–*	*–*	*7,868*	*–*
Corporate clients	*2,247,689*	*2,170,804*	*76,885*	*11,866*	*2,847*	*2,232,976*	*327,564*
Retail clients	*737,063*	*737,056*	*7*	*–*	*–*	*737,063*	*99,254*
Total	**3,082,509**	**3,005,617**	**76,892**	**11,866**	**2,849**	**3,067,794**	**440,071**

The following summary represents an analysis of the individually-impaired loan portfolio as at 31 December 2016:

(in thousands of EUR)	Corporate clients	Retail clients	Total
Impaired loans	**149,988**	**105,492**	**255,480**
Specific provisions – assessed on an individual basis	**100,780**	**51,061**	**151,841**
Specific provisions – assessed on a collective basis	**4,212**	**22,304**	**26,516**
Claim value of received collateral	**38,877**	**26,344**	**65,221**
% coverage by provisions for assets	70.0%	69.5%	**69.8%**
% coverage by provisions for assets and received collateral	95.9%	94.5%	**95.3%**
Interest income from impaired loans	1,955	1,761	**3,716**

The following summary represents an analysis of the individually-impaired loan portfolio as at 31 December 2015:

(in thousands of EUR)	Corporate clients	Retail clients	Total
Impaired loans	**189,012**	**86,823**	**275,835**
Specific provisions – assessed on an individual basis	**123,792**	**46,955**	**170,747**
Specific provisions – assessed on a collective basis	**7,273**	**19,438**	**26,711**
Claim value of received collateral	**64,584**	**23,758**	**88,342**
% coverage by provisions for assets	69.3%	76.5%	**71.6%**
% coverage by provisions for assets and received collateral	103.5%	103.8%	**103.6%**
Interest income from impaired loans	2,133	1,712	**3,845**

The summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2016:

(in thousands of EUR)	Within maturity	Within 90 days	From 91 to 180 days	From 181 days up to 1 year	Over 1 year	Received collateral for overdue loans (in claim value)
Loans and advances to banks	**147,801**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers	**8,177,188**	**107,639**	**5,015**	**2,578**	**3,481**	**84,429**
Public sector	*8,209*	*–*	*3*	*–*	*–*	*–*
Corporate clients	*3,921,637*	*50,502*	*926*	*994*	*1,987*	*42,104*
Retail clients	*4,247,342*	*57,137*	*4,086*	*1,584*	*1,494*	*42,325*
Total	**8,324,989**	**107,639**	**5,015**	**2,578**	**3,481**	**84,429**

The summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2015:

(in thousands of EUR)	Within maturity	Within 90 days	From 91 to 180 days	From 181 days up to 1 year	Over 1 year	Received collateral for overdue loans (in claim value)
Loans and advances to banks	**125,893**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers	**7,714,372**	**131,230**	**12,923**	**3,601**	**6,258**	**81,209**
Public sector	*13,801*	*–*	*–*	*–*	*–*	*–*
Corporate clients	*3,899,036*	*61,372*	*525*	*1,072*	*3,406*	*29,232*
Retail clients	*3,801,535*	*69,858*	*12,398*	*2,529*	*2,852*	*51,977*
Total	**7,840,265**	**131,230**	**12,923**	**3,601**	**6,258**	**81,209**

A summary of individual types of received collateral for financial assets (balance sheet amounts) at claim value is provided as follows:

(in thousands of EUR)	2016	2015
Collateralisation of issued loans	**5,031,719**	**4,698,757**
Cash	59,718	42,002
Guarantees	162,610	155,791
Securities	124,124	46,941
Real estate	4,132,748	3,881,946
Movables	345,784	347,906
Receivables and other collateral	206,735	224,171
Collateralisation of receivables from derivative transactions	**2,926**	**3,153**
Cash	2,926	3,153
Total	**5,034,645**	**4,701,910**

A summary of individual types of received collateral for financial assets (balance sheet amounts) at claim value is provided as follows:

(in thousands of EUR)	2016	2015
To cover contingent liabilities and other off-balance sheet liabilities		
Cash	48,452	56,607
Guarantees	83,677	74,512
Securities	36,723	35,595
Real estate	105,376	109,743
Movables	2,331	6,506
Receivables and other collateral	105,353	157,108
Total	**381,912**	**440,071**

The summary below represents the quality of the loan portfolio that is non-impaired and non-overdue in accordance with the internal rating:

(in thousands of EUR)	2016	2015
Loans and advances to banks:	**147,801**	**125,893**
Minimum risk	1,126	–
Excellent credit rating	78,736	722
Very good credit rating	66,035	383
Good credit rating	562	123,154
Standard credit rating	1,342	94
Ordinary credit rating	–	1,036
Sub-standard credit rating	–	471
Significantly sub-standard credit rating	–	–
Doubtful/high risk of default	–	–
Defaulted	–	–
With no assigned rating	–	33
Loans and advances to customers:	**8,177,188**	**7,714,372**
Of which, public sector:	***8,209***	***13,801***
Minimum risk	–	4,001
Excellent credit rating	–	–
Very good credit rating	36	116
Good credit rating	3,722	335
Standard credit rating	1,208	4,440
Ordinary credit rating	1,979	3,380
Sub-standard credit rating	1,264	1,529

Significantly sub-standard credit rating	–	–
Doubtful/high risk of default	–	–
Defaulted	–	–
With no assigned rating	–	–
Of which, corporate clients without project financing:	***2,930,217***	***2,876,465***
Minimum risk	392,357	159,801
Excellent credit rating	196,615	278,898
Very good credit rating	308,452	174,761
Good credit rating	294,171	502,612
Standard credit rating	796,990	740,032
Ordinary credit rating	525,988	510,912
Sub-standard credit rating	279,189	264,115
Significantly sub-standard credit rating	94,338	201,894
High probability of default	23,012	33,145
Defaulted	4,346	3,938
With no assigned rating	14,759	6,357
Of which, corporate clients – project financing:	***991,420***	***1,022,571***
Excellent project financing profile rating	674,005	479,050
Good project financing profile rating	255,076	446,197
Acceptable project financing profile rating	37,092	55,543
Weak project financing profile rating	20,886	41,421
Defaulted	4,361	360
Of which, retail clients	***4,247,342***	***3,801,535***
Total	**8,324,989**	**7,840,265**

The scoring system of the Parent Company's corporate clients (applied for the entire RBI Group) is based on the client's economic rating and complies with the rules of the Internal Rating Based Approach (IRB). The rating range has 28 grades from 1A to 10 for corporate clients, and 5 grades for project financing from 6.1 to 6.5.

The Parent Company provides real estate financing loans to corporate clients who have no project financing rating assigned. As at 31 December 2016, such loans amounted to EUR 114,413 thousand (31 December 2015: EUR 122,916 thousand). As at 31 December 2016, loan receivables from these clients that are not impaired or overdue amount to EUR 107,070 thousand (31 December 2015: EUR 114,978 thousand).

The credit risk associated with the securities portfolio is low as the majority of purchased debt securities are government bonds issued by the Slovak Republic. In the case of exposure to Slovak bank debt securities, which amount to EUR 107,822 thousand (31 December 2015: EUR 71,147 thousand), the risk category of the respective issuers is Very Good Credit Rating or Good Credit Rating.

The Parent Company had no exposure to corporate debt securities as at 31 December 2016 and 31 December 2015. Credit risk from derivative transactions is also minimal as transactions are secured by a certain form of hedging (eg blockage of a client's financial funds etc).

The structure of the Group's credit risk exposure to the Slovak Republic (entities controlled by the Slovak Republic, guarantees issued by the Slovak Republic, and similar exposures) is as follows:

(in thousands of EUR)	2016	2015
Government treasury bills	70,141	–
Government bonds with no coupon	46,924	–
Loans and advances to banks	621,325	806,708
Loans and advances to customers	338,999	314,395
Debt securities	1,766,765	1,755,121
Total	**2,844,154**	**2,876,224**

The overall impact of the Slovak Republic on the Group's results of operations represented income of EUR 33,044 thousand (2015: EUR 43,102 thousand), which is mostly of an interest nature.

Restructuring

The Parent Company can modify repayment terms of its loan receivables if the client's financial position is weak and the client would be unable to repay, within a specified period of time, its liabilities to the Parent Company.

With overdraft loans, Agreement on Debt Instalments is concluded. This agreement cannot be extended, only transformed into an instalment credit after declaration of extraordinary maturity. In extraordinary circumstances, the overdraft loan can be extended but with the use of a gradual reduction.

In the case of instalment loans, repayment schedules are modified due to the client's inability to keep the agreed-upon deadlines. In the case of retail loans, there is an option to ask for loan restructuring in the form of a temporary decrease in the instalment amounts mostly for the period of 12 months with subsequent changes in the original loan (an extension of the loan's maturity, change in the instalment amount) so as to prevent the reduction of cash flows after the termination of the loan relationship (ie no impairment of receivables).

The carrying amount of retail receivables whose contractual repayment terms were modified in 2016 due to the client's default or deteriorated financial position amounted to EUR 13,031 thousand (31 December 2015: EUR 15,209 thousand). In the case of the corporate portfolio, the carrying amount was EUR 9,769 thousand (31 December 2015: EUR 70,256 thousand).

In 2016, the Parent Company sold pledges over movable and immovable assets received as collateral to cover its unrecoverable receivables from retail clients in the amount of EUR 4,647 thousand (31 December 2015: EUR 3,262 thousand) and corporate clients in the amount of EUR 7,809 thousand (31 December 2015: EUR 5,474 thousand).

Market risk

The Parent Company is exposed to market risks. Market risks result from open positions from transactions with interest rate, cross-currency, and equity products that are subject to general and specific market changes. To assess the approximate level of market risk associated with the Parent Company's positions, and the expected maximum amount of potential losses, the Parent Company uses internal reports and models for individual types of risk faced by the Parent Company. The Parent Company uses a system of limits, the aim of which is to ensure that the level of risks the Parent Company is exposed to at any time does not exceed the level of risks the Parent Company is willing and able to accept. These limits are monitored on a daily basis.

For risk management purposes, market risk is regarded as the risk of potential losses the Parent Company may incur due to unfavourable developments in market rates and prices. To manage market risk, the Parent Company uses a system of limits imposed on individual positions and portfolios.

As to the structure of trades, the Parent Company primarily faces the following market risks:
- Currency risk
- Interest rate risk

Market risks to which the Parent Company faces insignificant exposure:
- Equity price risk
- Commodity risk

Currency risk

Currency risk represents the potential of loss resulting from unfavourable movements in foreign currency exchange rates. The Parent Company controls this risk by determining and monitoring open position limits.

Open currency positions are subject to real-time monitoring through the information system. The currency position of the Parent Company is monitored separately for each currency, as well as the group limit for specific currencies if monitoring is necessary, eg in the case of market turbulences. Limits for these positions are set in line with the RBI Group standards. Data on the Parent Company's currency positions and on the compliance with the limits set by RBI are reported on a weekly basis.

In addition to the limit on an open currency position, the Parent Company also sets a negative gamma limit on an option position for each currency match subject to trading. The Parent Company also sets the *vega limit* on the overall option position.

Positions from client option trades to currency matches, where no gamma limit on trading has been specified by the Parent Company, are closed in the market, so as to ensure that the Parent Company has no open position for this currency match.

In addition, the Parent Company has set three various stop-loss limits for the overall foreign exchange position.

The Group's net foreign exchange (FX) position of assets, liabilities and equity as at 31 December 2016 and 2015 were as follows:

(in thousands of EUR)	Net FX position 31 December 2016	Net FX position 31 December 2015
EUR	301,966	410,425
USD	(212,016)	(326,904)
Other (CZK, GBP, CHF, PNL, HUF and other)	(89,950)	(83,521)
Total net FX balance sheet position	**–**	**–**
EUR	(21,361)	(438,705)
USD	(3,450)	329,579
Other (CZK, GBP, CHF, PNL, HUF and other)	62,955	82,051
Total net FX off-balance sheet position	**38,144**	**(27,075)**
Total Net FX position	**38,144**	**(27,075)**

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Parent Company controls and manages its interest rate risk for all trades, and for the Banking Book, and the Trading Book separately. Interest rate risk is monitored and assessed on a daily basis.

To monitor interest rate risk, the Parent Company uses the gap analysis method (interest GAP), method of market value sensitivity to yield curve shift by defined number of basis points (basis point value – BPV), and three stop-loss limits to interest rate sensitive instruments.

The internal interest rate risk limits applicable in the Banking Book are set in the form of limits on open positions in each time band of the interest gap for each currency that is included in the Banking Book (mainly EUR, and USD).

The Parent Company's limit on the interest rate risk of the Banking Book is set in the form of limits on the sensitivity of the overall position to the yield curve shifts (BPV) in the Banking Book, with a limit on the position concentration in one time basket and one currency.

The interest rate risk limits applicable in the Trading Book are set in the form of limits related to the sensitivity of the overall position to yield curve shifts (BPV). The limits are set for individual currencies included in the Trading Book. The loss resulting from interest rate variations is limited to three *stop-loss limits*.

Integrated Risk Management regularly submits information on the actual amount of credit risk by individual currency and information on the use of the Banking Book's credit risk limits to the Assets and Liabilities Committee (ALCO).

In the event of exceeding the set limit, the interest rate positions are closed by using both traditional and derivative financial instruments.

The table below provides information in the carrying amount on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "unspecified" category.

Interest rate gap of financial assets and liabilities as at 31 December 2016:

(in thousands of EUR)	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified	Total
Assets						
Cash and balances with central banks	621,326	–	–	–	97,918	719,244
Loans and advances to banks	147,100	663	–	–	38	147,801
Loans and advances to customers, net	3,564,674	798,973	3,637,936	201,273	148,499	8,351,355
Derivative financial assets	8,163	6,314	30,121	4,618	–	49,216
Held-for-trading financial assets	973	15	389	67,671	–	69,048
Financial assets at fair value through profit or loss	13,606	26,269	13,448	–	–	53,323
Held-to-maturity financial investments	193,121	423,473	710,821	398,561	–	1,725,976
Available-for-sale financial assets	–	146	24,596	–	7,772	32,514
Other assets	–	–	–	–	44,037	44,037
Interest rate position for financial assets as of 31 December 2016	**4,548,963**	**1,255,853**	**4,417,311**	**672,123**	**298,264**	**11,192,514**
Liabilities						
Deposits and advances from banks	23,547	31,133	169,394	16,562	546	241,182
Deposits from customers	1,854,932	4,023,405	2,354,952	2,316	731,210	8,966,815
Derivative financial liabilities	6,208	7,155	30,534	5,145	–	49,042
Held-for-trading financial liabilities	–	–	–	–	72,056	72,056
Liabilities from debt securities	252,772	158,877	132,707	169,314	–	713,670
Provisions for liabilities and charges	–	–	–	–	51,214	51,214
Other liabilities	–	–	–	–	47,177	47,177
Subordinated debt	236,139	–	–	–	–	236,139
Interest rate position for financial liabilities as of 31 December 2016	**2,373,598**	**4,220,570**	**2,687,587**	**193,337**	**902,203**	**10,377,295**
Net interest rate position as at 31 December 2016	**2,175,365**	**(2,964,717)**	**1,729,724**	**478,786**	**(603,939)**	**815,219**

Interest rate gap of financial assets and liabilities as at 31 December 2015:

(in thousands of EUR)	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified	Total
Assets						
Cash and balances with central banks	806,712	–	–	–	99,834	906,546
Loans and advances to banks	125,784	71	–	–	38	125,893
Loans and advances to customers, net	4,090,130	1,441,353	2,122,833	126,797	141,924	7,923,037
Derivative financial assets	10,527	6,124	30,335	14,864	–	61,850
Held-for-trading financial assets	753	321	528	20,755	–	22,357
Financial assets at fair value through profit or loss	791	711	59,088	–	–	60,590
Held-to-maturity financial investments	366,913	58,303	946,749	357,219	–	1,729,184
Available-for-sale financial assets	1,979	60,954	72,047	–	21,800	156,780
Other assets	–	–	–	–	45,371	45,371
Interest rate position for financial assets as of 31 December 2015	**5,403,589**	**1,567,837**	**3,231,580**	**519,635**	**308,967**	**11,031,608**
Liabilities						
Deposits and advances from banks	77,802	36,200	222,108	20,943	30	357,083
Deposits from customers	2,140,432	4,249,292	2,296,677	1,850	31,177	8,719,428
Derivative financial liabilities	9,428	8,087	31,985	17,145	–	66,645
Held-for-trading financial liabilities	–	–	–	–	48,904	48,904
Liabilities from debt securities	212,107	192,673	229,694	54,096	–	688,570
Provisions for liabilities and charges	–	–	–	–	46,953	46,953
Other liabilities	–	–	–	–	50,279	50,279
Subordinated debt	236,174	–	–	–	–	236,174
Interest rate position for financial liabilities as of 31 December 2015	**2,675,943**	**4,486,252**	**2,780,464**	**94,034**	**177,343**	**10,214,036**
Net interest rate position as at 31 December 2015	**2,727,646**	**(2,918,415)**	**451,116**	**425,601**	**131,624**	**817,572**

Equity price risk

Equity price risk arises from the Parent Company's exposure to changes in equity investment prices. Equity price risk is determined at the Parent Company level. Equity price risk is measured using individual exposures and by calculating and monitoring the overall equity investment position. Equity investment positions are reported at the level of the overall portfolio on a weekly basis.

Commodity risk

Commodity risk arises from the Parent Company's exposure to changes in commodity prices. Commodity risk is determined at the Parent Company level and is measured using positions in individual commodities. Sensitivity analysis is applied for the measurement and management of commodity risk.

Sensitivity analysis of market risks

Sensitivity analysis reflects the implications on the Parent Company's profit/loss arising from the movements in market parameters (interest rates, exchange rates, share prices etc.) by predetermined delta value. For monitoring and limiting of risk, the Parent Company uses 100 basis points for interest rates, a 5% movement in exchange rates, and 50% movement in share prices, and 30% movement in commodity prices.

The GAP method sorts the Parent Company's positions into baskets and examines the Parent Company's final position in individual baskets. This method is used in interest rate risk management. The stress scenario is similar to the sensitivity analysis; however, it takes into consideration a marginal situation on the market. It combines movements in the market parameters so that these are the least favourable for the Parent Company.

The table below shows the Parent Company's sensitivity to movements in exchange rates, assuming negative movements in exchange rates by 5% to the detriment of the Parent Company.

Change in the present value of assets and liabilities of the Parent Company following the movements in exchange rates of the selected currencies to the detriment of the Parent Company as at 31 December 2016 (in thousands of EUR):

(in thousands of EUR)	Present value of exchange rate	Exchange rate in sensitivity scenario	Parent Company's position in the respective currency	Parent Company's loss in the respective scenario
USD	1.0541	1.1068	5,816	(291)
GBP	0.8562	0.8990	2,546	(127)
JPY	123.4000	117.2300	(2,349)	(117)
CZK	27.0210	28.3721	1,733	(87)
ZAR	14.4570	13.7342	(166)	(8)
Total			**7,580**	**(630)**

Change in the present value of assets and liabilities of the Parent Company following the movements in exchange rates of the selected currencies to the detriment of the Parent Company as at 31 December 2015 (in thousands of EUR):

(in thousands of EUR)	Present value of exchange rate	Exchange rate in sensitivity scenario	Parent Company's position in the respective currency	Parent Company's loss in the respective scenario
USD	1.0887	1.1431	3,543	(177)
PLN	4.2639	4.0507	(632)	(32)
ZAR	16.9211	16.0750	(221)	(11)
AUD	1.4897	1.5642	180	(9)
CZK	27.0230	25.6719	(179)	(9)
Total			**2,691**	**(238)**

The table below shows the Parent Company's sensitivity to movements in the interest rate assuming negative movement of the yield curve to the detriment of the Parent Company by 100 basis points..

Change in the present value of assets and liabilities of the Parent Company following the change in the interest rate for the selected currencies as at 31 December 2016 (in thousands of EUR):

(in thousands of EUR)	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(27,925)
USD	–100 BPV	(1,322)
Total		**(29,247)**

Change in the present value of assets and liabilities of the Parent Company following the change in the interest rate for the selected currencies as at 31 December 2015 (in thousands of EUR):

(in thousands of EUR)	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(44,726)
USD	–100 BPV	(1,372)
Total		**(46,098)**

As at 31 December 2016, the Parent Company's exposure position in the Trading Book to equity price risk is nil, as at 31 December 2015 it was also nil. The Parent Company, therefore, does not recognise this exposure position to equity price risk.

As at 31 December 2016, the Parent Company's exposure position to commodity in the Trading Book is insignificant; as at 31 December 2015, the Parent Company's position was also insignificant. Therefore, the Parent Company does not recognise this exposure position to commodity risk.

The Parent Company in the sensitivity analysis scenario uses the negative development of exchange rates, yield curves movements, and decrease in share prices. In the case of exactly-opposite movements, the Parent Company would book profit instead of loss in approximately the same amount.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to fulfil its obligation to settle its liabilities when they fall due.

The Parent Company wishes to maintain its solvency, ie its ability to meet its financial liabilities duly and timely, and to manage its assets and liabilities so as to ensure continuous liquidity. Liquidity management is the responsibility of the Assets and Liabilities Committee (ALCO), the Asset and Liabilities Management function and Capital Markets division. The ALCO at its regular meetings assesses the Parent Company's liquidity and, subsequently, makes decisions based on the current state of affairs.

The Parent Company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees, and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Integrated Risk Management function monitors the Parent Company's liquidity on a daily basis and reports on its development. Information on the liquidity position is reported to ALCO at least once a month. The Asset and Liabilities Management function submits reports on the Parent Company's structure of assets and liabilities at regular meetings of ALCO, and proposes the size and structure of the portfolio of securities held strategically for the following period subject to monitoring. The Asset and Liabilities Management function informs ALCO about new investments in securities on a regular basis.

The Parent Company monitors short-, medium- and long-term liquidity risk by developing a liquidity and crisis liquidity gap (3 scenarios) based on internal rules and assumptions. The limits are approved by the Integrated Risk Management Department, ALCO, and the Parent Company's management. Furthermore, the Parent Company monitors the ratios determined by the NBS and the ratios and limits set by the parent company, RBI.

Deposits from customers are the primary funding source for the Parent Company. Although the terms of the majority of the deposits permit customers withdrawals with little or no advanced notice, the actual balances maintained by customers provide a stable source of funding.

The Group's liquidity position reflecting the existing residual maturity of assets and liabilities as at 31 December 2016:

(in thousands of EUR)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	719,244	–	–	719,244
Loans and advances to banks	147,761	–	40	147,801
Loans and advances to customers, net	1,990,922	6,049,475	310,958	8,351,355
Derivative financial assets	14,477	34,739	–	49,216
Held-for-trading financial assets	988	68,060	–	69,048
Financial assets at fair value through profit or loss	39,875	13,448	–	53,323
Held-to-maturity financial assets	584,594	1,141,382	–	1,725,976
Available-for-sale financial investments	146	24,596	7,772	32,514
Investments in associate undertakings	–	–	3	3
Non-current intangible assets	–	–	43,312	43,312
Non-current tangible assets	–	–	64,517	64,517
Investment property	–	–	36,981	36,981
Current tax asset	–	–	8,208	8,208
Deferred tax asset	–	–	27,493	27,493
Other assets	11,350	–	32,687	44,037
Total assets	**3,509,357**	**7,331,700**	**531,971**	**11,373,028**
Liabilities				
Deposits from banks	54,680	185,956	546	241,182
Deposits from customers[1]	1,961,434	6,969,825	35,556	8,966,815
Derivative financial liabilities	13,363	35,679	–	49,042
Held-for-trading financial liabilities	–	–	72,056	72,056
Liabilities from debt securities	190,414	523,256	–	713,670
Provisions for liabilities	–	–	51,214	51,214
Current tax liability	–	–	206	206
Deferred tax liability	–	–	1,479	1,479
Other liabilities	–	–	47,177	47,177
Subordinated debt	1,139	235,000	–	236,139
Total liabilities	**2,221,030**	**7,949,716**	**208,234**	**10,378,980**
Equity (excluding current year profit)	–	–	868,068	868,068
Profit after tax	–	–	125,980	125,980
Total equity and liabilities	**2,221,030**	**7,949,716**	**1,202,282**	**11,373,028**
Net balance sheet position	**1,288,327**	**(618,016)**	**(670,311)**	**–**
Net off-balance sheet position[2]	**(2,593,334)**	**(50)**	**(699,555)**	**(3,292,939)**
Cumulative balance sheet and off-balance sheet position	**(1,305,007)**	**(1,923,073)**	**(3,292,939)**	**(3,292,939)**

[1]Amounts for current accounts and savings books are recognised based on the estimated maturity model.

[2]The off-balance sheet position includes receivables and liabilities from spot transactions and financial derivative transactions where the supporting instrument is replaced, in particular from future loans and borrowings, guarantees and letters of credit, and delta option equivalents.

The Group's liquidity position reflecting the existing residual maturity of assets and liabilities as at 31 December 2015:

(in thousands of EUR)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	906,546	–	–	906,546
Loans and advances to banks	125,848	–	45	125,893
Loans and advances to customers, net	2,115,330	5,599,489	208,218	7,923,037
Derivative financial assets	16,651	45,199	–	61,850
Held-for-trading financial assets	1,074	21,283	–	22,357
Financial assets at fair value through profit or loss	1,502	59,088	–	60,590
Held-to-maturity financial assets	405,216	1,323,968	–	1,729,184
Available-for-sale financial investments	62,932	72,047	21,801	156,780
Investments in associate undertakings	–	–	3	3
Non-current intangible assets	–	–	46,332	46,332
Non-current tangible assets	–	–	69,285	69,285
Investment property	–	–	42,630	42,630
Current tax asset	–	–	509	509
Deferred tax asset	–	–	24,749	24,749
Other assets	11,350	–	34,021	45,371
Total assets	**3,646,449**	**7,121,074**	**447,593**	**11,215,116**
Liabilities				
Deposits from banks	94,169	262,884	30	357,083
Deposits from customers[1]	3,438,075	5,249,646	31,707	8,719,428
Derivative financial liabilities	17,515	49,130	–	66,645
Held-for-trading financial liabilities	–	–	48,904	48,904
Liabilities from debt securities	194,605	493,965	–	688,570
Provisions for liabilities and charges	–	–	46,953	46,953
Current tax liability	–	–	3,342	3,342
Deferred tax liability	–	–	1,363	1,363
Other liabilities	–	–	50,279	50,279
Subordinated debt	1,174	235,000	–	236,174
Total liabilities	**3,745,538**	**6,290,625**	**182,578**	**10,218,741**
Equity (excluding current year profit)	–	–	875,813	875,813
Profit after tax	–	–	120,562	120,562
Total equity and liabilities	**3,745,538**	**6,290,625**	**1,178,953**	**11,215,116**
Net balance sheet position	**(99,089)**	**830,449**	**(731,360)**	**–**
Net off-balance sheet position[2]	**(2,652,167)**	**1**	**(1,175,215)**	
Cumulative balance sheet and off-balance sheet position	**(2,751,256)**	**(1,920,806)**	**(3,870,011)**	**(3,870,011)**

[1]Amounts for current accounts and savings books are recognised based on the estimated maturity model.

[2]The off-balance sheet position includes receivables and liabilities from spot transactions and financial derivative transactions where the supporting instrument is replaced, in particular from future loans and borrowings, guarantees and letters of credit, and delta option equivalents.

The summary below represents an analysis of the earliest possible contractual maturity of financial liabilities, i.e. the worst-case scenario, as at 31 December 2016 (in non-discounted amounts):

				Residual maturity		
(in thousands of EUR)	**Carrying amount**	**Contractual cash flows**	**Up to 3 months incl.**	**From 3 months up to 1 year incl.**	**From 1 year up to 5 years incl.**	**Over 5 years incl.**
Non-derivative financial liabilities:						
Deposits from banks	241,182	321,231	44,027	54,685	202,340	20,179
Deposits from customers	8,966,815	9,000,113	8,328,232	554,023	116,385	1,473
Held-for-trading financial liabilities	72,056	72,056	72,056	–	–	–
Liabilities from debt securities	713,670	788,407	102,045	91,324	414,418	180,620
Other liabilities	47,178	47,178	47,178	–	–	–
Subordinated debt	236,139	303,054	2,313	7,172	37,967	255,602
Derivative financial liabilities:						
Trading derivatives	49,042	726,949	653,681	61,654	8,842	2,772

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2016 (in non-discounted amounts):

				Residual maturity		
(in thousands of EUR)	**Carrying amount**	**Contractual cash flows**	**Up to 3 months incl.**	**From 3 months up to 1 year incl.**	**From 1 year up to 5 years incl.**	**Over 5 years incl.**
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	440,516	440,516	440,516	–	–	–
Contingent liabilities from letters of credit	7,965	7,965	7,965	–	–	–
From irrevocable loan commitments	1,217,066	1,217,066	1,217,066	–	–	–

The summary below represents an analysis of the earliest possible contractual maturity of financial liabilities, i.e. the worst-case scenario, as at 31 December 2015 (in non-discounted amounts):

				Residual maturity		
(in thousands of EUR)	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Deposits from banks	357,083	365,101	52,486	44,028	241,924	26,663
Deposits from customers	8,719,428	8,728,609	7,493,516	1,051,569	182,005	1,519
Held-for-trading financial liabilities	48,904	48,904	48,904	–	–	–
Liabilities from debt securities	688,570	759,887	111,993	136,595	448,301	62,998
Other liabilities	50,279	50,279	50,279	–	–	–
Subordinated debt	236,174	315,019	2,408	7,125	37,989	267,497
Derivative financial liabilities:						
Trading derivatives	66,645	1,087,367	879,799	223,412	(11,646)	(4,198)

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2015 (in non-discounted amounts):

				Residual maturity		
(in thousands of EUR)	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	469,257	469,257	469,257	–	–	–
Contingent liabilities from letters of credit	27,334	27,334	27,334	–	–	–
From irrevocable loan commitments	1,143,407	1,143,407	1,143,407	–	–	–

Operational risk

Operational risk is the risk arising from inappropriate or erroneous procedures, human error or failures of the Group's systems or from external events. Operational risk also includes legal risk, ie the risk of loss primarily due to the failure to enforce contracts, risk of unsuccessful legal disputes or court rulings with adverse impacts on the Group. As in the case of other types of risk, operational risk is managed by applying the standard principle including the separation of functions in risk management and controlling.

For the purposes of the capital requirement calculation to cover operational risk, the Parent Company

uses the "Standardised Approach" according to the requirements of BASEL II and the Banking Act. Under the Standardised Approach, the Parent Company's activities and the related Gross Income are divided into eight business lines. Gross Income for each business line is represented by a general indicator serving as a representative for a range of business activities, thereby representing an operational risk rate for each business line. The capital to cover operational risk is calculated as net interest income and net interest-free income multiplied by an assigned ß factor for each business line separately. The total capital requirement equals the sum of eight partial requirements for each business line and the average for the past three years.

To identify operational risk, the Parent Company uses a three-dimensional model compound of risk categories, business functions, and business lines (Risk Management Association methodology). Operational risk loss data collection covers the collection of all operational losses by individual risk categories of this three-dimensional model.

The Parent Company puts the accent on process quality improvement and operational risk mitigation actions. The essential assumption of set goals is based on operational risk awareness and operational risk Parent Company culture.

The Parent Company also uses other tools to manage operational risk such as Key Risk Indicators and Self-Assessment and operational risk scenarios, which are designated to identify, analyse and monitor areas with increased operational risk.

The Parent Company is also active in preparing Business Continuity plans. The plans aim to minimising impacts of unexpected events on the Parent Company's operation.

The Parent Company takes into consideration upcoming legislative changes regarding the calculation of own funds. The Parent Company is preparing for a transition to a more advanced measurement of operational risk better reflecting the Parent Company's risk characteristics.

Other risks

Simultaneously, in terms of implementing an internal process of capital adequacy determination, the Parent Company monitors and develops quantification and management methods aimed at other risks.

Basel III

In connection with the adopted new legislative rules known as Basel III (by Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, which is directly applicable in all member states of the EU with effect from 1 January 2015, and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudent supervision of credit institutions and investment firms), the Parent Company was prepared and applies these stricter rules in capital adequacy and liquidity; the Parent Company ensured smooth compliance with these rules while maintaining the required level of risk appetite, portfolio performance and return on capital.

The concepts, methodology, and documentation for the activities in the Basel III Project are prepared in close co-operation with Raiffeisen Bank International AG while reflecting the local specifics of the Group and the entire bank environment.

The Parent Company's intention is to implement an advanced approach to the management, quantification, and reporting of individual risks as soon as possible. As at the reporting date, for credit risk, the Parent Company used the standardised approach and the internal rating approach for calculating the regulatory capital requirement to cover credit risk. The general approach of internal ratings is applied by the Parent Company for the bulk of the non-retail portfolio. For the bulk of the retail portfolio, the advanced internal ratings-based approach is applied.

The IRB approach is used for central governments and central banks, institutions, corporate entities (including project financing, insurance companies, leasing companies and financial institutions) as of 1 January 2009, as of 1 April 2010 for the retail part of the portfolio and for the SME portfolio as of 1 December 2013. In connection with the approved IRB approach, the Parent Company continuously reassesses the performance of its rating models and subsequently ensures the required performance of the models.

The Parent Company modifies and supplements its methodology and process procedures for Pillar 2 (internal process of capital adequacy assessment) in the context of its risk appetite and performed business activities. As part of this process, pursuant to the approved methodology, the Parent Company performs a risk relevance and materiality assessment, a risk quantification and an assessment with respect to the Parent Company's capital and subsequent reporting on a regular basis. The process of capital allocation, which is closely linked with budgeting, forms an integral part.

An important aspect of the Parent Company's capital management is a thorough prediction of capital adequacy developments and its stress testing to eliminate the effects of unforeseen events and for efficient capital planning. Information on the Group's individual risks and capital are reflected in the management of the Group and its business strategies to achieve an optimum compromise between the mitigation of individual risk types and augmentation of the market share, profit and return on capital. Major changes introduced by the Parent Company with respect to the changing economic development included, for instance, implementing comprehensive stress testing for Pillar 1 risks as well as for other risk types identified by the Parent Company as material or partial optimisation of parameter estimates for the calculation of the own funds requirement for the retail portion of the portfolio. At the same time, the Parent Company actively uses the results of the stress testing in capital planning and capital management.

53. Events after the Balance Sheet date

Except for the planned change mentioned above, there were no significant events between the balance sheet date and the approval date of these financial statements that would require an adjustment or additional disclosure.

54. Approval of the consolidated financial statements

The annual consolidated financial statements for the immediately-preceding reporting period (as at 31 December 2015) were signed and authorised for issue on 14 March 2016.

The financial statements were signed and authorised for issue on 10 March 2017 by the following bodies/persons:

a) Statutory body

Michal Liday
Chairman of the Board of Directors
and CEO

Miroslav Uličný
Vice-Chairman of the Board of Directors
and Deputy CEO

b) Persons responsible for the bookkeeping and the preparation of the financial statements

Ľubica Jurkovičová
Accounting, Reporting
and Tax Director

Profit for the Year 2016 and Dividend Payment

2016 Profit Distribution

(in EUR)	
Profit after tax for the year 2016	**126,582,666**
Allocation to retained earnings	126,582,666

Dividend Payment from Retained Earnings

(in EUR)	
Retained earnings	**124,792,882**
Dividends – Ordinary shares	110,333,232
Dividends – Preferred shares	14,459,650

Dividend per ordinary share with the nominal value of EUR 800 is in the amount of EUR 1,552.
Dividend per ordinary share with the nominal value of EUR 4,000 is in the amount of EUR 7,760.
Dividend per preference share with the nominal value of EUR 4 is in the amount of EUR 7.76.
Dividends with no title created as at the decisive day for determination of the person entitled to claim title to dividend shall be transferred to retained earnings from previous years as at 31 December 2017.

Annual report for the year 2016 and the proposal for distribution of the profit were approved by the Annual General Meeting of Shareholders on 17 May 2017.

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