Tatra banka

Annual report 2017

Slovak Republic

Member of Raiffeisen Bank International

TB
TATRA BANKA

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Survey of key data

Survey of key data according to International Financial Reporting Standards

Tatra banka Group (in thousands of EUR)

	2017	2016	Change	
Consolidated Statement of Comprehensive Income				
Net interest income	271 557	274 601	(1,1)%	
Provisions for impairment losses	(13 560)	(12 301)	10,2%	
Net fees and commission income	125 215	119 449	4,8%	
Net profit (loss) from trading instruments	27 164	22 768	19,3%	
General administrative expenses	(242 430)	(249 210)	(2,7)%	
Consolidated profit before income taxes	155 649	162 734	(4,4)%	
Consolidated profit after income taxes	124 342	125 980	(1,3)%	
Comprehensive consolidated profit after tax	125 222	111 086	12,7%	
Earnings per ordinary share (nominal value per share: 800 EUR)	1 554	1 571	(1,1)%	
Earnings per ordinary share (nominal value per share: 4 000 EUR)	7 770	7 855	(1,1)%	
Consolidated Statement of Financial Position				
Loans and advances to banks	220 149	147 801	48,9%	
Loans and advances to customers, gross	9 526 679	8 551 381	11,4%	
Deposits from banks	284 723	241 182	18,1%	
Deposits from customers	10 036 592	8 966 815	11,9%	
Equity (including consolidated profit)	992 251	994 047	(0,2)%	
Balance sheet total	12 502 678	11 373 028	9,9%	
Performance				
Return on equity (ROE) before tax	16,7%	17,5%	(4,2)%	
Cost/income ratio	56,3%	60,3%	(6,6)%	
Return on assets (ROA) before tax	1,3%	1,5%	(15,0)%	
Tier 1 ratio, total	13,7%	15,3%	(10,3)%	
Own funds ratio	17,7%	19,7%	(10,0)%	
Resources				
Number of staff on balance sheet date	3 735	3 792	(1,5)%	
Branches on balance sheet date 1)	187	199	(6,0)%	
Ratings	Long-term deposits	Outlook	Short-term deposits	Long-term issuer rating
Moody´s Investors Service	A3	stable	Prime-2	Baa1

[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,

I am very grateful for the results we achieved with our concerted efforts. I am extremely pleased that we managed to grow in 2017 without exposing ourselves to higher risks. We recorded the highest sales of mortgage and consumer loans in 2017. Nevertheless, we are one of the banks with the lowest risk costs.

We successfully acquired the Slovak portion of the portfolio of ZUNO bank and retained an overwhelming majority of its active clients. In cooperation with our parent, Raiffeisen Bank International, we implemented the securitization of a portion of our loan portfolio, a rare process in Slovakia.

Despite extremely tough competition and decreasing interest income, we still brought our shareholders profit of more than EUR 100 million generated by our two brands – Tatra banka and Raiffeisen Bank.

Tatra banka's brand promise is to be the leader in innovations and to regularly offer clients new useful products that make their lives easier. 2017 was marked by the theme of saving.

All parents want the best for their children. Surprisingly, particularly in our country, it is not quite a general rule to include the best possible education in this list although education is the proverbial key opening gates and offering what is most valuable – opportunities. For this reason we decided to introduce a new **Saving**TB Education product at the beginning of the school year. It allows parents to save over the long term in a form that has the potential to preserve the real value of savings and achieve the goal.

Another new product introduced in 2017 is focused on retirement saving. We assumed that if savers did not know what they would achieve by saving we could not expect them to do so over the long term and be satisfied. For these reasons, we are shifting the comprehensibility of retirement saving to a new level. Since January 2017, we have been the only bank in Slovakia providing our clients with an estimate of their future pension from the third pillar by issuing annual statements. Our clients can also view an online estimate of their future pension in their **Internet** BankingTB and the Tatra banka mobile app since summer 2017.

A significant milestone last year was the launch of our new **Business** BankingTB – the most advanced corporate internet banking for businesses. In the first two months it was accessed by more than 10 per cent of the bank’s clients and it is expected to be used by most businesses in the SME segment in 2018.

The high standard of Tatra banka services is confirmed by awards received from a number of reputable Slovak and international institutions. The British financial magazine *Euromoney* awarded Tatra banka the Best Bank in Slovakia title for the thirteenth time. Last year, Tatra banka also won the title of best bank from *EMEA Finance* magazine. The magazines *Global Finance* and *Euromoney* also recognized our innovative approach by choosing us as the "Best Consumer Digital Bank in Central and Eastern Europe". Our website design was recognized as the best in Central and Eastern Europe. And these are just a few of the awards received last year by the bank and our colleagues.

For five years already, Raiffeisen Bank has provided its clients in Slovakia with a unique experience and straightforward, user-friendly products and services at fair prices. These are the attributes clients appreciate about the bank, which has been confirmed by surveys conducted by the independent KANTAR TNS agency. The results show that clients of Raiffeisen Bank are the most satisfied of all Slovak bank customers since the bank entered this market.

At the end of 2017 Raiffeisen Bank operated 63 business outlets, eleven of which are franchise branches. The bank's portfolio has grown to more than EUR 73 million in loans, with 63,000 clients, and the bank's deposits now exceed EUR 100 million.

An important new product introduced by Raiffeisen Bank in 2017 is a mobile app that allows clients access to internet banking via their mobile device with an Android or iOS operating system.

Since 2017, Raiffeisen Bank has also offered solutions to address additional financial needs of its clients – they can benefit from a financial reserve in the form of an account overdraft, secure a better retirement with supplementary pension savings or fulfil their dream about new housing with a **Mortgage** Loan[TB].

Regarding our support for the arts, 2017 was the twenty-second year of the Tatra banka Foundation Art Awards. Since introducing the awards, Tatra banka Foundation has supported 93 well-known artists, 53 new artists and eight 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, an invitation to Slovakia was accepted by Pulitzer Prize winner Martha Mendoza who gave public lectures at Comenius University in Bratislava and Pavol Jozef Šafárik University in Košice, and also conducted several workshops with students studying journalism.

2018 brings two key changes for banking, which can significantly alter its environment – namely the new GDPR regulation of personal data protection and most notably the PSD2 regulation. Our world has been entered by "fintechs". These are small new and flexible companies with the ambition to provide traditional banking solutions and act as competition in the world of financial services. We have decided to cooperate with them. Their flexibility combined with our size and stability can have a synergic effect in both our clients' interest and our ambition to simplify their lives. We are thus preparing a new organization of innovation management, monitoring the startup scene, and opening the Elevator Lab powered by Tatra banka as an addition to our own ideas that we plan to implement. We are entering the world called Innovations 2.0.

We have come a long way and still have a long road ahead of us. But these new challenges are what makes our work meaningful. I would like to thank our clients for their trust and continued interest in our services. I would also like to thank our shareholders for their support in accomplishing our mission to drive banking forward. In conclusion, I would like to recognize the hard work and contribution of my colleagues. It is incredible how many great and talented people surround me. I am truly grateful to all of them!

Michal Liday
Chairman of the Management Board and CEO

Report of the Supervisory Board

Ladies and Gentlemen,

The 2017 financial year saw a positive overall macroeconomic trend and favorable market environment. This contributed to the strong year-on-year improvement in RBI's consolidated profit, which more than doubled compared to last year. The better operating result was mainly positively impacted by lower risk costs. Alongside the successful sale of non-performing loans, this was also due to a notable decrease in net provisioning for impairment losses. The result achieved by RBI in 2017 also confirmed that the strategic decisions taken over the past years have played a key role in helping the group to successfully emerge from a challenging transformation period with increased strength. This is further demonstrated by a steadily strengthening capital base, balanced risk profile and considerably reduced NPL ratio – from 8.7 per cent (2016 pro forma) to 5.7 per cent. This improvement in asset quality was based not least on the determined reduction of non-performing loans in recent years.

The merger of Raiffeisen Zentralbank Österreich AG and RBI AG was put into effect on schedule upon entry in the commercial register on 18 March 2017. Following the merger, RBI will continue to pursue its strategy as a leading universal banking group in CEE and Austria with the primary objective of creating long-term value. Selective growth is planned for the coming years in specific markets which demonstrate stability and good economic prospects. Effective capital and risk management as well as the further reduction in non-performing loans will also remain crucial in future. In 2018, there will be an increased focus on the challenges in the form of ongoing regulatory requirements, political risks, progressing digitalization and related changes to the competitive environment.

I am pleased that the Tatra banka Group achieved remarkably good results yet in 2017. The slight decline in profit after tax was caused by extraordinary effects in 2016, mostly by the sale of the shares in VISA Europe. Our cost/income ratio improved from 60.3 to 56.3 per cent. In addition, the Tatra banka Group also achieved a solid growth of more than 11 per cent in loans, and that with a decline in the NPL ratio.

The Tatra banka Group proves that a bank providing exceptional services to its clients will be successful on the market. The quality of its services and products was also confirmed in a satisfaction survey of its clients. It achieved above-average results and has the most loyal clients among all relevant financial institutions in Slovakia. If we look at the group's ROE of 13.4 per cent, it is obvious that the Tatra banka Group is not only attractive for its clients, but also for its shareholders.

I would like to take this opportunity to thank all employees of the Tatra banka Group for their hard work and unwavering efforts in 2017, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Supervisory Board

Igor Vida,
Deputy 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 satisfi ed 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 AG regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 14 markets across the CEE region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, nearly 50,000 employees serve RBI's 16.5 million customers in more than 2,400 business outlets, primarily in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2017, RBI's total assets stood at EUR 135 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

Following the merger in March 2017 with Raiffeisen Zentralbank Österreich AG (RZB AG), its former majority shareholder, RBI AG assumed all rights, obligations and functions of the transferring company RZB AG in their entirety, in particular, the role of central institution for the Austrian Raiffeisen Banking Group.

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 has 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 the RBI Group 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, are regularly updated in line with legislative and internal changes and are meticulously reviewed by internal audit.

The main aim of risk management activities and Basel III is to ensure the most accurate evaluation, quality management and mitigation or elimination of credit, market and operational risks as well as other risks to which the bank is exposed. Achieving this goal mainly depends on:
- identification of risks resulting from bank products and processes;
- ensuring the best possible collection and storage of relevant and potentially-relevant data;
- development 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 as well as 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 as regards 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 (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, insurers, 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 allows capital requirements to 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, particularly 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 to use these estimates for comprehensive portfolio risk management.

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 also 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.

Regarding retail risk, in addition to managing the quality of the retail credit portfolio, in 2017 the bank focused specifically on improving the quality of loan provision in compliance with legislative changes. The bank continues to focus on regular scorecard and risk management model development 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 2017, 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 on 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 limits defined by the RBI Group and Basel III. The bank is compliant with the required Liquidity Coverage Ratio and Net Stable Funding Ratio.

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 intensively and regularly 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 methodology 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 2017.

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 forthcoming period.

Capital adequacy forecasting and stress testing

Given the more advanced risk measurement methods and constant changes in 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 2017, 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 for 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 the Tatra banka Group decreased 1.3 per cent year-on-year, from EUR 126.0 million in 2016 to EUR 124.4 million in 2017. The lower profit was largely due to one-time income related to the purchase of shares of Visa Europe Ltd. by Visa Inc. in 2016. There was a slight decrease in interest income while on the other hand fees and commission income grew in 2017. The growth in operating income and decrease in operating expenses led to improvement of the cost-income ratio to 56.3 per cent from last year's 60.3 per cent. In March 2017, Moody's international ratings agency increased Tatra banka's rating to A3 with a stable outlook.

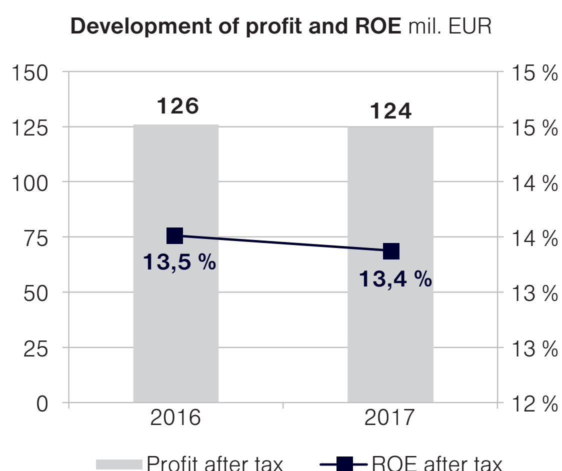
Development of income and expenses

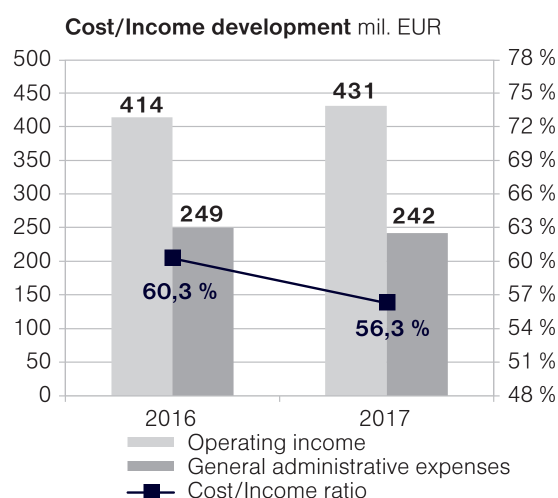
Also in 2017, net interest income continued to decrease with a 1.1 per cent decrease to EUR 271.6 million. However, compared to 2016, the decrease slowed due to faster growth in the volume of loans. The reason was the fact that interest rates fell in EU countries to their lowest levels in 2016 and there was limited room for their further decrease.

Compared to 2016, the growth in the volume of loans accelerated in 2017 from 5.0 per cent to 11.4 per cent for three reasons. The first reason was accelerated growth in mortgage loans in Tatra banka despite the slowing growth of the whole market. The second reason was the recovery of corporate loans in 2017, which started to grow following a long period of previous stagnation. The third reason was the purchase of the Slovak portion of ZUNO bank's portfolio. On the other hand, in 2017 NBS started to tighten the options for providing mortgage and consumer loans. While mortgage loans became subject to stricter rules since 2017, this will be the case for consumer loans in 2018. This is why this year the bank expects a slower rate of growth on the market of loans to individuals.

Net fee and commission income increased 4.8 per cent year-on-year to EUR 125.2 million. The fee income grew largely due to an increase in the number of client's accounts and growth in card services. This subsequently translated into higher income from transaction processing. Net trading income rose by 19.3 per cent to EUR 27.2 million.

General administrative expenses decreased by 2.7 per cent to EUR 242.2 million largely due to lower depreciation and lower operating costs.





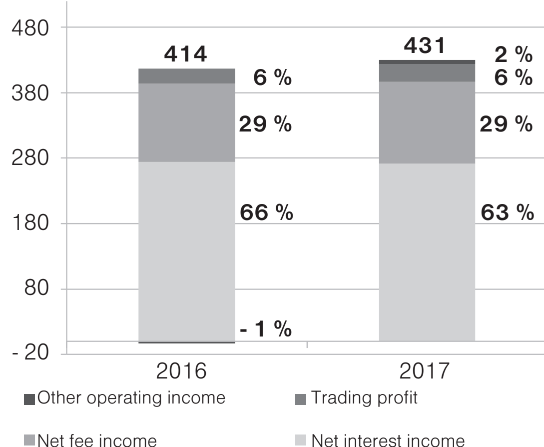
Development of assets

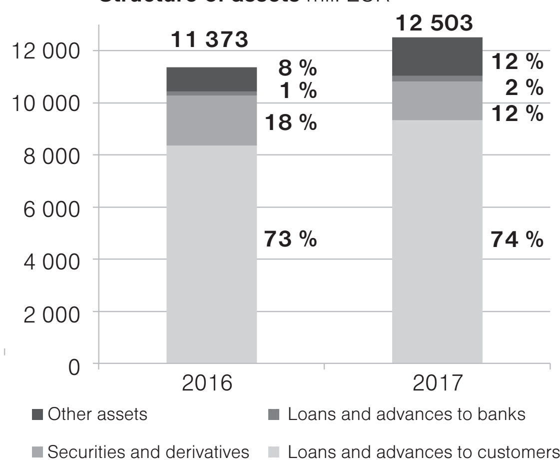
The consolidated assets of the Tatra banka Group increased 9.9 per cent to EUR 12.50 billion. Loans to customers grew 11.4 per cent to a total of EUR 9.53 billion and were a significant contributor to this growth. The share of non-performing loans in the total portfolio decreased from 3.5 per cent to 2.9 per cent, which is considerably better than the figures for 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 due to housing loans. The volume of government securities decreased while the volume of funds deposited with the central bank decreased.

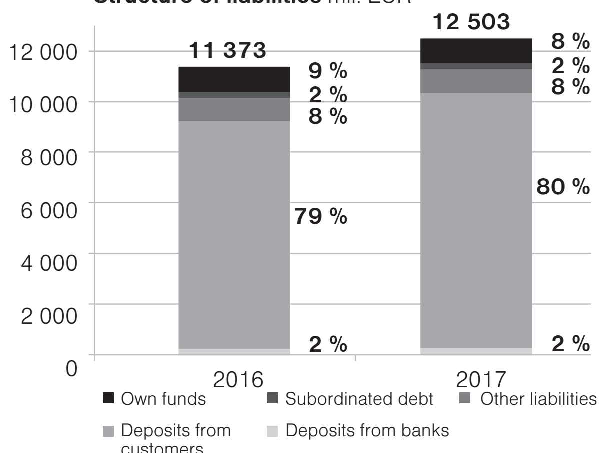
Development of liabilities and equity

Deposits from customers increased to EUR 10.04 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 94.9 per cent as of December 31, 2017.

As of December 31, 2017, the consolidated capital adequacy ratio was 17,74 per cent, which is substantially more than required by the National Bank of Slovakia and the European Central Bank.







Objectives for 2018

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 usage of these innovations by raising awareness of them among clients and creating more opportunities for their use.

Two important legislative changes will become effective in 2018. Each will affect Tatra banka to a certain extent. PSD2 taking effect from mid-January brings several minor but also some major changes in the provision of payment services. The most important is the obligation to make selected services available to third parties through an Application Programming Interface (API). By combining the ideas and experience of third parties with the trust and stability of Tatra banka, the bank aims to achieve higher customer satisfaction. PSD2 will substantially enhance security and customer rights while at the same time the bank will guarantee that the client's account details will only be disclosed with the client's consent.

The second major legislative change is GDPR – the new EU data protection regulation that takes effect at the end of May 2018. The main aim of GDPR is to enhance the level of privacy and security in personal data processing. The most significant changes introduced by GDPR include stricter rules for granting consent to personal data processing, an option to withdraw the consent, to object to processing and the right to delete and be "forgotten". GDPR also introduces new requirements for the processing of sensitive personal data or the data of underage persons, or if personal data are used for automated decision-making, profiling, data mining or processed by a third party.

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 professional community can look forward to another lecture by a Pulitzer Prize winner and two globally-recognized economists. In the arts, the pinnacle of the season will be the twenty-third year of the Tatra banka Foundation Art Awards.

The main objective of the Raiffeisen Bank brand in 2018 will be to increase its market share of consumer loans and continue to win new clients while maintaining long-term client satisfaction. An important tool will be a simplified transfer of a client loan and the existing process of client account transfer in which the bank is the leader on the Slovak market.

Top Management

Supervisory Board

Ing. Igor Vida
Vice-Chairman of the Supervisory Board

Mag. Peter Lennkh
Member of the Supervisory Board

Dr. Johann Strobl
Member of the Supervisory Board

Mag. Martin Grüll
Member of the Supervisory Board

Mag. Andreas Gschwenter
Member of the Supervisory Board

Mag. Hannes Mösenbacher
Member of the Supervisory Board

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

Ing. Iveta Uhrinová
Member of the Supervisory Board

Management Board

Mgr. Michal Liday
Chairman of the Management Board and CEO

Mag. Dr. Johannes Peter Schuster
Member of the Management Board

Ing. Peter Matúš
Member of the Management Board

Ing. Vladimír Matouš
Member of the Management Board

Mag. Bernhard Henhappel
Member of the Management Board

Ing. Marcel Kaščák
Member of the Management Board

Mgr. Natália Major
Member of the Management Board

Confidential Clerk

Ing. Zuzana Koštialová

Addresses

Raiffeisen Bank International AG

Austria
Am Stadtpark 9
1030 Vienna
Phone: +43-1-71 707-0
Fax: +43-1-71 707-1715
SWIFT/ BIC: RZBATWW
www.rbinternational.com
ir@rbinternational.com
communications@rbinternational.com

Banking network

Albania
Raiffeisen Bank Sh.A.
"European Trade Center"
Bulevardi "Bajram Curri"
Tirana
Phone: +355-4-23 8 100
Fax: +355-4-22 755 99
SWIFT/BIC: SGSBALTX
www.raiffeisen.al

Belarus
Priorbank JSC
V. Khoruzhey str. 31-A
220002 Minsk
Phone: +375-17-28 9-9090
Fax: +375-17-28 9-9191
SWIFT/BIC: PJCBBY2X
www.priorbank.by

Bosnia and Herzegovina
Raiffeisen Bank d.d.
Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Phone: +387-33-287 100
Fax: +387-33-21 385 1
SWIFT/BIC: RZBABA2S
www.raiffeisenbank.ba

Bulgaria
Raiffeisenbank (Bulgaria) EAD
Nikola I. Vaptzarov Blvd.
Business Center EXPO 200 PHAZE III, floor 5
1407 Sofia
Phone: +359-2-91 985 101
Fax: +359-2-94 345 28
SWIFT/BIC: RZBBBGSF
www.rbb.bg

Croatia
Raiffeisenbank Austria d.d.
Magazinska cesta 69
10000 Zagreb
Phone: +385-1-45 664 66
Fax: +385-1-48 116 24
SWIFT/BIC: RZBHHR2X
www.rba.hr

Czech Republic
Raiffeisenbank a.s.
Hvězdova 1716/2b
14078 Prague 4
Phone: + 420-412 446 400
Fax: +420-234-402-111
SWIFT/BIC: RZBCCZPP
www.rb.cz

Hungary
Raiffeisen Bank Zrt.
Akadémia utca 6
1054 Budapest
Phone: +36-1-48 444-00
Fax: +36-1-48 444-44
SWIFT/BIC: UBRTHUHB
www.raiffeisen.hu

Kosovo
Raiffeisen Bank Kosovo J.S.C.
Rruga UÇK, No. 191
10000 Pristina
Phone: +381-38-22 222 2
Fax: +381-38-20 301 130
SWIFT/BIC: RBKOXKPR
www.raiffeisen-kosovo.com

Poland
Raiffeisen Bank Polska S.A.
Ul. Grzybowska 78
00-844 Warsaw
Phone: +48-22-347 7000
Fax: +48-22-347 7001
SWIFT/BIC: RCBWPLPW
www.raiffeisen.pl

Romania
Raiffeisen Bank S.A.
Calea Floreasca 246C
014476 Bucharest
Phone: +40-21-30 610 00
Fax: +40-21-23 007 00
SWIFT/BIC: RZBRROBU
www.raiffeisen.ro

Russia
AO Raiffeisenbank
17/1 St. Troitskaya
129090 Moscow
Phone: +7-495-72 1-9900
Fax: +7-495-72 1-9901
SWIFT/BIC: RZBMRUMM
www.raiffeisen.ru

Serbia
Raiffeisen banka a.d.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-32 021 00
Fax: +381-11-22 070 80
SWIFT/BIC: RZBSRSBG
www.raiffeisenbank.rs

Slovakia
Tatra banka, a.s.
Hodžovo námestie 3
81106 Bratislava 1
Phone: +421-2-59 19-1000
SWIFT/BIC: TATRSKBX
www.tatrabanka.sk

Ukraine
Raiffeisen Bank Aval JSC
9, vul Leskova
01011 Kiev
Phone: +38-044-49 088 88
Fax: +38-044-285-32 31
SWIFT/BIC: AVALUAUK
www.aval.ua

Leasing companies

Austria
Raiffeisen-Leasing
International GmbH
Am Stadtpark 3
1030 Vienna
Phone: +43-1-71 707-2071
Fax: +43-1-71 707-76 2966
www.rli.co.at

Albania
Raiffeisen Leasing Sh.a.
"European Trade Center"
Bulevardi "Bajram Curri"
Tirana
Phone: +355-4-22 749 20
Fax: +355-4-22 325 24
www.raiffeisen-leasing.al

Belarus
"Raiffeisen-Leasing" JLLC
V. Khoruzhey 31-A
220002 Minsk
Phone: +375-17-28 9-9394
Fax: +375-17-28 9-9974
www.rl.by

Bosnia and Herzegovina
Raiffeisen Leasing d.o.o. Sarajevo
Zmaja od Bosne bb.
71000 Sarajevo
Phone: +387-33-254 354
Fax: +387-33-212 273
www.rlbh.ba

Bulgaria
Raiffeisen Leasing Bulgaria OOD
32A Cherni Vrah Blvd. Fl.6
1407 Sofia
Phone: +359-2-49 191 91
Fax: +359-2-97 420 57
www.rlbg.bg

Croatia
Raiffeisen Leasing d.o.o.
Radnicka cesta 43
10000 Zagreb
Phone: +385-1-65 9-5000
Fax: +385-1-65 9-5050
www.rl-hr.hr

Czech Republic
Raiffeisen-Leasing s.r.o.
Hvězdova 1716/2b
14078 Prague 4
Phone: +420-2-215 116 11
Fax: +420-2-215 116 66
www.rl.cz

Hungary
Raiffeisen Corporate Lízing Zrt.
Akadémia utca 6
Phone: +36-1-477 8709
Fax: +36-1-477 8702
www.raiffeisenlizing.hu

Kazakhstan
Raiffeisen Leasing Kazakhstan LLP
Shevchenko Str. 146, flat 1
050008 Almaty
Phone: +7-727-378 54 30
Fax: +7-727-378 54 31
www.rlkz.at

Kosovo
Raiffeisen Leasing Kosovo LLC
Rr. UCK p.n.
10000 Pristina
Phone: +38-1-222 222 340
www.raiffeisenleasing-kosovo.com

Moldova
I.C.S. Raiffeisen Leasing S.R.L.
Alexandru cel Bun 51
2012 Chişinău
Phone: +373-22-27 931 3
Fax: +373-22-22 838 1
www.raiffeisen-leasing.md

Romania
Raiffeisen Leasing IFN S.A.
Calea Floreasca 246 D
014476 Bucharest
Phone: +40-21-36 532 96
Fax: +40-37-28 799 88
www.raiffeisen-leasing.ro

Russia
OOO Raiffeisen-Leasing
Smolenskaya-Sennaya 28
119121 Moscow
Phone: +7-495-72 1-9980
Fax: +7-495-72 1-9901
www.raiffeisen-leasing.ru

Serbia
Raiffeisen Leasing d.o.o.
Djordja Stanojevica 16
11070 Novi Beograd
Phone: +381-11-220 7400
Fax: +381-11-228 9007
www.raiffeisen-leasing.rs

Slovakia
Tatra-Leasing s.r.o.
Černyševského 50
85101 Bratislava
Phone: +421-2-59 19-3053
www.tatraleasing.sk

Slovenia
Raiffeisen Leasing d.o.o.
Letališka cesta 29a
1000 Ljubljana
Phone: +386-1-241-6250
Fax: +386-1-241-6268
www.rl-sl.si

Ukraine
LLC Raiffeisen Leasing Aval
9, Stepan Bandera av.
Build. 6 Office 6-201
04073 Kiev
Phone: +380-44-590 24 90
Fax: +380-44-200 04 08
www.rla.com.ua

Branches and representative offices – Europe

France
RBI Representative Office Paris
9-11 Avenue Franklin D. Roosevelt
75008 Paris
Phone: +33-1-45 612 700
Fax: +33-1-45 611 606

Germany
RBI Frankfurt Branch
Wiesenhüttenplatz 26
60 329 Frankfurt
Phone: +49-69-29 921 924
Fax: +49-69-29 921 9-22

Sweden
RBI Representative Office
Nordic Countries
Drottninggatan 89, 14th floor
11360 Stockholm
Phone: +46-8-440 5086

UK
RBI London Branch
Tower 42, Leaf C, 9th Floor
25 Old Broad Street
London EC2N 1HQ
Phone: +44-20-79 33-8000
Fax: +44-20-79 33-8009

Branches and representative offices – Asia and America

China
RBI Beijing Branch
Beijing International Club Suite 200
2nd floor
Jianguomenwai Dajie 21
100020 Beijing
Phone: +86-10-65 32-3388
Fax: +86-10-65 32-5926

RBI Representative Office Zhuhai
Room 2404, Yue Cai Building
No. 188, Jingshan Road, Jida,
Zhuhai, Guangdong Province
519015, P.R. China
Phone: +86-756-32 3-3500
Fax: +86-756-32 3-3321

India
RBI Representative Office Mumbai
501, Kamla Hub, Gulmohar Road, Juhu
Mumbai – 400049
Phone: +91-22-26 230 657
Fax: +91-22-26 244 529

Korea
RBI Representative Office Korea
#1809 Le Meilleur Jongno Town
24 Jongno 1ga
Seoul 110-888
Republic of Korea
Phone: +82-2-72 5-7951
Fax: +82-2-72 5-7988

Singapore
RBI Singapore Branch
50 Raffles Place
#31-03 Singapore Land Tower
Singapore 048623
Phone: +65-63 05-6000
Fax: +65-63 05-6001

USA
RB International Finance (USA) LLC
1177 Avenue of the Americas,
5th Floor
10036 New York
Phone: +1-929-432-1846

Vietnam
RBI Representative Office
Ho-Chi-Minh-City
35 Nguyen Hue Str.,
Harbour View Tower
Room 601A, 6th Floor, Dist 1
Ho-Chi-Minh-City
Phone: +84-8-38 214 718,
+84-8-38 214 719
Fax: +84-8-38 215 256

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 shareholder votes, 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, 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 convening of an Extraordinary General Meeting
A motion to convene a General Meeting to discuss proposed issues may be filed by any shareholder(s) holding 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, specify 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 to 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 2017, the Annual General Meeting was held on May 17, 2017. It was attended by shareholders holding ordinary shares representing a total of 65,422 votes, which accounted for 81.36 per cent of the share capital and shareholders holding preferred shares representing a total of 1,450,348 votes, which accounted for 9.02 per cent of the share capital. The General Meeting approved the Annual Separate Financial Statements and Consolidated Financial Statements for 2016, the Annual Report for 2016, the proposed profit distribution, the terms of the dividend payout and the selection of the auditor. The General Meeting also decided on the appointment of a new member of the Supervisory Board and on the approval of a service contract of a member of the Supervisory Board. The General Meeting approved the acquisition of a part of a business, an amendment to the Articles of Association, decided on the terms of acquisition of the bank's own shares and on the terms of pledging its 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 nine members, six elected by the General Meeting and three by bank 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 their salary;
j. approving the nominated auditor;
k. granting approval to the Management Board to perform specific activities; and
l. other activities under applicable legal regulations and the bank's Articles of Association.

The names of Supervisory Board members 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 applicable 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 confidential clerks 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 members of the Management Board 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 supervision 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 applicable legal regulations and the bank's Articles of Association.

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

When nominating members to the Management Board and the Supervisory Board, the bank applies the policy of selection and evaluation of each candidate for membership. The above policy stipulates specific requirements and individual steps in the selection and evaluation process. It stipulates the criteria to be met by a candidate or a member of the Management Board and the Supervisory Board under consideration, in particular personal criteria (concerning reputation, expertise and experience of the person under consideration) and objective criteria (concerning governance such as potential conflict of interest, overall composition of the body, collective knowledge and experience of the body as a whole and time commitment). When selecting and evaluating the suitability of a candidate or a member of a body, the bank pays particular attention to diversity as regards age, gender, education and professional experience. The purpose of the diversity policy is to find and fill the positions in the bodies of the bank, which is a complex organism with a wide range of activities, with experienced professionals and managers in various specific areas (particularly education and experience in economics, law, IT). The bank's policy in this area is fully compliant with generally binding legal regulations.

Committees

Audit Committee – its activities are performed by the bank's Supervisory Board.

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 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 Safety and Health Commission – executes powers concerning occupational safety and health. 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 mainly include direct management methods, methods combining direct and technical (indirect) management and project management methods.

Direct management is usually 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 provided 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 2017, 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 2017. 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 also 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 efficacy.

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, 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 analyzed and reviewed 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. SMEs and corporate clients are assessed using 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 fulfill 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.

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 raises awareness of operational risk using various communication forms within 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 a 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 per cent
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 a 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 per cent
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 convening of a 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 per cent
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 structure 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
Responsible business conduct

Corporate clients

(in EUR ths)	12/2017	12/2016	12/2015	12/2014	12/2013	12/2012[1]	12/2011
Net interest income	64,914	66,282	73,394	87,928	88,541	97,070	96,870
Net provisioning	8,030	4,265	(21,631)	(35,011)	(24,300)	(24,683)	(11,152)
Net interest income after provisioning	72,944	70,547	51,763	52,917	64,241	72,387	85,718
Net fees and commission income	29,429	32,014	31,196	23,170	21,775	21,710	24,645
Other operating income	(4,732)	(4,829)	(4,618)	(6,428)	(8,395)	(8,158)	-
Operating expenses	(50,220)	(52,092)	(42,909)	(39,603)	(38,333)	(40,069)	(45,545)
Profi t before income taxes	**47,421**	**45,640**	**35,432**	**30,056**	**39,288**	**45,870**	**64,818**
Cost/Income ratio	53.23%	53.00%	41.03%	35.65%	34.75%	33.73%	37.48%

Note: Large and medium-sized corporate customers
(1) Other operating income since 2012 includes an extraordinary and special levy on selected fi nancial institutions.
Figures for older periods are shown according to the original methodology.

Large corporate clients

2017 was a stable and very successful year for the segment of large corporate clients. Revenues in the segment were significantly influenced by the overall situation on the market, prevailing low interest rates and strong competition. The value of loans disbursed in this segment exceeded a record level of EUR 3 billion.

Asset growth was largely the result of investments in new technologies, infrastructure and real estate financing and an increase in existing credit trades. Last year, the bank completed several transactions acting as a syndicated loan arranger.

During the year there was further significant growth in demand for project financing focused on the financing of both office premises and new residential properties.

The bank continued to pay particular attention to increasing client satisfaction during the year. Also in 2018, the bank achieved a very high client satisfaction index. The bank invested much effort in the development of new business banking for corporate clients. It also focused on further development of 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 another successful year in the medium-sized corporate client segment, in which it achieved its historically highest profit. Over the long term, the number of clients has exceeded 6,300 and the bank has been a reliable partner for local as well as international companies. Client satisfaction as measured by the TRI*M index has been the best on the market for many years.

Economic recovery was reflected in the growing origination of new loans (year-on-year +13 per cent) and in a significant improvement in the quality of the bank's loan portfolio, with the share of non-performing loans not only consistently below the market average but also getting close to long-term

minimum values. New loans were mainly used to finance the construction or extension of clients' production facilities, to increase working capital financing and for development projects (mainly residential and office investment plans). The value of disbursed loans totaled almost EUR 1.1 billion and there was a notable 10 per cent growth in income from clients' foreign payments. Current accounts dominated deposit products due to low interest rates, and primary deposits also reached record levels.

A significant milestone last year was the launch of new business banking – the most advanced corporate internet banking on the market. In the first two months it was accessed by more than 10 per cent of the bank's clients and in 2018 it is expected to be used by most companies in the SME segment.

In addition to strengthening its market position, the priorities next year will include successful delivery of further innovations to clients, optimization of internal processes and staff development.

Corporate products

In terms of business results, 2017 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 exceeded the magical threshold of EUR 1 billion, which confirmed Tatra banka's position as the clear leader on the Slovak market.

Also last year, factoring was one of the market leaders, with year-on-year sales growth of more than EUR 15 million to reach EUR 388 million.

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 for renewable energy sources.

Capital market products

Last year was a good year on the financial markets, particularly for investors focusing on higher-risk assets. Above-average returns could be achieved mainly by investing in shares, commodities or bonds of countries with emerging economies, or by "betting" on the weakening of the US dollar, which declined sharply against the basket of major global currencies.

Markets were marked by strong global economic growth, only slowly rising inflation and minimum volatility for the majority of market assets. All this happened in the background of an extremely loose monetary policy by most major global central banks. Only the US Federal Reserve started to normalize its monetary policy by ending its quantitative easing (QE) and increasing interest rates three times. Resonating political topics included, in particular, continuing discussions of Brexit and the more or less successfully implemented pre-election promises of Donald Trump. The main player on the commodity market was the OPEC oil cartel with its agreement on restricted oil production.

In terms of client interest in Capital Markets products, however, last year did not significantly differ from the year before.

The trend of clients shifting liquidity from term deposits to current accounts continued. Those corporate and institutional clients who wanted their available funds to grow at least a little through term deposits had to tie their deposits to longer maturity periods.

Tatra banka's corporate clients benefited from the global economic boom. There was slightly increased activity in foreign exchange transactions compared to the year before. More clients were interested in currency conversions along with a slight increase in the volume and number of currency conversions. Clients were mostly interested in the currencies of neighboring countries. In addition to the aforementioned factors, another reason was a considerable year-long weakening of the US dollar against the Euro and the fact that in April the Czech National Bank decided to terminate its "currency commitment" that had lasted for more than three years and allowed the Czech crown to strengthen against the Euro to below CZK 27. As a result, several clients chose to address currency risk arising from their business relations mainly through simple forward transactions.

The outlook of increasing interest rates in the Eurozone was and still is very vague. In relation to interest hedging products, this resulted in closing only a small number of hedging transactions. Clients continue to prefer mainly simple products – interest rate swaps and options.

Regarding securities trades, mainly institutional clients were interested in several new issues of Tatra banka's mortgage bonds and the final sales of older issues. In nominal terms, Tatra banka placed on the market EUR 24 million more than in 2016.

In 2017, Tatra banka confirmed its leading position on the primary and secondary market in Slovak bonds, on which the bank has been for many years one of the top three most active banks among all primary dealers trading in Slovakia.

The reward for this position and an expression of trust was a mandate granted to Tatra banka by ARDAL agency to underwrite the issue of a 20-year Slovak government bond. The total value of the issue was EUR 2 billion and interest in the then-longest issue exceeded expectations and more than 120 investors from around the world accumulated the demand of EUR 3 billion.

Last year, Tatra banka introduced a new product to its clients, M&A (purchase and sale of businesses). The bank offered this service in cooperation with its colleagues from RB CZ with the aim to provide Tatra banka's clients with advice in the purchase and sale of a business. Although clients have not yet become fully aware of the service, the first year already showed that there might be interest in this area.

Retail clients

(in EUR ths)	12/2017	12/2016	12/2015	12/2014	12/2013	12/2012[1]	12/2011
Net interest income	194,809	182,966	187,410	194,530	189,360	178,961	168,977
Net provisioning	(22,576)	(17,606)	(12,344)	(18,241)	(21,781)	(13,699)	(3,118)
Net interest income after provisioning	172,233	165,360	175,065	176,289	167,579	165,262	165,859
Net fees and commission income	100,718	95,380	102,423	99,782	87,295	82,202	80,837
Other operating income	(12,707)	(11,215)	(9,578)	(12,979)	(16,899)	(9,967)	-
Operating expenses	(172,756)	(165,453)	(165,455)	(162,098)	(155,064)	(152,345)	(157,505)
Profi t before income taxes	**87,488**	**84,072**	**102,455**	**100,994**	**82,910**	**85,152**	**89,190**
Cost/Income ratio	58.46%	59.44%	57.09%	55.08%	56.05%	58.33%	63.05%

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

Retail Clients – Tatra banka

Tatra banka has substantially strengthened its position by activities focused on acquiring new customers in all age groups.

In 2017, the bank prepared marketing campaigns for students and for even younger children. The campaign featuring an alien called Sajfa brought more than 15,000 new student accounts to Tatra banka. Throughout the year young children were educated by a funny alien called Kozmix who awarded pocket money to more than 6,000 new young clients.

The successful takeover of ZUNO banka by Tatra banka also occurred in 2017. A substantial number of ZUNO clients accepted an offer made by Tatra banka to open an account, started using its innovative banking, becoming active customers.

2017 was also successful in terms of sale of travel insurance with debit and credit cards. Thanks to a very successful summer campaign, the portfolio of clients purchasing travel insurance increased by more than 45 per cent.

Payment Cards

A limited-edition card has become an essential part of Tatra banka's credit card portfolio. Its design in 2017 was dedicated to Ľubor Králik, the author of the unique publication A Concise Etymological Dictionary of the Slovak Language. For the first time this limited edition was introduced in 15 unique designs – 12 for Visa standard and three for Visa Gold cards.

The growing trend of using contactless payments and making purchases over the internet continued last year. The volume of internet purchases grew 30 per cent and the volume of contactless transactions soared by an unbelievable 137 per cent compared to the year before.

Moreover, the share of contactless transactions in the total value of purchases more than doubled year-on-year.

Payments via the **Mobile**Pay[TB] app were becoming more and more popular in 2017. Clients made a total of 224,000 transactions with their smartphones totaling over EUR 5 million. Half of this amount consisted of internet purchases using a unique solution for safe online purchases – a one-time card number generated in the app.

In November Tatra banka launched a special education campaign, **Safety** Card[TB]. This campaign motivated clients to more actively use online management and other innovations that help eliminate the risk of misuse of payment cards. The success of the campaign has been confirmed by high interest in setting preventive measures.

Loans

Tatra banka also had a year of innovations in credit products in 2017. During the online campaign for consumer loans, clients could transfer their existing loans to Tatra banka under more favorable conditions. The bank allowed clients to benefit from accelerated repayment via an extra instalment to save both money and time spent at a branch. An extra instalment can be made free of charge every month from the comfort of home via **Internet** Banking[TB] or the **Tatra banka** mobile app.

Tatra banka also simplified the signing of contract documents for clients applying for a **Consumer** Loan[TB] – the bank now allows an applicant to use an electronic signature on a tablet at branches and voice biometrics when calling **DIALOG** Live.

A unique new service in consumer loans is the disbursement of a loan without being pre-approved via the **Tatra banka** mobile app.

The new process of originating loans via the **DIALOG** Live call center is also becoming popular among clients. This process saves a significant amount of time, as clients only need to visit a branch once to get a mortgage loan.

Since 2017 Tatra banka has also been assisting clients drawing mortgage loans when they deal with the land register.

The retail loan market continued to grow in 2017 with housing loans growing by 13.93 per cent (as of December 2017) and unsecured loans recording 11.96 per cent growth. Tatra banka achieved its plan to increase market share in loans, posting year-on-year growth of 16.65 per cent in its housing loan portfolio and growth of 25.37 per cent in the portfolio of unsecured loans.

Internet Banking[TB], **Mobile Applications**, **Acceptance of Payment Cards**

Tatra banka's electronic banking consistently confirms its unique position on the Slovak banking market, which is also demonstrated by the large number of awards and first places it has been given. Tatra banka won further awards in 2017 to add to those it won in previous years. The international monthly magazine, Global Finance, awarded Tatra banka as the Best Consumer Digital Bank and Best Web Site Design in Central and Eastern Europe (CEE) and the **Tatra banka** mobile app won the Techbox banking application as well as AppsRullezz and Smartbanka awards.

Internet Banking[TB] has long been the most-used method for making payments. Less than two per cent of transactions are made via branches while **Internet** Banking[TB] and the Tatra banka mobile app account for more than 45 per cent of transactions. In total, 98 per cent of transactions at Tatra banka are made electronically. In 2017 clients made more than 2 million payments in Slovakia per month via **Internet** Banking[TB] and the **Tatra banka** mobile app.

Internet Banking[TB] and the **Tatra banka** mobile app are currently also important sales channels as they include an option to display various campaign offers. More than 45 per cent of pre-approved **Consumer** Loans[TB] are provided via **Internet** Banking[TB] and the **Tatra banka** mobile app. Both channels also contribute to the sale of pre-approved credit cards, the collection of leads for various products, surveys and other activities.

Tatra banka maintained its position in 2017 as market leader in the acceptance of payment cards, which was also confirmed by the awards as the MasterCard Acquirer of 2017 and Visa Acquirer of 2017.

Internet Banking[TB]

Internet Banking[TB] is used at least once a month by almost 200,000 clients to make around 1.4 million transactions every month.

Each year Tatra banka offers clients new and innovative features in its **Internet** Banking[TB]. Since February 2017 clients can use in their **Spending** Report[TB] their own signature and the division of a transaction. New formats for the export of transactions made by a debit card (txt, csv, xml) have also been added. Payment card activation and an option to store the Repayment Schedule in pdf format have also been added in **Internet** Banking[TB].

Tatra banka has brought its clients the Digital UpSell innovation – an option to increase the contribution to their supplementary pension saving via **Internet** Banking[TB], which won the Best Asset Management Initiative award. DDS Tatra banky was the first in Slovakia to start communicating to clients their estimated pension from the Third Pillar via **Internet** Banking[TB].

Mobile Applications

The **Tatra banka** app also acquired several new features in 2017. The most interesting include: supplementary pension saving estimation; an option to apply for a **Consumer** Loan[TB] without a pre-approved offer; push notifications of current account transactions; and display of account balance before logging in to the app. With these new services as well as regularly listening to clients' suggestions and many other activities, the app maintained high satisfaction (NPS > 80) and the user base was expanded to almost a quarter of a million regular users.

The **Tatra banka VIAMO** app underwent a complete redesign and brought its users a number of minor but smart solutions for even easier money transfers between friends.

Acceptance of Payment Cards

In payment card acceptance Tatra banka maintained its position in 2017 as the leader in the Slovak market. Tatra banka's business partners generated turnover of EUR 3.1 billion on POS terminals with a total of more than 133 million transactions. There were 7.9 million transactions, totaling EUR 326.8 million, using CardPay and ComfortPay in 2017. The number of payment transactions over the internet keeps growing, increasing by 34 per cent compared to 2016.

At the end of 2017, Tatra banka had 16,900 active POS terminals, 99 per cent of which supported contactless payments. The share of contactless transactions on Tatra banka's POS terminals increased to 67 per cent in 2017.

Tatra banka upgraded the entire network of POS terminals in 2017 to make the most advanced devices available to businesses. By the end of 2017 most of the older terminals had been replaced with new ones.

At the end of 2017 Tatra banka had a total of 313 ATMs and the entire network consisted of new models. Clients made more than EUR 14.2 million withdrawals from Tatra banka's ATMs in 2017 and the amount of withdrawn cash totaled nearly EUR 2.4 billion.

Tatra banka was the first bank in Slovakia to introduce the option of cash withdrawals from an ATM with a mobile phone. Clients made almost 780,000 ATM withdrawals with a mobile phone in 2017, worth EUR 56.2 million. The number of ATM withdrawals using a mobile phone accounted for 5.4 per cent of the total number of withdrawals from Tatra banka's ATMs.

Tatra banka ended 2017 with a total turnover of EUR 3.4 billion and 140.9 million transactions.

DIALOG Live

After years of a dynamic growth in the number of remote personal bankers, 2017 was the year of stabilization of relationship positions with a greater focus on increasing the quality of client service for **DIALOG** Live.

Tatra banka made a great step forward in providing mortgage loans by initiating the unique service of a remote mortgage specialist, which helped the bank to exceed the threshold of EUR 100 million in disbursed loans.

In terms of meeting Tatra banka's strategic objective to be the clear leader on the market in the care for premium clients, **DIALOG** Live plays a vital role because it was serving about one third of Tatra banka's premium clients at the end of 2017.

Private Clients

Tatra banka's private banking again in 2017 concentrated on increasing the assets under its management. This has been a long-term objective of the Private Banking Division and it closed last year with an increase in this value to EUR 2.4 billion. Tatra banka's private banking has consistently confirmed its position as the clear leader on the Slovak market. In 2017, private banking defended its Best Private Bank in Slovakia 2018 award from Global Finance and won an award from Euromoney magazine for innovative technologies (client experience).

Last year, the bank worked on implementing the new MiFID II regulation which took effect on January 3, 2018. Under this legislative change, the Private Banking Division offers its clients an innovation in the form of a new digital platform focused on improving investment advice. This platform will provide clients with a detailed overview of their investment portfolio in several areas.

In primary investment solutions, the Private Banking Division focused on the growth of assets managed in **Growth**^{TB} portfolios, which include investment options from both Tatra Asset Management and Raiffeisen Capital Management. Assets managed by these units increased by more than EUR 170 million in 2017. A very successful alternative investment solution was the year-

end issue of Raiffeisen Centrobank certificates with a value of more than EUR 50 million. In terms of investments, the Private Banking Division considers 2017 as a very successful year.

The high stability of the working team at the Private Banking Division directly contributed to high client satisfaction. Their satisfaction was confirmed by an independent survey using the TRI*M method and satisfaction last year reached its highest level on record.

Small Business Clients

In 2017 this banking segment introduced new accounts with service packages reflecting the latest innovation trends that simplify clients' everyday financial lives.

Tatra banka recorded its historically highest increase in the value and number of disbursed loans in this segment. This was achieved due to a higher value of pre-approved loans and new types of campaigns that the bank launched for its clients for the **Business**Loan^{TB} Variant and the **Business**Loan^{TB} Expres products.

Significant simplification and higher client comfort was achieved through a new loan processing system. Clients can apply for various types of loans as well as a credit card at a single point. Information is processed instantly, meaning that clients get a specific loan offer on their first visit to a branch.

Retail Clients – Raiffeisen Bank

For five years Raiffeisen Bank has offered its clients in Slovakia a unique experience and straightforward, user-friendly products and services at fair prices. These are the attributes clients appreciate about the bank, which is confirmed by surveys conducted by the TNS independent agency. The results show that clients of Raiffeisen Bank are the most satisfied of all Slovak bank customers since the bank entered the Slovak market.

At the end of 2017 Raiffeisen Bank operated 63 business outlets, 11 of which are franchise branches. The bank's portfolio has grown to more than EUR 73 million in loans and 63,000 clients and the bank exceeded the threshold of EUR 100 million in the value of deposits.

Since 2017 Raiffeisen Bank has offered solutions to address additional financial needs of its clients – clients can benefit from a financial reserve in the form of an account overdraft, secure a better pension with supplementary pension saving or fulfil their dream about new housing with a **Mortgage** Loan^{TB}.

An important new product introduced in 2017 is a mobile app that allows clients access to internet banking via their mobile device that has an Android or iOS operating systems.

Responsible business conduct

Tatra banka is part of the Austrian Raiffeisen Bank International AG (RBI), which operates in several European countries. The basic principles governing the RBI Group are derived from the philosophy of F. W. Raiffeisen, who felt that all economic activities should be based on social solidarity, self-help and sustainability.

In addition to compliance with applicable legal regulations, RBI Group employees are also obliged in the performance of their work to comply with the RBI *Group Code of Conduct* (hereinafter the *"Code"*) adopted by and adhered to by Tatra banka. The *Code* defines the common values and minimum standards for ethical business conduct that are binding on all employees of the group, including Tatra banka's employees. Employees are expected to understand and comply with the *Code* in daily contact with internal and external stakeholders.

If necessary, employees can consult their managers or compliance officers. Managers are expected to serve as role models for other staff and address concerns from their staff members about any potentially inappropriate conduct promptly, discretely and respectfully.

By meeting these high standards and acting in compliance with the *Code*, every single staff member contributes to the Group's positive perception by all stakeholders – including above all our customers, shareholders, business partners and the general public.

The Code is available on the Tatra banka website in the section Important documents.

The RBI Group also issues a separate *Sustainability Report* in which the bank presents its approach to responsible business, strategy, principles and values, methodology, relationship to individual partners (shareholders, staff, customers, the environment and community), projects and achievements. The Report also includes the activities of all subsidiary banks, including Tatra banka.

The *Sustainability Report* is available on the RBI website in the section About us.

Information on selected aspects: customer relations, employee relations, fight against financial crime, human rights protection, environmental protection and community relations can be found in Tatra banka's Annual Report.

Customer relations

Confidential information, personal data

The bank adequately protects and uses personal data and confidential information of its customers. Information is only provided to authorized parties in accordance with applicable legal regulations.

Excellent products and services

Tatra banka provides products and services for which it holds the relevant licenses and has the required expertise and infrastructure in place. The bank provides its products and services in the best possible way.

The credit policy of Tatra banka is committed to the funding of projects of renewable energy sources that have a positive impact on environmental protection. In 2017, the bank financed two new projects worth EUR 5.3 million. The entire portfolio of projects for renewable energy sources amounts to approximately EUR 192 million and includes over 100 projects.

Tatra banka has provided all ATMs with barrier-free access. Except for branches in historic town centers, all existing and newly-opened branches have barrier-free access. Voice navigation for visually impaired customers is a standard feature of each ATM. ATMs provide multi-lingual navigation (Slovak, English, German, Hungarian and French). Also the system of internet banking is adapted to visually impaired customers. Websites and mobile apps feature voice navigation. Each change in internet banking, mobile apps and websites takes into consideration the needs of visually impaired customers.

Fairness

In its business activities, the bank fulfils all applicable legal and regulatory obligations, including consumer protection. The bank treats customers respectfully. False or misleading marketing measures and advertising are unacceptable. The bank seeks to avoid the risk of over-indebtedness of borrowers and treats customers who experience repayment difficulties fairly.

Investor protection

Tatra banka gives clear and appropriate information and individual advice to customers and investors.

Conflicts of interest

Tatra banka has internal processes in place to identify and avoid potential conflicts of interest in its business activities and has stringent internal guidelines in this respect. Staff members must ensure that their own interests do not conflict with their obligations towards the bank or with the bank's obligations towards its customers.

Employee relations

Fair employment practices

Fair employment practices compliant with applicable labor and employment laws contribute to a culture of respect. Tatra banka strives to be a company where the best people want to work, where people are hired and promoted on their merits (performance and professional experience), where development opportunities are available and where a good balance between working time and private life can be achieved. The bank values teamwork and helps people to develop their full potential.

Tatra banka respects the applicable legal regulations and complies with international standards in relation to human rights, freedom of association, and equal employment opportunities as well as prohibition of forced, compulsory or child labor. The bank adheres to competitive standards regarding remuneration, which support its business strategy, values and long-term business targets and include measures to avoid conflicts of interest.

No discrimination or harassment

Tatra banka encourages an environment where all staff members treat each other with mutual respect. The aim of the bank is to maximize variety in working teams and ensure that diversity also exists at the highest levels of management.

Discrimination and harassment (for example, on the grounds of a person's age, ethnicity, race or color, national origin, religion or belief, political or other opinion, gender, sexual orientation or disability) are inconsistent with maintaining an integrating work environment in which staff members can reach their highest levels of individual productivity as well as the bank's business goals. There is neither room nor excuse for any forms of discrimination, harassment or intimidation in Tatra banka.

No violence

Threats or acts of violence, irrespective whether committed in the office or in any other work-related circumstances, are not tolerated and must be reported immediately.

Occupational health and safety

The protection of the health and safety of the staff is a key issue. Tatra banka applies and complies with the applicable occupational health and safety regulations and requires its staff members to ensure strict adherence to them.

Private business activities

Staff members must not engage into any activity that might negatively affect the bank's reputation. Each staff member shall avoid any potential conflicts of interest. In the event of a potential conflict, staff members must consult their managers or compliance officers.

Fight against financial crime

Bribery and corruption

Bribes can take many forms, including the offer or acceptance of direct or indirect payments, services, excessive gifts, charitable donations, sponsorships, preferential treatment or facilitation payments. Every attempt at bribery or illegal gratuities must be rejected by the staff. Any acts of bribery or corruption are unacceptable. Particular care must be taken when dealing with public officials. The bank does not participate in any transaction in which there is a reason to believe that bribery or corruption is involved.

Accepting and giving gifts and invitations

Staff members are only permitted to accept or offer gifts and invitations that are appropriate under the particular circumstances, subject to limitations, approvals and recording requirements defined in internal rules. Gifts of cash or cash equivalents may not be offered or received under any circumstances.

Prevention of money laundering and terrorist financing

All staff members must comply with the applicable anti-money laundering and anti-terrorist financing laws. The bank aims to conduct business only with reputable customers involved in legitimate business activities, with funds derived from legitimate sources. The bank follows risk-based "Know Your Customer" due diligence procedures and takes reasonable steps to prevent, detect and report suspicious business transactions.

To prevent abuse of the bank and its subsidiary entities for money laundering and terrorist financing purposes, the bank has issued its *Policy of Protection Against Abuse of the Bank and Its Subsidiary Entities for Money Laundering and Terrorist Financing Purposes*. This protection policy represents

a basic outline of an advanced strategy by the Tatra banka Group in the fight against money laundering and terrorist financing, which reflects the latest knowledge and trends in the development of this issue. The protection policy is available on the Tatra banka website in the section Important documents.

Economic sanctions, embargoes

Business dealings with individuals or entities trading in certain goods and technologies (including financial services) that are affected by sanctions or embargoes are permitted only if done in strict compliance with the applicable sanction and embargo legislation. In addition to complying with generally binding legal regulations, Tatra banka has internal regulations, procedures and controls for complying with relevant legislation. Each staff member is responsible to apply the respective rules in daily business transactions.

Insider trading and market abuse

Violations related to insider trading and market manipulation may have severe consequences, including termination of employment as well as civil and/or criminal penalties, and they may have a serious impact on the bank's reputation and the public's trust. Therefore, trading in securities of any company, while in possession of material, non-public information regarding the company is prohibited. The bank does not tolerate any attempt to manipulate or tamper with the markets or the prices of securities, options, futures or other financial instruments.

Protection of human rights and the environment

Human rights

Tatra banka respects and supports protection of human rights stipulated in the European Convention on Human Rights as well as the Universal Declaration of Human Rights. It aims to engage in business that is in line with these principles. The bank strives to neither directly nor indirectly finance any transactions, projects or parties, nor cooperate with any business partners (including customers, service providers and suppliers) that do not adhere to these standards or are suspected of human rights violations. The bank seeks to not be involved in businesses with products that are intended to be used to suppress demonstrations or political unrest, or for other violations of human rights.

Environmental protection

Tatra banka cares about the environment – and therefore considers the environmental impact of its business activities. The bank gives preference to businesses with non-polluting technologies and also chooses suppliers by taking into account the environmental balance and related measurements. The bank works to conduct its operations in a safe manner that minimizes negative environmental impacts and reduces carbon emissions. The bank expects its service providers and suppliers to adhere to these standards. The bank strives to do business with sustainable companies. The financing of or participation in any transactions or projects that put the environment at risk of lasting, substantial detrimental effect (e.g. pollution of land, air or waters) are not in accordance with the bank's business conduct. Staff members concerned must think of the potential adverse environmental effects and associated potential risk of damage to the bank's reputation in every decision regarding transactions or projects – especially when the bank provides financing.

In the area of environmental protection, Tatra banka uses the services of an external consultant who represents the bank in dealings with the respective environmental and ecological authorities. This particularly concerns waste management, heating and cooling equipment, state environmental controls, etc.

In its buildings the bank has installed new equipment to measure energy consumption and uses advanced online monitoring which facilitates intelligent notification of any failure to the service staff. One of Tatra banka's buildings is a low-energy building heated by waste heat from the data center. Another building requires less energy because of its double facade. Heating is turned down in evening hours and during weekends. Old heating and cooling systems are continuously replaced with more energy-efficient equipment. Motion-activated light switches have been installed in the head office buildings to achieve energy savings. Energy-efficient lighting has been used in a number of Tatra banka branches since 2014. Moreover, the IT Department has replaced older PCs and screens with more energy-efficient devices at the head office.

About ten percent of the purchased electricity comes from renewable energy sources such as water and wind energy. Energy audits have been conducted in both buildings of the head office in line with the statutory requirements since 2016.

Tatra banka offers shuttle transport for its staff between the buildings of the head office. Also electric cars have been tested for the shuttle transport. Videoconferences are used to reduce the number of business trips.

Community relations

Support of arts, education and design

As part of its sponsoring activities, grant programs and with cooperation of its own foundation (Tatra banka Foundation), Tatra banka supports fields with a great deal of talent, intellect and innovation. For this reason, for more than twenty years it has supported **Slovak arts and university education and recently also design initiatives.**

As a strong brand, the bank supports important cultural institutions like the **Slovak National Gallery** and **Slovak National Theater**, which has been the bank's longest lasting partnership.

As another form of supporting the arts, the bank has awarded the **Tatra banka Foundation Art Award** to well-known and new artists for twenty-two years.

For the fifth year, a strategic goal of Tatra banka has been to increase support for **design**, which is seen as an inseparable part of comprehensive support for the arts with significant innovation potential.
This goal was realized via partnerships by Tatra banka Foundation, the foundation's grant program that supports young designers and the foundation's participation in events in this field such as the By Design conference and Days of Architecture and Design.

Investments in art and education are part of a long-term process that must be stable and continuous. The results of the work become visible gradually. They have an indisputable importance in shaping our society – bringing real values, providing opportunities and helping to refine our lives.

Tatra banka believes that only educated people can further cultivate our society and wants to be a respectable part of such a 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 the 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 2017, Tatra banka Foundation supported 412 valuable projects and provided almost EUR 720,000 in financial support.

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 theaters.

Through the employee grant program More for Regions (**Viac** pre regióny^{TB}) the foundation supported eight projects 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, the Tatra banka Foundation has so far welcomed to Slovakia seven Nobel Prize winners and six Pulitzer Prize winners, dozens of foreign professors and more than 80 top Slovak and Czech economists, who have given lectures to students at Slovak universities and the general public.

In 2017, the invitation was accepted by **Pulitzer Prize winner Martha Mendoza**, 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-two 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 foundation is to recognize those involved with Slovak culture and to give them support to create more valuable artwork.

To date Tatra banka has presented the award to 93 well-known artists and 53 new artists.

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

Charity

The area of “charity” in Tatra banka includes **voluntary and donation activities** by staff members that are strongly supported by Tatra banka as their employer.

Corporate volunteering

Responsibility towards community at Tatra banka is demonstrated by encouraging staff in **corporate volunteering** (during working time with wage compensation, in line with defined rules). The bank achieves this particularly through two activities – foundation employee program More for Regions (**Viac** pre regióny^{TB}) and active involvement in the biggest corporate volunteering event in Slovakia, **Our Town** (Nadácia Pontis).

The More for Regions (**Viac** pre regióny^{TB}) employee grant program was organized for the fourth time last year in cooperation with the Tatra banka Foundation. The program supports NGOs and civic associations in all regions of Slovakia. In the first program phase, Tatra banka staff members vote for a community issue that they consider as the most pressing in their respective region that they would like to support. Then they may send suggestions for organizations active in the issue with the highest number of votes. From these Tatra banka Foundation’s commission selects three appropriate organizations in each region that qualify for the final employee vote. Eight selected organizations get grants from the Tatra banka Foundation of EUR 5,000. The following organizations received grants in 2016:

- Bratislava region – DAPHNE Institute of Applied Ecology
- Banská Bystrica region – the children’s folklore ensemble Ratolesť
- Prešov region – DUKLA DESTINATION n.o.
- Trenčín region – Hokejový klub Iskra Partizánske, o.z. hockey club
- Trnava region – o.z. KATARÍNKA
- Košice region – OZ PAPUČKY
- Žilina region – Ekocentrum Zázrivá animal rescue center
- Nitra region – Zatúlané Psíky Šaľa dog shelter

In 2017, Tatra banka organized nine volunteer events in cooperation with these organizations with total participation of 71 volunteers. Staff members had one day allocated in their working time during which they could participate in one of these activities and for which they received full wage compensation. The aim of the program is not only financial and physical help to organizations and the development of all Slovak regions, but it also seeks to build and establish cooperation between the bank’s staff members and non-profit organizations.

Tatra banka's staff members can also participate in the **Our Town** event – which has been the biggest corporate volunteering program in Slovakia since it started. In 2017, 120 employees in various Slovak towns took part in the 11th year of this event. Last year staff members had four hours of their working time allocated for this event. During this time they could take part in any activity they chose, for which they received full wage compensation.

Donations and other charity events by Tatra banka's employees

The mission of the Good Heart (**Dobré** srdce[TB]) employee grant program, which has been organized since 2007 and is very popular, is to support the projects of staff members who help and support others. Staff members who take the opportunity and donate 2 per cent of their taxes or contribute by an individual financial gift to a community organization close to their heart, can get further funds for the organization or its projects to increase the necessary funding via the Tatra banka Foundation. The requirement is for a staff member to develop a specific project in cooperation with such an organization, for which they would jointly like to get funding.

This program motivates staff members to take interest in and help non-governmental organizations and civic associations. All staff members have their own values and ambitions outside the world of work and subconsciously feel an inclination towards the work of various community organizations. Each staff member views different things as what is "really important" but they all share their respect and regard for all those who are committed to a good cause. It is right for staff members to support activities of the associations and organizations whose work is close to their values and beliefs while actually helping people, communities and the regions in which they live. In June 2017 an amount of EUR 75,050 was allocated among 163 projects as part of the Good Heart (**Dobré** srdce[TB]) program.

The First Aid (**Prvá** pomoc[TB]) grant program is designed for staff members and their family members experiencing a difficult life situation. A financial support application can be filed by employees themselves, but they often give a helping hand to their colleagues through this program.

The aim of this program is to make difficult life situations easier for staff members and their close relatives, to reduce the financial costs associated with a health or social problem, or difficulties caused by a natural disaster or another's fault. All 50 applicants were supported in this way in 2017.

A blood donation program called **Krvná** banka[TB], which Tatra banka organizes twice a year in cooperation with the National Transfusion Service, has a seven-year tradition. Mobile blood donations took place twice last year, in both head office buildings and at the processing center in Prešov.

Tatra banka participated for the eighth time in the collection of clothes and other items for non-governmental organizations, called Pass On (**Posuň** ďalej[TB]) in cooperation with Nadácia Pontis and the Engage group. The collection was held in both the Spring and Fall and in the Fall alone 140 staff members participated in Bratislava, Prešov, Banská Bystrica and their vicinity. Staff members brought dozens of bags of clothes, toys, shoes, cosmetics, several appliances and a child's bike, which were donated to the organizations Depaul, Slovensko and OZ Domov pre každého.

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Independent Auditor's Report

Deloitte Audit s.r.o.
Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

Tel.: +421 2 582 49 111
Fax: +421 2 582 49 222
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered in the Commercial
Register of the District Court Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

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. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 consolidated financial position of the Group as at 31 December 2017, and its consolidated 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 Group 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. 15 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.

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The loan loss provision determined on an individual basis represents EUR 171.7 million of the total recorded allowances of EUR 193.4 million as at 31 December 2017.	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 Group 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 Group	
Refer to Note No. 31 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 Group'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 2017, the Group recognised provisions for passive legal cases totalling EUR 46.4 million.	We tested the design and implementation of the Groups's key controls over the identification, recognition and disclosure of risks arising from legal cases. The tested controls included those over the timely identification of legal cases; the completeness and accuracy of data used in relevant calculations; and the assessment of the provisions in accordance with the relevant accounting standards. We challenged the adequacy of the recognised provisions by critically assessing the key assumptions used in the provisioning models and by comparing the assumptions to available information obtained through correspondence with external and internal legal experts of the Group. We also assessed the disclosures about risks arising from legal cases 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.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

- Information disclosed in the annual report prepared for 2017 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 Group and its position, obtained in the audit of the consolidated financial statements.

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public interest entities

Appointment of the Auditor

We were appointed as the statutory auditor by the Bank's General Meeting held on 17 May 2017. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 16 years.

Consistency with the Additional Report to the Audit Committee

Our audit opinion expressed herein is consistent with the additional report prepared for the Bank's Audit Committee, which we issued on 6 March 2018.

Non-Audit Services

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

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

Bratislava, 14 March 2018

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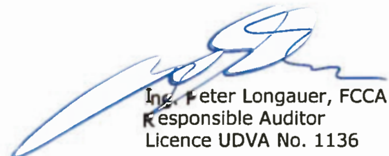

Ing. Peter Longauer, FCCA
Responsible Auditor
Licence UDVA No. 1136

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union
(in thousands of EUR)

	Note	2017	2016
Interest and similar income		290 831	303 759
Interest and similar expenses		(19 274)	(29 158)
Net interest income	**(1)**	**271 557**	**274 601**
Provisions for impairment losses	(2)	(13 560)	(12 301)
Net interest after provisioning		**257 997**	**262 300**
Fees and commissions income		162 715	154 222
Fees and commissions expense		(37 500)	(34 773)
Net fees and commission income	**(3)**	**125 215**	**119 449**
Net profit (loss) from trading instruments	(4)	27 164	22 768
Net profit (loss) from financial instruments at fair value through profit or loss	(5)	(246)	(324)
Net profit (loss) from available-for-sale financial instruments	(6)	1 462	30 341
General administrative expenses	(7)	(242 430)	(249 210)
Special levy of selected financial institutions	(8)	(20 286)	(19 365)
Other operating profit (loss)	(9)	6 773	(3 225)
Profit before income taxes		**155 649**	**162 734**
Income taxes	(10)	(31 307)	(36 754)
Consolidated profit after tax		**124 342**	**125 980**
Other components of comprehensive income, after income tax:			
Items that can be reclassified to profit or loss			
Available-for-sale financial assets	(20)	(468)	(15 672)
Cash flow hedges		1 348	778
Other components of comprehensive income, after income tax		**880**	**(14 894)**
Comprehensive consolidated profit after tax		**125 222**	**111 086**
Basic earnings per ordinary share (face value EUR 800) in EUR	**(11)**	**1 554**	**1 571**
Basic earnings per ordinary share (face value EUR 4 000) in EUR	**(11)**	**7 770**	**7 855**
Basic earnings per preference share (face value EUR 4) in EUR	**(11)**	**7.8**	**7.9**

Consolidated Statement of Financial Position for the year ended 31 December 2017

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union
(in thousands of EUR)

	Note	2017	2016
Assets			
Cash and deposits in central banks	(12)	1 251 327	719 244
Loans and advances to banks	(13)	220 149	147 801
Loans and advances to customers, gross	(14)	9 526 679	8 551 381
Impairment losses for loans and advances	(15)	(193 399)	(200 026)
Derivative financial assets	(16)	35 070	49 216
Held-for-trading financial assets	(17)	7 361	69 048
Financial assets at fair value through profit or loss	(18)	13 249	53 323
Held-to-maturity financial investments	(19)	1 246 146	1 725 976
Available-for-sale financial assets	(20)	177 127	32 514
Investments in associated undertakings	(21)	3	3
Non-current intangible assets	(22)	45 322	43 312
Non-current tangible assets	(22)	61 478	61 322
Investment property	(22)	34 701	40 176
Current tax asset	(23)	686	8 208
Deferred tax asset	(24)	28 168	27 493
Other assets	(25)	48 611	44 037
Total assets		**12 502 678**	**11 373 028**
Equity and liabilities			
Deposits from banks	(26)	284 723	241 182
Deposits from customers	(27)	10 036 592	8 966 815
Derivative financial liabilities	(28)	41 312	49 042
Held-for-trading financial liabilities	(29)	40 301	72 056
Liabilities from debt securities	(30)	765 251	713 670
Provisions for liabilities and charges	(31)	56 933	51 214
Current tax liability	(32)	172	206
Deferred tax liability	(32)	422	1 479
Other liabilities	(33)	48 587	47 178
Subordinated debt	(34)	236 134	236 139
Total liabilities		**11 510 427**	**10 378 981**
Equity (excluding current year profit)	(35)	867 909	868 067
Consolidated profit after tax		124 342	125 980
Total equity		**992 251**	**994 047**
Total equity and liabilities		**12 502 678**	**11 373 028**

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

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 2017	**64 326**	**(164)**	**297 134**	**(1 945)**	**15 432**	**1 158**	**1 116**	**491 010**	**125 980**	**994 047**
Transfer to retained earnings	-	-	-	-	314	-	-	125 666	(125 980)	-
Increase in the reserve fund	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	(124 376)	-	(124 376)
Sale of treasury preference shares	-	-	-	-	-	-	-	-	-	-
Amortisation of discount on preference shares	-	-	-	-	-	-	-	-	-	-
Profit from the sale of ordinary and preference shares	-	-	-	-	-	-	-	-	-	-
Repurchase of preference shares	-	(204)	-	(2 438)	-	-	-	-	-	(2 642)
Comprehensive profit after tax	-	-	-	-	-	1 348	(468)	-	124 342	125 222
Equity as at 31 December 2017	**64 326**	**(368)**	**297 134**	**(4 383)**	**15 746**	**2 506**	**648**	**492 300**	**124 342**	**992 251**

	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)**	**15 432**	**16 830**	**338**	**485 639**	**120 562**	**996 375**
Transfer to retained earnings	-	-	-	-	-	-	-	120 562	(120 562)	-
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)**	**15 432**	**1 158**	**1 116**	**491 010**	**125 980**	**994 047**

Consolidated Cash Flow Statement for the year ended 31 December 2017

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union
(in thousands of EUR)

	2017	2016
Cash flows from operating activities		
Profit before tax	155 649	162 734
Adjustments (Note 37):	(239 522)	(244 954)
Cash flow used in operating activities before changes in working capital, interest received and paid and income taxes paid (Note 37)	***(83 873)***	***(82 220)***
(Increase)/decrease in operating assets:		
Obligatory reserve with National Bank of Slovakia	(508 172)	185 383
Loans and advances to banks	(62 944)	(39 775)
Loans and advances to customers	(974 678)	(447 962)
Derivative financial assets and liabilities	3 630	(1 460)
Held-for-trading financial assets	61 297	(46 453)
Financial assets at fair value through profit and loss	42 356	4 033
Available-for-sale financial assets	(139 549)	123 856
Other assets	(4 093)	2 635
Increase/(decrease) in operating liabilities:		
Deposits from banks	43 559	(115 286)
Deposits from customers	1 070 451	249 954
Financial liabilities for trading	(32 425)	23 761
Liabilities from debt securities	53 728	25 700
Deferred tax liability	-	(2)
Other liabilities	1 409	(3 102)
Cash (used in) earned from operations before interest paid and received and income taxes paid	***(529 304)***	***(120 938)***
Interest paid	(20 925)	(33 698)
Interest received	261 023	278 614
Income taxes paid	(25 786)	(45 979)
Net cash flows from operating activities	**(314 992)**	**77 999**

	2017	2016
Cash flows from investing activities		
Net (increase) in held-to-maturity financial investments	(347 893)	(564 068)
Net decrease in held-to-maturity financial investments	807 212	578 620
Interest received from held-to-maturity financial investments	38 587	17 249
Proceeds from the sale or disposal of non-current tangible and intangible assets	272	123
Proceeds from the sale or disposal of investment property	1 857	408
Purchase of non-current tangible and intangible assets	(23 465)	(16 996)
Dividends received	217	148
Net cash flows from investing activities	**476 787**	**15 484**

Cash flows from financing activities		
(Redemption) or sale of preference shares	(2 643)	1 777
Dividends paid	(124 793)	(115 189)
Net cash flows used in financing activities	**(127 436)**	**(113 412)**
Effects of exchange rate changes on cash and cash equivalents and other effects	(1 006)	172
Change in cash and cash equivalents	**33 353**	**(19 757)**
Cash and cash equivalents, beginning of the year (Note 37)	150 719	170 476
Cash and cash equivalents, end of the year (Note 37)	**184 072**	**150 719**

Notes to Consolidated Financial Statements as at 31 December 2017

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 13 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:

	31 December 2017	31 December 2016
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:

	31 December 2017	31 December 2016
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:

	31 December 2017	31 December 2016
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 123 branches, corporate centres and corporate centre sub-agencies, Centrum bývania[TB]
and Centrum investovania[TB], and 63 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 2017:

Supervisory Board	
Chairman:	Igor VIDA
Members:	Peter LENNKH
	Johann STROBL
	Martin GRULL
	Andreas GSCHWENTER
	Iveta UHRINOVÁ
	Peter BALÁŽ
	Hannes MÖSENBACHER

Board of Directors	
Chairman:	Michal LIDAY
Members:	Marcel KAŠČÁK
	Peter MATÚŠ
	Vladimír MATOUŠ
	Natália MAJOR
	Bernhard HENHAPPEL
	Johannes SCHUSTER

Changes in the Parent Company's (Group's) Supervisory Board in 2017:

Karl Sevelda – end of office as Chairman of the Supervisory Board as at 30 June 2017
Herbert Stepic – end of office as Member of the Supervisory Board as at 30 June 2017
Hannes Mösenbacher – start of office as Member of the Supervisory Board on 1 July 2017
Iveta Uhrinová – start of office as Member of the Supervisory Board on 15 November 2017
Ján Neubauer – end of office as Member of the Supervisory Board on 30 September 2017
Pavol Feitscher – end of office as Member of the Supervisory Board on 30 September 2017
Klemens Breuer – start of office as Chairman of the Supervisory Board on 1 July 2017 and end of office as Chairman of the Supervisory Board on 31 October 2017

Changes in the Parent Company's (Group's) Board of Directors in 2017:
Miroslav Uličný – end of office as Vice-Chairman of the Board of Directors on 20 June 2017
Johannes Schuster – start of office as Member of the Board of Directors on 1 July 2017

Business name of the ultimate parent company:
Raiffeisen Bank International AG, Vienna, Austria

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

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

As at the effective date, ie 18 March 2017, Raiffeisen Zentralbank Österreich AG (RZB) merged with Raiffeisen Bank International AG (RBI). The successor company will operate under the name Raiffeisen Bank International AG.

The RBI Group represents the parent company (Raiffeisen Bank International) and its subsidiaries and associates owned directly or indirectly through its subsidiaries.

Raiffeisen Bank International AG 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.

1. Definition of the consolidated group:

As at 31 December 2017, 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	Sídlo
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
Group Cloud Solutions, 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
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 2017

In June 2017, the Bank's subsidiary, Tatra Residence, a. s., sold its 100% ownership interest in BA Development II., s. r. o. (subsidiary).

Tatra Office s.r.o., in which the Bank holds an indirect ownership interest, changed its business name as at 4 August 2017. Its new business name is Group Cloud Solutions, s. r. o.

Distribution of the Parent Company's profit for 2016

Contribution to retained earnings from previous years	126 583
Total	**126 583**

Payment of dividends from the Parent Company's retained earnings

Dividends – ordinary shares	110 333
Dividends – preference shares	14 460
Total	**124 793**

A dividend per ordinary share with a face value of EUR 800 amounted to EUR 1 552. A dividend per ordinary share with a face value of EUR 4 000 amounted to EUR 7 760. A dividend per preference share with a face value of EUR 4 amounted to EUR 7.76.

The annual separate and consolidated financial statements for 2016, the Annual Report for 2016, the profit distribution, retained earnings and the determination of royalties to the Supervisory Board members for 2016 were approved by the Parent Company's General Meeting held on 17 May 2017. Dividends to which no title arose as at the date of the General Meeting in the amount of EUR 417 thousand were recognised in the retained earnings from previous years as at 30 June 2017.

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 2017, 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 2017 and comparatives for 2016 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 2017. 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 IAS 7 "Statement of Cash Flows"** – Disclosure Initiative – adopted by the EU on 6 November 2017 (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 – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

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

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

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

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – adopted by the EU on 3 November 2017 (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 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – adopted by the EU on 31 October 2017 (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.

IFRS 9 Financial Instruments

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 provisions for liabilities and provisions for assets. The estimate is based on a requirement to recognise provisions in the estimated amount of default loans.

The Group will apply IFRS 9 as issued in July 2014 for the first time on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date. Based on the assessment undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Group's equity at 1 January 2018 is approximately EUR15.2 million (without the tax effects), representing:
- A reduction of approximately EUR14.7 million to impairment requirements
- An decrease of approximately EUR0.5 million related to classification and measurement requirements other than impairment

On 27 December 2017, The European Parliament issued Regulation (EU) 2017/2395 on transition requirements for the implementation of IFRS 9. The regulation allows a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:
1. Phasing in the full impact on a straight-line basis over a five-year period; or
2. Recognizing the full impact on the day of adoption.

The Group has decided to adopt the second approach.

Classification and Measurement General

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.

The Group will apply four classification categories for financial assets:
- Financial assets measured at amortized cost (AC)
- Financial assets measured at fair value through OCI (FVOCI),
- Financial assets mandatorily measured at fair value through profit or loss (FVTPL) and
- Financial assets measured at fair value through profit or loss (FVTPL)

The existing IAS 39 categories of the held-to-maturity, loans and receivables and available for sale will be eliminated.

Financial assets will be measured at amortized cost if both of the following conditions are met:
- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A business model's objective may be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur.

A financial asset is classified as subsequently measured at FVOCI if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment–by–investment basis for each investment and covers strategic interests that are not fully consolidated. All other financial assets, ie financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or FVOCI, are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss. In addition, the Group has the option at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency, ie an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. A financial asset is classified in one of these categories on initial recognition.

Business Model Assessment

The Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level, as this best reflects the way the business is managed and information is provided to management.

The following was considered as evidence when assessing which business model is relevant:
- How the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the entity's key management personnel;
- How the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- How managers of the business are compensated, eg whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- The frequency, value and timing of sales in prior periods, the reasons for such sales, and expectations about future sales activity; and

- Whether sales activity and the collection of contractual cash flows are integral or incidental to the business model (hold-to-collect versus hold and sell business model);

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL.

Analysis of Contractual Cash Flow Characteristics

Once the Group determines that the business model of a specific portfolio is to hold the financial assets to collect the contractual cash flows (or by both collecting contractual cash flows and selling financial assets), it must assess whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For this purpose, interest is defined as a consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. This assessment will be carried out on an instrument-by-instrument basis on the date of initial recognition of the financial asset.

When assessing whether contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group will consider:
- Prepayment, extension terms
- Leverage features
- If a claim is limited to specified assets or cash flows
- Contractually-linked instruments

In 2018, IASB issued an IFRS 9 amendment regarding prepayment features with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract. The Group does not expect a significant volume of negative prepayment features with negative compensation, which must be measured mandatorily at FVTPL.

Modification of Time Value of Money and the Benchmark Test

The time value of money is the element of interest that provides consideration for the passage of time (IFRS 9.B4.1.9A). It does not take into account other risks (credit, liquidity etc.) or costs (administrative, etc) associated with holding a financial asset.

In some cases, the time value of the money element may be modified (imperfect). This is the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case, units must assess the modification to determine whether the contractual cash flows still represent solely payments of principal and interest, ie the modification term does not significantly alter the cash flows from a perfect benchmark instrument. f

Impact Assessment on Classification and Measurement

IFRS 9 will affect the classification and measurement of financial assets held as at 1 January 2018 of the Group as follows:

Loans and advances to banks and to customers that are classified as loans and receivables measured at amortized cost under IAS 39 will as a rule also be measured at amortized cost under IFRS 9.

Held-to-maturity financial assets measured at amortized cost under IAS 39 will as a rule also be measured at amortized cost under IFRS 9.

Available-for-sale debt instruments measured at fair value through equity under IAS 39 will as a rule also be measured at FVOCI under IFRS 9.

Hedge Accounting

IFRS 9 grants accounting options for hedge accounting. The Group plans to continue to apply the provisions on hedge accounting pursuant to IAS 39, while taking into account the changes in the disclosures in the notes pursuant to IFRS 7.

Impairment General

The calculation of expected credit losses requires the use of accounting estimates which, by definition, will rarely equal the actual results. Management exercises judgement in applying the Group's accounting policies.

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.

Measurement of Expected Credit Losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Significant judgements are:
- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses

The estimation of credit exposure for risk management purposes is complex and requires the use of models. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach used for the purposes of measuring expected credit losses under IFRS 9.

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2, but is not deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible in the next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. According to IFRS 9, when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets are financial assets that are credit-impaired on initial recognition. Their expected credit loss is measured on a lifetime basis (Stage 3).

Significant Increase in Credit Risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative Criteria

The Group uses quantitative criteria as the primary indicator of a significant increase in credit risk for all material portfolios. For quantitative staging, the Group compares the lifetime PD curve at measurement data with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition, assumptions are made about the structure of the PD curve. For highly rated financial instruments, it is assumed that the PD curve will deteriorate over time. For low rated financial instruments, it is assumed that the PD curve will improve over time. The degree of improvement or deterioration will depend on the level of the initial rating.

The Group is not aware of any generally accepted market practice for the level at which a financial instrument should be transferred to Stage 2. From this perspective, it is expected that the increase in PD at the reporting date which is considered significant will develop over a period of time as a result of an iterative process between market participants and supervisors.

Qualitative Criteria

The Group uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. Transfer to Stage 2 takes place when the criteria below are met.

For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:
- External market indicators
- Changes in contract terms
- Changes to management approach
- Expert judgement

The assessment of a significant increase in credit risk incorporates forward-looking information and is performed on a quarterly basis at a deal level for all non-retail portfolios held by the Group.

For retail portfolios, if the borrower meets one or more of the following criteria:
- Forbearance
- Expert judgement

The assessment of a significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at a deal level for all retail portfolios held by the Group.

Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if a borrower is more than 30 days past due on its contractual payments. In some limited cases, the presumption that financial assets which are more than 30 days past due should be in Stage 2 is rebutted.

The Group has not used the low credit risk exemption for any lending business; however, it selectively uses the low credit risk exemption for debt securities.

Definition of Default and Credit-Impaired Assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

The borrower is more than 90 days past due on its contractual payments no attempt is made to rebut the presumption that financial assets which are more than 90 days past due should be in Stage 3.

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The above criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes.

Explanation of Inputs, Assumptions and Estimation Techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition, or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor (D).

Probability of Default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation over the next 12 months or over the remaining lifetime of the obligation. As a rule, the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter, various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans.

In the limited cases where some inputs are not fully available grouping, averaging and benchmarking of inputs are used for the calculation.

Loss Given Default

Loss given default represents the Group's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default. Loss given default is calculated on a 12-month or lifetime basis, where a 12-month loss given default is the percentage of loss expected to be made if the default occurs in the next 12 months and the lifetime loss given default is the percentage of loss expected if the default occurs over the remaining expected lifetime of the loan.

Exposure at Default

Exposure at default is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. Where relevant, early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the exposure at default is predicted by adding a credit conversion factor to the current drawn balance, which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. In the limited cases where some inputs are not fully available, benchmarking of inputs is used for the calculation.

Discount Factor

As a rule, for on balance sheet exposure which is not leasing or POCI, the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

The expected credit loss is the product of PD, LGD and EAD multiplied by the probability of non-default prior to the considered time period. The latter is expressed by the survivorship function S. This calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by a forward looking scenario.

Different models have been used to estimate the Stage 3 provisions of outstanding lending amounts and these can be grouped into the following categories:
- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings - Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate.
- Retail mortgages - Stage 3 provisions are generated by calculating the discounted collateral realization value.
- Other retail lending - Stage 3 provisions are generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

Forward-looking Information

The assessment of a significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Group has performed historical analysis and identified key economic variables impacting credit risk and expected credit losses for each portfolio.

Expert judgment is applied in this process. Forecasts of economic variables (base economic scenario) are provided by Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables for the full remaining lifetime of each instrument, a mean reversion approach is used, which means that economic variables tend to either a long run average rate, or a long run average growth rate until maturity. The impact of economic variables on the probability of default, loss given default and exposure at default is determined using statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

In addition to the base economic scenario, Raiffeisen Research also provide a best case and worst case scenario and scenario weightings to ensure non-linearities are captured. The Group has concluded that three scenarios or less appropriately captures non-linearity. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The Group considers these forecasts represent its best estimate of the possible outcomes and cover any potential non-linearities and asymmetries in the Group's different portfolios.

Sensitivity Analysis

The most significant assumptions affecting the expected credit loss allowance are as follows:
- Corporate portfolios
  - Gross domestic product

  - Unemployment rate
  - Long term government bond rate
  - Inflation rate
- Retail portfolios
  - Gross domestic product
  - Unemployment rate
  - Real estate prices

Transition

Changes to accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:
- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognized in retained earnings as of 1 January 2018.

- The following assessments must be made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model in which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities measured at FVTPL.
  - The designation of certain strategic investments not held for trading as at FVOCI.

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 regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which 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 of this interim standard and to wait for the final standard;

- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021);

- **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 9 “Financial Instruments”** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);

- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to various standards “Improvements to IFRSs (cycle 2014 – 2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 – 2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

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

- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

Group management anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the Group’s financial statements in the period of initial application.

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

According to the Group’s estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: “Financial Instruments: Recognition and Measurement”** would not significantly impact the financial statements if applied as at the reporting 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 2017, dated 14 March 2018, 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 2017.

  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 and/or has a possibility to control their operations; these were included in consolidation. Subsidiary undertakings will consolidated 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"*.

f) 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 (eg type, location and condition of real estate), potential default of the security provider (eg 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.

g) 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.

h) 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.

i) 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

j) 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.

k) 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.

l) 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.

m) Assets held for development and construction

The Group applies the principles of IAS 2 "Inventories" 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"*.

n) 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.

o) 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"*.

p) 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.

q) 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.

r) 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.

s) Provision for employee benefits

The Parent Company has a long-term employee benefit program comprising a lump-sum retirement benefit. As at 31 December 2017, the Parent Company had 3 584 employees (full-time equivalent) who were included in the program (31 December 2016: 3 625 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	2.2%
Annual future real rate of salary increases	2%
Annual employee turnover	3.2% – 12.7%
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"*.

t) 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.

u) 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"*.

v) 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 2017 nor 31 December 2016.

w) 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^TB **Expres**, **Business**Úver^TB **Hypo** and **Business**Úver^TB **Variant**, company credit cards (VISA Standard/Gold/) and other products.

Retail customers – households were mainly provided with mortgage loans, equity home loans, **Hypotéka**^TB, **Bezúčelový** úver^TB **Classic**, **Bezúčelový** úver^TB **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, ie 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 2017:

	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net interest income	67 578	695	200 132	(3 165)	6 317	271 557
Provisions and provisions for losses	9 571	(516)	(22 615)	-	-	(13 560)
Net interest income after provisioning	**77 149**	**179**	**177 517**	**(3 165)**	**6 317**	**257 997**
Net fees and commissions income	23 752	6 847	96 193	-	(1 577)	125 215
Net profit (loss) from financial trading instruments	5 782	422	10 350	10 615	(5)	27 164
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	(246)	-	(246)
Net profit (loss) from available-for-sale financial instruments	-	-	-	-	1 462	1 462
General administrative expenses	(51 856)	(3 451)	(180 201)	(4 146)	(2 776)	(242 430)
Special levy of selected financial institutions	(4 732)	(1 195)	(12 707)	(1 676)	24	(20 286)
Other operating profit (loss)	-	-	-	-	6 773	6 773
Profit before income taxes	**50 095**	**2 802**	**91 152**	**1 382**	**10 218**	**155 649**
Total assets	**3 912 480**	**238 593**	**5 250 602**	**2 738 619**	**362 384**	**12 502 678**

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

	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**

IV. OTHER NOTES

1. Net interest income

	2017	2016
Interest and similar income:	**290 831**	**303 759**
From loans and advances to banks	348	1 211
From loans and advances to customers	263 549	264 260
From finance lease receivables	7 626	8 765
From held-to-maturity securities	18 076	28 593
From securities at fair value through profit or loss	110	417
From available-for-sale securities	892	358
From received dividends from available-for-sale financial assets	217	148
From other interest income	13	7
Interest and similar expenses:	**(19 274)**	**(29 158)**
On deposits from banks	(3 019)	(4 129)
On deposits from customers	(3 659)	(9 521)
On subordinated debts	(8 619)	(8 865)
On liabilities from debt securities issued by the Group	(3 732)	(6 427)
Other interest expenses	(245)	(216)
Net interest income	**271 557**	**274 601**

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:

	2017	2016
Specific provisions for loan receivables:	**(13 902)**	**(22 964)**
Additions to provisions	(52 835)	(61 112)
Released provisions	41 156	44 408
Written-off loans	(2 439)	(6 382)
Recovery from written-off loans	216	122
Portfolio provisions for loan receivables:	**(174)**	**2 054**
Additions to provisions	(2 663)	(3 402)
Released provisions	2 489	5 456
Specific provisions for off-balance sheet items:	**260**	**8 533**
Additions to provisions	(1 908)	(568)
Released provisions	2 168	9 101
Portfolio provisions for off-balance sheet items:	**256**	**76**
Additions to provisions	(15)	(432)
Released provisions	271	508
Total	**(13 560)**	**(12 301)**

More information on provisions for loan losses is stated in Note 15 *“Impairment losses for loans and advances”*; information on provisions for off-balance sheet items is stated in Note 31 *“Provisions for liabilities and charges“.*

3. Net fees and commission income

	2017	2016
Fees and commission income:	**162 715**	**154 222**
From payment transfers business	97 982	92 153
From credit processing and guarantee business	20 237	20 209
From securities business	10 033	9 003
From activities regarding management of investment and pension funds	27 813	26 682
From activities regarding mediation for third parties	4 987	4 578
For other banking services	1 663	1 597
Fees and commission expense:	**(37 500)**	**(34 773)**
From payment transfers business	(29 617)	(26 350)
From credit processing and guarantee business	(465)	(443)
From securities business	(1 686)	(1 759)
From activities regarding management of investment and pension funds	(3 761)	(4 334)
From activities regarding mediation for third parties	(952)	(967)
For other banking services	(1 019)	(920)
Net fees and commission income	**125 215**	**119 449**

4. Net profit (loss) from trading instruments

	2017	2016
Interest-rate contracts – Securities:	**919**	**3 489**
Interest income, net	(206)	(125)
Revaluation to fair value	3 018	(4 336)
Profit (loss) from securities sold	(1 893)	7 950
Interest-rate contracts – Liabilities from hedged debt securities:	**2 982**	**(717)**
Revaluation to fair value	2 982	(724)
Profit (loss) on redemption of securities	-	7
Interest-rate contracts – Derivatives:	**(1 150)**	**1 246**
Interest income (expense)	(2 257)	(698)
Realised profit (loss) from derivatives	78	(430)
Revaluation to fair value	2 962	2 582
Revaluation to fair value – derivatives to hedge fair value	(1 933)	(208)
Currency contracts:	**3 480**	**6 788**
Interest income (expense)	5 080	2 394
Realised profit (loss) from derivatives	1 889	3 584
Revaluation to fair value of derivatives	(3 515)	830
Exchange differences from securities held for trading	26	(20)
Index-related contracts:	**-**	**10**
Interest income (expense)	-	(1 038)
Realised profit (loss) from derivatives	-	1 053
Revaluation to fair value – derivatives	-	(5)
Commodity contracts:	**3**	**(1)**
Realised profit (loss) from derivatives	-	1
Revaluation to fair value – derivatives	3	(2)
Foreign exchange gains (losses)	**20 930**	**11 953**
Total	**27 164**	**22 768**

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

	2017	2016
Interest-rate contracts – Securities:		
Revaluation to fair value	(246)	(327)
Profit (loss) on the sale of securities	-	3
Total	**(246)**	**(324)**

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

	2017	2016*
Interest-rate contracts – securities:		
Net profit (loss) on the sale of equity investments	21	30 326
Profit (loss) on the sale of securities	1 441	15
Total	**1 462**	**30 341**

** In 2Q 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 2017, the funds were recognised at the present value of EUR 1 913 thousand.*

7. 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:

	2017	2016
Staff expenses:	**(124 872)**	**(119 316)**
Wages and salaries	(89 629)	(86 861)
Social security costs	(31 438)	(28 445)
Other social expenses	(3 848)	(3 892)
(Creation) release of provisions for employee benefits	43	(118)
Other general expenses:	**(91 444)**	**(99 376)**
Costs on premises	(20 611)	(21 277)
Costs on information technology	(22 681)	(22 432)
Communication costs	(6 592)	(7 432)
Legal and consultancy costs	(9 695)	(10 305)
Of which: Costs of audit firm's services in respect of an audit of the financial statements	*(346)*	*(343)*
*Of which: Costs of audit firm's services in respect of other assurance services**	*(73)*	*(82)*
Advertising and entertainment expenses	(14 554)	(16 913)
Deposits guarantee fund	(403)	(1 509)
Contribution to the resolution fund**	(5 185)	(5 988)
Consumption of stationeries	(1 530)	(1 685)
Transport and processing of cash	(778)	(763)
Travelling expenses	(1 876)	(1 710)
Education of employees	(1 663)	(1 545)
Sundry administrative expenses	(5 877)	(7 817)
Depreciation and amortisation of non-current tangible and intangible assets:	**(26 113)**	**(30 518)**
Non-current tangible assets	(12 506)	(17 849)
Investment property	(1 782)	(1 873)
Non-current intangible assets	(11 825)	(10 796)
Total	**(242 430)**	**(249 210)**

** In addition to the statutory audit of the separate and consolidated financial statements and the audit of the annual report, services provided by the auditor to the Parent Company during the reporting period ended 31 December 2017 also included the following services:*
a) Audit procedures for the Group's auditor as at 31 December 2017;
b) Limited procedures for the Group's auditor as at 30 June 2017;
c) Verification of data disclosed in the prudential reports required by the National Bank of Slovakia;
d) Preparation of the Long-form Auditor's Report for the National Bank of Slovakia;
e) Report on the Adequacy of the Measures Taken by a Securities Trader to Protect Its Client Financial Instruments and Cash (MiFID);
f) Performance of agreed-upon procedures in respect of FINREP and COREP reporting;

g) Presentation at the session of the Audit Committee/Supervisory Board to promote continuing training of the members of the Board of Directors and Supervisory Board;
h) Accounting and regulatory advisory regarding preference shares;
i) MIFID II consulting services.

*** 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 2016/59/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.

8. Special levy of selected financial institutions

	2017	2016
Special levy of selected financial institutions:		
Special levy of selected financial institutions	(20 286)	(19 365)
Total	**(20 286)**	**(19 365)**

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 2017) of the amount of the liabilities defined in line with the Special Levy Act.

9. 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:

	2017	2016
Revenues from non-banking activities:	22 736	12 190
Revenues from lease of tangible assets – operating lease	*388*	*388*
Revenues from release of litigation provisions	*6 918*	*81*
Revenues from disposals of tangible and intangible assets	*3 026*	*1 391*
Release of provisions for investment property	*322*	*413*
Revenues from lease of investment property	*3 593*	*3 473*
Profit from sale of assets held for development and construction	*1 198*	*2 649*
Other revenues from non-banking activities	*7 291*	*3 795*
Expenses arising from non-banking activities:	(16 102)	(15 996)
Other taxes and charges	*(576)*	*(601)*
Creation of litigation provisions	*(12 759)*	*(13 401)*
Creation of provisions for investment property	*(186)*	*(113)*
Disposals of tangible and intangible assets and investment property	*(1 878)*	*(1 075)*
Other expenses for non-banking activities	*(703)*	*(1 132)*
Other operating income	2 056	2 846
Other operating expenses	(1 917)	(2 295)
Total	**6 773**	**(3 225)**

10. Income taxes

	2017	2016
Current tax expense	(33 274)	(35 144)
Deferred tax (expense)/benefit	1 967	(1 610)
Total	**(31 307)**	**(36 754)**

Slovak legal entities must individually report taxable income and remit corporate income taxes thereon to the appropriate authorities. In 2017, the corporate income tax rate amounted to 21% (2016: 22%).

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

	2017	2016
Income before tax	**155 649**	**162 734**
Theoretical tax calculated at the tax rate of 21% (2016: 22%)	32 686	35 801
Tax effects of:		
Non-taxable income	(5 047)	(5 899)
Non-deductible expenses	1 774	4 335
Provisions for assets and provisions for liabilities, net	5 257	3 898
Additional taxation from previous periods	13	339
Creation/(release) of provisions for uncertain utilisation of deferred tax assets	(2 243)	(5 298)
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	(625)	(856)
Effect of non-tax losses	63	415
Effect of consolidation	(571)	1 651
Income tax expense	**31 307**	**36 754**
Effective tax for the reporting period	**20.11%**	**22.59%**

Deferred tax assets and liabilities as at 31 December 2017 and as at 31 December 2016 relate to the following items:

	Book value	Tax value	Temporary difference (gross)	2017	2016
Deferred tax assets					
Loans and advances to customers (net of impairment provisions)	9 333 280	9 511 195	175 321	36 817	38 632
Non-current tangible assets and investment property	96 179	113 043	15 985	3 357	1 602
Other assets	48 611	50 425	757	159	64
Provisions for liabilities and charges	56 933	1 537	7 371	1 548	2 107
Other liabilities	48 587	18 613	29 974	6 295	6 049
Total				**48 176**	**48 454**
Deferred tax liabilities					
Available-for-sale financial assets	177 127	173 954	(3 173)	(666)	(308)
Derivative financial receivables	35 070	34 249	(821)	(172)	(297)
Total				**(838)**	**(605)**
Net deferred tax asset/(liability)				**47 338**	**47 849**
Allowance for uncertain realisation of deferred tax asset				(19 592)	(21 835)
Net deferred tax asset/(liability)				**27 746**	**26 014**

As at 31 December 2017, the Group did not recognise deferred tax assets of EUR 19 592 thousand (2016: EUR 21 835 thousand), which mainly related to tax-deductible temporary differences resulting from provisions, due to their uncertain timing and realisation in future reporting periods.

11. Earnings per share

2017	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	94 175	16 275	13 892
Weighted average number of shares outstanding during the period	60 616	2 095	1 788 151
Earnings per share	**1 554**	**7 770**	**7.8**

2016	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**

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

12. Cash and deposits in central banks

	2017	2016
Cash in hand	121 829	97 919
Balances at central banks:	1 129 498	621 325
Obligatory minimum reserves	*1 129 498*	*621 325*
Total	**1 251 327**	**719 244**

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 37 *"Information for Cash Flow Statement"*).

13. Loans and advances to banks

	2017	2016
Giro and interbank clearing business	62 242	52 800
Money-market business	127 948	15 571
Reverse repo transactions	28 010	76 418
Other loans to banks	1 949	3 012
Total	**220 149**	**147 801**

Loans and advances to banks broken down along geographical lines:

	2017	2016
Slovak Republic	35 368	77 833
Other countries*	184 781	69 968
Total	**220 149**	**147 801**

** For further information on the Group's exposure to other states, see Note 40 "Foreign assets and liabilities".*

An overview of the quality of loans extended to banks is stated in Note 51 *"Risk report"*.

14. Loans and advances to customers, gross

Analysis of loans and advances to customers:

	2017	2016
Overdraft loans and current account overdrafts	832 593	878 458
Receivables from credit cards	90 000	86 132
Factoring and loans backed by bills of exchange	67 712	47 033
Housing loans	2 546 526	2 053 504
Mortgage loans	922 865	881 057
American mortgages	426 311	427 631
Consumer loans	777 052	615 658
Finance lease receivables	230 990	215 089
Investment, operating and other loans	3 632 630	3 346 819
Total	**9 526 679**	**8 551 381**

As at 31 December 2017, the total amount of syndicated loans managed by the Parent Company was EUR 1 080 862 thousand (31 December 2016: EUR 996 965 thousand). The Parent Company's share amounted to EUR 387 756 thousand (31 December 2016: EUR 375 703 thousand). Syndicated loans are included in *"Investment, operating and other loans"*.

Analysis of loans by customer group:

	2017	2016
Public sector	7 380	8 212
Corporate clients	4 377 132	4 126 034
Retail clients	5 142 167	4 417 135
Total	**9 526 679**	**8 551 381**

Analysis of loans by contractual maturity period:

	2017	2016
Short-term loans (up to 1 year)	1 693 454	1 625 013
Medium-term loans (1 year to 5 years)	1 295 808	1 195 599
Long-term loans (over 5 years)	6 537 417	5 730 769
Total	**9 526 679**	**8 551 381**

Analysis of loans and advances to customers by geographical segment:

	2017	2016
Slovak Republic	9 297 864	8 311 042
Other countries	228 815	240 339
Total	**9 526 679**	**8 551 381**

An overview of the quality of loans extended to customers is stated in Note 51 *"Risk report"*.

15. Impairment losses for loans and advances

The movement in provisions for loan losses during 2017 is as follows:

	As at 1 January 2017	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2017
Specific provision – for loans assessed on an individual and collective basis	**178 402**	**52 835**	**(41 156)**	**(18 470)**	**107**	**171 718**
Banks	-	399	-	-	-	399
Corporate clients	105 192	20 139	(27 062)	(7 969)	139	90 439
Retail clients	73 210	32 297	(14 094)	(10 501)	(32)	80 880
Portfolio provision	**21 624**	**2 663**	**(2 489)**	**-**	**(117)**	**21 681**
Banks	4	-	-	-	-	4
Corporate clients	9 631	403	(2 411)	-	(45)	7 578
Retail clients	11 989	2 260	(78)	-	(72)	14 099
Total	**200 026**	**55 498**	**(43 645)**	**(18 470)**	**(10)**	**193 399**

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

	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**

16. Derivative financial assets

	2017	2016
Positive fair value of financial derivatives for trading	**33 369**	**46 116**
Interest-rate contracts	21 307	32 691
Currency contracts	9 159	10 888
Commodity contracts	2 903	2 537
Positive fair value of financial derivatives for fair value hedging	**877**	**1 685**
Interest-rate contracts	877	1 685
Positive fair value of financial derivatives for cash flow hedging	**824**	**1 415**
Interest-rate contracts	824	1 415
Total	**35 070**	**49 216**

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 and debt securities from the available-for-sale financial assets 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 2017 the Parent Company recognised a net loss in the amount of EUR 1 933 thousand. With respect to the hedging instruments, the Parent Company recognised a net loss of EUR 208 thousand as at 31 December 2016. Net profit from hedged items that related to the hedged risk amounted to EUR 2 982 thousand. As at 31 December 2016, the Parent Company recognised a net loss of EUR 724 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 2017, in relation to the hedging instruments, the Parent Company recognised a net profit in the amount of EUR 1 348 thousand, which is recognised in Other components of comprehensive income under *"Cash flow hedges"*. As at 31 December 2016, in relation to the hedging instruments, the Parent Company recognised a net profit of EUR 778 thousand.

17. Held-for-trading financial assets

	2017	2016
Debt securities and other fixed-interest securities	**7 361**	**69 048**
Slovak government bonds	7 361	69 048
Total	**7 361**	**69 048**

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

	2017	2016
Debt securities and other fixed income securities	**13 249**	**53 323**
Slovak government bonds	13 249	53 323
Total	**13 249**	**53 323**

19. Held-to-maturity financial investments

	2017	2016
Debt securities and other fixed income securities	**1 214 142**	**1 693 971**
Government treasury bills	-	70 141
Slovak government bonds	1 097 532	1 525 946
Bonds issued by the banking sector	105 881	97 884
Bonds issued by other sectors	10 729	-
Shares, debt and other floating-rate securities	**32 004**	**32 005**
Bonds issued by the banking sector	32 004	32 005
Total	**1 246 146**	**1 725 976**

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 2017, the carrying amount of the above held-to-maturity securities amounted to EUR 3 158 thousand (31 December 2016: EUR 3 314 thousand). The fair value amounted to EUR 3 361 thousand (including an aliquot portion of interest income) (31 December 2016: EUR 3 707 thousand).

If the reclassification were not performed, the Parent Company would have recognised an additional net loss from revaluation for 2017 in the amount of EUR 214 thousand (2016: net loss of EUR 78 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 2017.

20. Available-for-sale financial assets

Dlhové cenné papiere na predaj:

	2017	2016
Debt securities and other securities with fixed income	**167 425**	**24 743**
Government bonds	116 371	-
Bonds issued by the banking sector	26 986	-
Bonds issued by other sectors	24 068	24 743
Equity investments, debt securities and other securities with floating income	**9 702**	**7 771**
Equity investments	9 261	7 355
Unit trust certificates	441	416
Total	**177 127**	**32 514**

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

Company	Group investment (%)	Cost	Provision, revaluation	Carrying amount 31 December 2017	Carrying amount 31 December 2016
Burza cenných papierov v Bratislave, a. s.	0,09	10	-	10	10
S.W.I.F.T. s. c., Belgicko	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	2 597	8 647	6 741
Total		**6 664**	**2 597**	**9 261**	**7 355**

In 2017, the Group sold its equity investments in RVS, a. s., Bratislava in the amount of EUR 21 thousand. The carrying amount of RVS, a. s., Bratislava amounted to EUR 0 as at 31 December 2016. There were no other changes in provisions for available-for-sale equity investments.

21. Investments in associated undertakings

Associated undertaking	Ownership interest in %	Cost	Provision	Net book value	Share in net assets at 31 December 2017	Share in net assets at 31 December 2016
Slovak Banking Credit Bureau, s. r. o.	33,33 %	3	-	3	3	3
Total		**3**	**-**	**3**	**3**	**3**

22. Development of non-current tangible and intangible assets

Development of non-current tangible assets for own use as at 31 December 2017:

	Land and buildings – operating lease	Land and buildings	Machinery & equipment	Other non-current assets	Means of transport	Assets in progress	Total
Cost							
1 January 2017	**3 536**	**77 306**	**81 879**	**23 438**	**4 517**	**3 051**	**193 727**
Additions	-	-	-	-	-	8 271	8 271
Consolidation adjustments	-	-	-	253	348	-	601
Disposals	-	(2 785)	(27 537)	(7 687)	(595)	-	(38 604)
Transfer from own use to investment property	-	2 444	-	-	-	-	2 444
Transfer from tangible assets in progress	-	1 352	4 238	1 203	462	(7 255)	-
31 December 2017	**3 536**	**78 317**	**58 580**	**17 207**	**4 732**	**4 067**	**166 439**
Accumulated depreciation and provisions							
1 January 2017	**(1 548)**	**(41 244)**	**(70 543)**	**(16 476)**	**(2 594)**	**-**	**(132 405)**
Depreciation charge	(237)	(4 591)	(4 892)	(1 496)	(695)	-	(11 911)
Consolidation adjustments	-	-	-	(223)	(230)	-	(453)
Disposals	-	3 805	28 560	6 615	485	-	39 465
Provision	-	553	-	-	-	-	-
Transfer from own use to investment property	-	(210)	-	-	-	-	(210)
31 December 2017	**(1 785)**	**(41 687)**	**(46 875)**	**(11 580)**	**(3 034)**	**-**	**(104 961)**
Net book value at 1 January 2017	**1 988**	**36 062**	**11 336**	**6 962**	**1 923**	**3 051**	**61 322**
Net book value at 31 December 2017	**1 751**	**36 630**	**11 705**	**5 627**	**1 698**	**4 067**	**61 478**

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

	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**

Movements in the accounts of investment property as at 31 December 2017:

	Land and buildings	Machinery & equipment	Assets in progress	Total
Cost				
1 January 2017	**60 432**	**3 775**	**381**	**64 588**
Additions	-	-	1 137	1 137
Disposals	(4 801)	-	-	(4 801)
Transfer from own use to investment property	(2 444)	-	-	(2 444)
Transfer from tangible assets in progress	1 046	10	(1 056)	-
31 December 2017	**54 233**	**3 785**	**462**	**58 480**
Accumulated depreciation and provisions				
1 January 2017	**(22 541)**	**(1 871)**	**-**	**(24 412)**
Depreciation charge	(1 441)	(341)	-	(1 782)
Disposals	2 136	-	-	2 136
Provision	69	-	-	69
Transfer from own use to investment property	210	-	-	210
31 December 2017	**(21 567)**	**(2 212)**	**-**	**(23 779)**
Net book value at 1 January 2017	**37 891**	**1 904**	**381**	**40 176**
Net book value at 31 December 2017	**32 666**	**1 573**	**462**	**34 701**

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

	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**

As at 31 December 2017, the Group did not recognise any liabilities under contracts for the purchase of non-current tangible assets (2016: EUR 0 thousand).

As at 31 December 2017, the Group owns buildings that are leased to third parties at the net book value of EUR 30 409 thousand (2016: EUR 33 060 thousand). In 2017, the total income from the rent amounted to EUR 3 593 thousand (2016: EUR 3 473 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 1 782 thousand (2016: EUR 1 873 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 5 478 thousand (31 December 2016: EUR 6 207 thousand).

As at 31 December 2017, the estimated fair value of investment property amounted to EUR 44 557 thousand (31 December 2016: EUR 42 017 thousand). Owing to a change in the fair value of investment property as at 31 December 2017, the Group released a provision in the amount of EUR 322 thousand (31 December 2016: EUR 413 thousand).

Insurance coverage

The Parent Company concluded insurance coverage for assets and business disruption (international insurance programme) under which its buildings are covered up to EUR 64 502 thousand, operational-commercial facilities up to EUR 19 401 thousand, business disruption up to EUR 1 000 thousand, loss of assets up to EUR 500 thousand, insurance of electronics (local amendment to the fronting contract) under which the Bank's ATMs and cash dispensers (cashomats) are covered up to EUR 4 830 thousand and liability insurance – damage to third party 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 4 189 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 2017:

	Software	Goodwill	Other intangible assets	Intangible assets in progress	Total
Cost					
1 January 2017	**132 641**	**44 120**	**-**	**5 519**	**182 280**
Additions	-	-	3 372	10 535	13 907
Consolidation adjustments	53	-	-	-	53
Disposals	(7 398)	-	-	-	(7 398)
Transfer from intangible assets in progress	7 804	-	-	(7 804)	-
31 December 2017	**133 100**	**44 120**	**3 372**	**8 250**	**188 842**
Accumulated amortisation					
1 January 2017	**(108 115)**	**(30 853)**	**-**	**-**	**(138 968)**
Amortisation charge	(9 966)	(1 047)	(533)	-	(11 546)
Consolidation adjustments	(51)	-	-	-	(51)
Disposals	7 324	-	-	-	7 324
Provision	(279)	-	-	-	(279)
31 December 2017	**(111 087)**	**(31 900)**	**(533)**	**-**	**(143 520)**
Net book value at 1 January 2017	**24 526**	**13 267**	**-**	**5 519**	**43 312**
Net book value at 31 December 2017	**22 013**	**12 220**	**2 839**	**8 250**	**45 322**

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

	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**

23. Current tax asset

	2017	2016
Tax asset – current	686	8 208
Total	**686**	**8 208**

24. Deferred tax asset

	2017	2016
Tax asset – deferred	28 168	27 493
Total	**28 168**	**27 493**

Net deferred income tax asset resulted mainly from temporary deductible differences described in Note 10 *"Income taxes"*.

25. Other assets

	2017	2016
Prepayments and other deferrals	7 389	5 074
Other receivables from the state budget	1 327	1 779
Assets held for development and construction	1 186	5 563
Seized assets under a finance lease	230	2 081
Settled lease-related prepayments	8 815	6 818
Other assets	29 664	22 722
Total	**48 611**	**44 037**

In *"Other assets"* 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"*.

26. Deposits from banks

	2017	2016
Giro and interbank clearing business	21 271	10 668
Money-market business	43 202	1 987
Loans received	165 040	173 317
Loans received - repo deals from the NBS	55 210	55 210
Total	**284 723**	**241 182**

Deposits from banks by geographical segment:

	2017	2016
Slovak Republic	99 244	97 248
Other countries	185 479	143 934
Total	**284 723**	**241 182**

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

Type of loan	Currency	Type of loan according to maturity	Contractua l maturity	2017	2016
Loans received from banks:					
– Commercial bank	EUR	Long-term	Mar 2021	13 285	31 052
– Commercial bank	EUR	Long-term	Mar 2017	-	3 030
– Commercial bank	EUR	Long-term	Sept 2021	42 398	37 558
– Reconstruction and development banks	EUR	Long-term	May 2024	109 357	101 677
Total				**165 040**	**173 317**
REPO loans received from banks:					
– National Bank of Slovakia	EUR	Long-term	Jun 2020	55 210	55 210
Total				**55 210**	**55 210**

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.

27. Deposits from customers

Deposits from customers by product group are as follows:

	2017	2016
Current accounts	8 771 291	7 655 313
Time deposits	1 041 704	1 090 000
Savings deposits	212 964	207 914
Received loans	10 633	13 588
Total	**10 036 592**	**8 966 815**

Deposits from customers by customer segment are as follows:

	2017	2016
Public sector	28 099	48 443
Corporate clients	3 185 631	2 770 099
Retail clients	6 822 862	6 148 273
Total	**10 036 592**	**8 966 815**

Deposits from customers by geographical segment are as follows:

	2017	2016
Slovak Republic	9 646 222	8 650 273
Other countries	390 370	316 542
Total	**10 036 592**	**8 966 815**

28. Derivative financial liabilities

	2017	2016
Negative fair value of held-for-trading financial derivatives	**40 189**	**49 017**
Interest-rate contracts	23 345	37 265
Currency contracts	13 971	9 237
Commodity contracts	2 873	2 515
Negative fair value of financial derivatives for fair value hedging	**1 123**	**25**
Interest–rate contracts	1 123	25
Total	**41 312**	**49 042**

29. Held-for-trading financial liabilities

	2017	2016
Liabilities from held-for-trading debt securities*	40 301	72 056
Total	**40 301**	**72 056**

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

30. Liabilities from debt securities

	2017	2016
Issued debt securities – mortgage bonds	751 006	702 024
Issued debt securities – bonds	13 043	10 037
Investment notes	1 202	1 609
Total	**765 251**	**713 670**

The fair value of the interest rate swap designated for hedging is stated in Note 16 *“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	Interest rate	Curr.	Number of mortgage bonds issued	Mortgage bonds unit face value in currency	Issue date	Maturity date	Coupon payment	2017	2016
MB 067	3.875%	EUR	870	10 000	14. 10. 2011	14. 10. 2018	Annually	8 759	8 743
MB 068	5.00%	EUR	1 000	10 000	14. 10. 2011	14. 10. 2031	Annually	10 010	10 005
MB 073 – repaid	1.375%	EUR	-	100 000	19. 8. 2013	19. 1. 2017	Annually	-	50 651
MB 074	1.70%	EUR	482	100 000	3. 9. 2013	3. 9. 2018	Annually	48 990	49 690
MB 076 – repaid	6M EURIBOR + 0.70%	EUR	400	100 000	21. 11. 2013	21. 11. 2017	Semi-annually	-	40 039
MB 077 – repaid	1.25%	EUR	-	10 000	19. 12. 2013	19. 5. 2017	Annually	-	40 296
MB 078 – repaid	0.85%	EUR	-	100 000	13. 3. 2014	13. 3. 2017	Annually	-	50 342
MB 079	0.50%	EUR	300	100 000	7. 10. 2014	7. 4. 2020	Annually	30 007	29 962
MB 080	6M EURIBOR + 0.388%	EUR	500	100 000	28. 10. 2014	28. 10. 2019	Semi-annually	50 065	50 100
MB 081	6M EURIBOR + 0.25%	EUR	500	100 000	29. 1. 2015	29. 1. 2018	Semi-annually	50 000	50 013
MB 082	6M EURIBOR + 0.30%	EUR	500	100 000	25. 3. 2015	25. 3. 2018	Semi-annually	49 996	49 970
MB 083	1.110%	EUR	500	100 000	29. 4. 2015	29. 4. 2025	Annually	49 523	49 909
MB 084	6M EURIBOR + 0.50%	EUR	2 500	100 000	19. 8. 2015	19. 8. 2020	Semi-annually	250 742	51 254
MB 085	6M EURIBOR + 0.50%	EUR	200	100 000	17. 12. 2015	17. 12. 2020	Semi-annually	19 990	19 987
MB 086	0.75%	EUR	600	100 000	15. 2. 2016	15. 2. 2023	Annually	60 094	60 037
MB 087	0.50%	EUR	458	100 000	21. 3. 2016	21. 9. 2021	Annually	45 739	40 721
MB 088	1.00%	EUR	500	100 000	16. 11. 2016	16. 11. 2026	Annually	48 856	50 305
MB 089	0.90%	EUR	280	100 000	10. 2. 2017	10. 2. 2024	Annually	28 235	-
Total MB								**751 006**	**702 024**

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

Name	Interest rate	Curr.	Number of debt securities issued	Face value per debt security in currency	Issue date	Maturity date	Coupon payment	2017	2016
Bond 6 AUV - repaid	0.64%	EUR	7 000	1 000	21.6.2016	21. 6. 2017	Annually	-	3 013
Bond 6 AUV	0.83%	EUR	3 000	1 000	21.6.2016	21. 6. 2018	Annually	3 013	7 024
Bond Tatra-Leasing 09 Fix	0.68%	EUR	10 000	1 000	26.7.2017	26. 7. 2019	Annually	10 030	-
Total bonds								**13 043**	**10 037**

Total liabilities from debt securities	**764 049**	**712 061**

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 2017, 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 1 202 thousand (31 December 2016: EUR 1 609 thousand).

As at 31 December 2017 and 31 December 2016, mortgage bonds and other bonds issued by the Parent Company were not secured by any form of collateral.

31. Provisions for liabilities and charges

As at 31 December 2017 movements in provisions for liabilities and charges were as follows:

	1 January 2017	Allocated	Released	Used	31 December 2017
Provisions for employee benefits	3 546	-	(43)	-	3 503
Other provisions for labilities	580	978	-	(108)	1 450
Legal disputes (Note 41)	40 982	13 171	(6 938)	(825)	46 390
Specific provision for guarantees and irrevocable loan commitments	3 333	1 908	(2 168)	-	3 073
Portfolio provision for off-balance sheet items	2 773	15	(271)	-	2 517
Total	**51 214**	**16 072**	**(9 420)**	**(933)**	**56 933**

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

	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 41)	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**

32. Income tax liabilities

	2017	2016
Current tax liability	172	206
Deferred tax liability	422	1 479
Total	**594**	**1 685**

33. Other liabilities

	2017	2016
Deferred items	2 547	2 511
Social fund	1 166	651
Employee liabilities	18 965	17 786
Other liabilities to the state budget	124	641
Liabilities from unpaid dividends	477	542
Other liabilities	25 308	25 047
Total	**48 587**	**47 178**

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

	2017	2016
At 1 January	**651**	**200**
Additions	1 640	1 124
Drawing	(1 125)	(673)
At 31 December	**1 166**	**651**

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

34. Subordinated debt

	2017	2016
Subordinated debt	236 134	236 139
Total	**236 134**	**236 139**

Subordinated debt analysed by individual banks:

Type of loan	Curr.	Type of loan by maturity	Start of loan drawdown	Contractual maturity	2017	2016
Subordinated debt from banks:						
– Commercial banks	EUR	Long-term	Aug 2013	Aug 2023	100 439	100 440
– Commercial banks	EUR	Long-term	Nov 2016	Nov 2024	135 695	135 699
Total					**236 134**	**236 139**

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.

35. Equity

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

	2017	2016
Share capital – ordinary shares	56 873	56 873
Share capital – preference shares	7 453	7 453
Own shares	(368)	(164)
Share premium – ordinary shares	226 612	226 612
Share premium – preference shares	70 522	70 522
Share premium – own shares	(4 383)	(1 945)
Reserve and other funds	15 746	15 838
Cash flow hedging revaluation reserve	648	1 116
Available-for-sale financial assets revaluation reserve	2 506	1 158
Retained earnings (excluding current year net profit after tax)	492 300	490 604
Total	**867 909**	**868 067**

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	SK1110015510	SK1110007186
	01-05 series		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. A preferential right to dividends is attached to preference shares and consists solely of the right to a dividend amounting to a fixed multiple of the dividend awarded at the distribution of profit to shareholders holding the ordinary shares according to the formula:
DPA = 1.001 x DKA800/200 = 1.001 x DKA4000/1000 (DPA – preferential dividend per preference share at a face value of EUR 4, DKA800 – dividend per ordinary share at a face value of EUR 800 and DKA4000 – dividend per ordinary share at a face value of EUR 4 000).

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.

	2017	2016
Parent Company	758 210	757 561
Entities consolidated using full consolidation method	45 741	46 345
Total share premium, equity restricted funds, and retained earnings	**803 951**	**803 906**

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

	2017	2016
Parent Company (Bank)	113 265	126 583
Entities consolidated using full consolidation method	11 077	(603)
Consolidated profit after tax	**124 342**	**125 980**

36. 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 51 *"Risk report"*, part *"BASEL III"*.

During 2017, 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 2017, 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:

	2017*	2016*
The original own funds (TIER 1)	**864 213**	**866 316**
Paid-up share capital	64 326	64 326
(-) Treasury shares	(746)	(164)
Share premium	297 134	297 134
(-)Share premium - treasury shares	(7 052)	(1 945)
Funds from profit and other capital reserves	15 746	15 432
Other specific items of original own funds	492 299	491 011
Other temporary adjustments to Tier 1 capital	2 506	522
(-) Items deductible from the original own funds	**(45 321)**	**(43 312)**
(-) Intangible assets	(33 102)	(30 046)
(-) Goodwill	(12 219)	(13 266)
Additional own funds (TIER 2)	**235 000**	**235 000**
Subordinated debts	235 000	235 000
(-) Items deductible from the original and additional own funds	**(24 611)**	**(19 244)**
(-) From the original own funds	(24 611)	(19 244)
Total own funds	**1 029 281**	**1 038 760**

*) *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 24 611 thousand (2016: EUR 19 244 thousand).*

Adequacy of own funds (%)	**17.74**	**19.72**
Own funds	**1 029 281**	**1 038 760**
Risk-weighted assets (RWA)	**5 802 696**	**5 267 502**
RWA from receivables recorded in the Banking book	4 987 749	4 430 342
RWA from positions recorded in the Trading book	70 883	70 994
RWA from operating risk – standardised approach	744 064	766 166

37. Information for Cash Flow Statement

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

	2017	2016
Cash flows from operating activities		
Profit before income taxes	**155 649**	**162 734**
Adjustments:	**(239 522)**	**(244 954)**
Interest expense	19 274	29 158
Interest income	(290 614)	(303 611)
Dividend income	(217)	(148)
Provisions for impairment losses on loans and advances and provisions for liabilities and charges, net	1 751	25 136
(Profit) loss on sale and other disposals of non-current assets	(251)	545
Unrealised (profit) loss from financial derivative instruments and held-for-trading securities	2 653	(3 633)
Unrealised (profit) loss from securities at fair value through profit or loss	246	327
Unrealised (profit)/loss from available-for–sale securities	556	(678)
Unrealised (profit)/loss from hedging derivatives	914	(182)
Net (profit)/loss from available-for–sale securities	-	(20 998)
Depreciation and amortisation non-current tangible and intangible assets	25 239	29 562
Provision for investment property	(69)	(299)
(Profit)/loss from foreign exchange and other transactions with cash and cash equivalents	**996**	**(133)**
Cash flow of operating activities before changes in working capital, interest received and paid and income taxes paid	**(83 873)**	**(82 220)**

Cash and cash equivalents as at 31 December 2017, 31 December 2016, and 31 December 2015 comprise of the following:

	2017	2016	2015
Cash in hand (Note 12)	121 830	97 919	99 838
Giro and interbank clearing business (Note 13)	62 242	52 800	70 638
Total	**184 072**	**150 719**	**170 476**

38. 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 2017:

Related Parties*	**RBI**	**RBI Group**	**Associates**	**Statutory bodies and Supervisory Board****	**Other related parties**	**Total**
Loans and advances to banks and customers	39 134	28 657	-	1 642	2 641	**72 074**
Receivables from financial derivative transactions	9 006	2 906	-	-	-	**11 912**
Other assets	6 220	163	-	-	-	**6 383**
Deposits from banks and customers	19 155	6 699	-	2 363	647	**28 864**
Liabilities from financial derivative transactions	20 855	3	-	-	-	**20 858**
Subordinated debt	236 134	-	-	-	-	**236 134**
Other liabilities	12 568	855	-	-	-	**13 423**
Guarantees issued	2 355	2 253	-	-	-	**4 608**
Commitments	37 000	4 089	-	581	1 458	**43 128**
Guarantees received	1 495	1 997	-	-	-	**3 492**

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

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

Related Parties*	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**
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*

Výnosy a náklady týkajúce sa spriaznených osôb k 31. decembru 2017:

Related Parties*	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	2 023	158	-	10	58	**2 249**
Fees and commissions income	591	1 502	-	-	-	**2 093**
Unrealised gain (loss) on financial derivative transactions	(2 085)	(2 006)	-	-	-	**(4 091)**
Operating revenues	1 040	724	-	-	-	**1 764**
Interest and similar expenses	(9 766)	-	-	(2)	(13)	**(9 781)**
Expenses on charges and commissions	(650)	(6 158)	-	-	-	**(6 808)**
Administrative expenses	(6 848)	(2 630)	-	(5 241)**	-	**(14 719)**
Total	**(15 695)**	**(8 410)**	**-**	**(5 233)**	**45**	**(29 293)**

** 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 2016:

Related Parties*	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**
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*

39. Foreign currency items

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

	2017	2016
Assets	**179 403**	**136 929**
Of which: USD	*64 278*	*72 320*
Of which: CZK	*101 226*	*53 799*
Of which: other currencies (PLN, HUF, GBP and other)	*13 899*	*10 810*
Liabilities	**533 444**	**438 895**
Of which: USD	*331 342*	*284 336*
Of which: CZK	*92 123*	*52 770*
Of which: other currencies (PLN, HUF, GBP and other)	*109 979*	*101 789*

40. Foreign assets and liabilities

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

	2017	2016
Assets	**739 762**	**461 064**
Of which: Austria	*272 656*	*188 692*
Of which: Czech Republic	*254 580*	*165 667*
Of which: Poland	*77 976*	*15 628*
Of which: Germany	*5 784*	*9 528*
Of which: Netherlands	*21 309*	*38 425*
Of which: United Kingdom	*3 215*	*3 721*
Of which: Other countries (mostly EU member states)	*104 241*	*39 403*
Liabilities	**1 191 525**	**926 852**
Of which: Austria	*450 424*	*428 746*
Of which: Other countries (mostly EU member states)	*741 101*	*498 106*

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

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

	2017	2016
Contingent liabilities:	**418 842**	**448 481**
From guarantees	413 575	440 516
From letters of credit	5 267	7 965
Commitments:	**2 753 805**	**2 600 349**
From irrevocable loan commitments	1 367 278	1 217 066
Up to 1 year	*884 324*	*858 653*
More than 1 year	*482 954*	*358 413*
From revocable loan commitments	1 386 527	1 383 283
Up to 1 year	*1 088 410*	*1 230 536*
More than 1 year	*298 117*	*152 747*
Total	**3 172 647**	**3 048 830**

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 2017, the Group created reserves for these risks amounting to EUR 5 590 thousand (2016: EUR 6 106 thousand), Note 31 *"Provisions for liabilities and charges".*

An overview of the quality of contingent liabilities and other off-balance sheet items is stated in Note 51 *"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 46 390 thousand (31 December 2016: EUR 40 982 thousand), Note 31 "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:

	2017	2016
Total non-cancellable payments for operating leases	**55 590**	**53 366**
Less than 1 year	10 481	7 770
1 year to 5 years	23 356	19 890
More than 5 years	21 753	25 706
Operating lease expense in other administrative costs	11 716	11 706

42. Finance lease

The movements in finance lease receivables are analysed as follows:

	2017	2016
Gross investment	**246 476**	**230 924**
Up to 3 months	24 180	24 056
From 3 months up to 1 year	58 893	58 175
From 1 year up to 5 years	140 122	125 229
More than 5 years	23 280	23 464
Unearned finance income	**15 485**	**15 835**
Up to 3 months	1 667	1 752
From 3 months up to 1 year	4 174	4 319
From 1 year up to 5 years	8 245	8 121
More than 5 years	1 399	1 643
Net investment	**230 990**	**215 089**
Up to 3 months	22 513	22 304
From 3 months up to 1 year	54 719	53 856
From 1 year up to 5 years	131 877	117 108
More than 5 years	21 881	21 821

Finance lease receivables include lease receivables recognised in Note 14 as *"Loans and advances to customers, gross"*.

Assets leased under finance lease contracts:

	2017	2016
Lease of cars	118 545	108 428
Lease of real estate	48 004	48 240
Lease of movable assets	64 441	58 421
Total	**230 990**	**215 089**

43. Operating lease

Future lease receivables from an operating lease are as follows:

	2017	2016
Gross investment	**1 508**	**1 776**
Up to 3 months	283	268
From 3 months up to 1 year	1 225	1 508

44. Values in custody and management

	2017	2016
Values in custody	**17 628**	**23 517**
Investment notes	1 205	1 646
Merchandise and trust receipts	15 864	20 752
Gold	559	1 119
Total	**17 628**	**23 517**

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 2017 the Parent Company reported deposited securities in custody of the TAM Unit Trusts in the amount of EUR 1 237 753 thousand (as at 31 December 2016: EUR 1 105 772 thousand). The Group also administers 21 open-end unit trusts with the net asset value of EUR 2 031 229 thousand (2016: EUR 1 932 302 thousand) through its management company, Tatra Asset Management, správ. spol., a. s., and 5 supplementary pension funds with the net asset value of EUR 604 429 thousand (2016: EUR 522 277 thousand) through Doplnková dôchodková spoločnosť Tatra banky, a.s.

45. Repurchase agreements

As at 31 December 2017, the following repurchase agreements were concluded (within reverse repo deals):

	2017	2016
Repo deals (debtor)		
Deposits from banks	55 210	55 210
Total	**55 210**	**55 210**

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.

	2017	2016
Reverse repo deals (creditor)		
Loans and advances to banks	28 010	76 418
Total	**28 010**	**76 418**

As part of the reverse repo deals, the Parent Company received government debt securities as collateral with a fair value of EUR 27 979 thousand.

46. Assets pledged as collateral

Liabilities secured by the Group's assets:

	2017	2016
REPO loans received from banks	55 210	55 210
Derivative financial liabilities	20 855	34 799
Total	**76 065**	**90 009**

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

	2017	2016
Loans and advances to banks	34 699	43 268
Loans and advances to customers	62 741	62 741
Held-to-maturity financial investments	13 644	-
Total	**111 084**	**106 009**

Other pledged assets without a liability:

	2017	2016
Held-to-maturity financial assets	758 571	600 189
Total	**758 571**	**600 189**

For information on securities pledged as collateral for the Group's liabilities, see Note 26 *"Deposits from banks"*, and Note 30 *"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 758 571 thousand (31 December 2016: EUR 600 189 thousand). For the pledged securities, the Parent Company can draw an intraday credit in the amount of EUR 500 000 thousand (31 December 2016: EUR 400 000 thousand). As at 31 December 2017, no funds were drawn against the said collateral (31 December 2016: no drawing).

47. 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 2017:

	Corporate clients	Retail clients	Total
Default loans	142 516	133 935	**276 451**
Provisions for default loans	90 499	81 066	**171 565**
Claim value of received collateral for default loans	38 150	43 580	**81 730**

The following summary analyses the default loan portfolio (off-balance sheet balances) as at 31 December 2017:

	Corporate clients	Retail clients	Total
Default contingent liabilities and other off-balance-sheet items	53 058	1 059	**54 117**
Provisions for contingent liabilities and other off-balance-sheet items	2 872	201	**3 073**
Claim value of received collateral for contingent liabilities and other off-balance-sheet items	8 588	113	**8 701**

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

	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:

	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**

48. Average number of staff

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

	2017	2016
Group employees	3 754	3 795
Of which: Members of the Board of Directors	*7*	*7*
Total	**3 754**	**3 795**

49. Finančné deriváty

Celkový objem nevyrovnaných finančných derivátov k 31. decembru 2017:

	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 16)	Negative (Note 28)
a) Interest-rate contracts for hedging	**45 000**	**37 465**	**153 101**	**235 566**	**1 703**	**(1 123)**
OTC products:						
Interest rate swaps	45 000	37 465	153 101	235 566	1 703	(1 123)
b) Interest-rate contracts for trading	**184 625**	**1 400 478**	**227 414**	**1 812 517**	**21 305**	**(23 345)**
OTC products:						
Interest rate swaps	89 964	1 158 007	219 147	1 467 118	20 435	(22 282)
Interest rate options – buy	41 561	124 784	8 267	174 612	870	(196)
Interest rate options – sell	23 900	117 687	-	141 587	-	(867)
Stock exchange products:						
Interest rate futures	29 200	-	-	29 200	-	-
c) Currency contracts for trading	**962 443**	**183 916**	**-**	**1 146 359**	**9 159**	**(13 971)**
OTC products:						
Currency swaps	697 184	-	-	697 184	2 024	(6 806)
Currency-interest rate swaps	-	151 814	-	151 814	1 376	(1 503)
Currency forwards	68 022	-	-	68 022	666	(594)
Currency options-buy	98 960	16 051	-	115 011	5 093	-
Currency options-sell	98 277	16 051	-	114 328	-	(5 068)
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	**70 344**	**60 543**	**-**	**130 887**	**2 903**	**(2 873)**
OTC products:						
Commodity swaps	-	-	-	-	-	-
Commodity options - buy	35 350	30 515	-	65 865	2 903	-
Commodity options - sell	34 994	30 028	-	65 022	-	(2 873)
Total	**1 262 412**	**1 682 402**	**380 515**	**3 325 329**	**35 070**	**(41 312)**

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

	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 16)	Negative (Note 28)
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)**

50. 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 2017:

Financial assets at fair value	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**-**	**35 070**	**-**	**35 070**
Positive fair value of financial derivative instruments for trading	-	33 369	-	33 369
Positive fair value of financial derivatives for fair value hedging	-	877	-	877
Positive fair value of financial derivatives for cash flow hedging	-	824	-	824
Held-for-trading financial assets	**7 357**	**4**	**-**	**7 361**
Debt securities and other fixed income securities	7 357	4	-	7 361
Financial assets at fair value through profit or loss	**13 249**	**-**	**-**	**13 249**
Debt securities and other fixed income securities	13 249	-	-	13 249
Available-for-sale financial assets	**165 421**	**2 004**	**9 702**	**177 127**
Debt securities and other fixed income securities	165 421	2 004	-	167 425
Shares, debt and other floating rate securities	-	-	9 702	9 702
Total	**186 027**	**37 078**	**9 702**	**232 807**

Financial assets at fair value	Level 1*	Level 2**	Level 3***	Total
Derivative financial liabilities	**-**	**41 312**	**-**	**41 312**
Negative fair value of financial derivative instruments for trading	-	40 189	-	40 189
Negative fair value of financial derivatives for fair value hedging	-	1 123	-	1 123
Held-for-trading financial liabilities	**40 301**	**-**	**-**	**40 301**
Debt securities and other fixed income securities	40 301	-	-	40 301
Total	**40 301**	**41 312**	**-**	**81 613**

** 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 2016:

Financial assets at fair value	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 assets at fair value	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).*

Movements between Level I and Level II

In 2017, there was no movement in bonds that were transferred from Level I to Level II based on a change in the bond price source.

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:

	At 1 Jan 2017	Increase	Decrease	Profit/loss in comprehensive income	At 31 Dec 2017
Unit trust certificates	416	25	-	-	441
Equity investments	7 355	-	-	1 906	9 261
Total	**7 771**	**25**	**-**	**1 906**	**9 702**

Qualitative information on financial instruments for Level III measurement:

Financial instrument	Valuation method	Fair value	Significant unobservable inputs	Range of unobservable inputs
Unit trust certificates	Net asset value	441	deduction	20 – 50%
Equity investments	Market value	9 261	deduction	20%*
Total		**9 702**		

**Equity investments comprise solely of the shares of VISA INC., USA (Class C shares). The Parent Company applied a 20% deduction to the value of the shares, which reflects 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.

	Fair value 2017	Carrying amount 2017	Difference 2017	Fair value 2016	Carrying amount 2016	Difference 2016
Difference						
Loans and advances to banks, net	**219 750**	**219 750**	**-**	**147 801**	**147 801**	**-**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*219 750*	*219 750*	-	*147 801*	*147 801*	-
Loans and advances to customers, net	**9 372 924**	**9 333 679**	**39 245**	**8 495 698**	**8 351 355**	**144 343**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*9 372 924*	*9 333 679*	*39 245*	*8 495 698*	*8 351 355*	*144 343*
Held-to-maturity financial investments	**1 313 624**	**1 246 146**	**67 478**	**1 803 433**	**1 725 976**	**77 457**
of which Level 1	*1 027 805*	*984 020*	*43 785*	*1 329 021*	*1 254 838*	*74 183*
of which Level 2	*285 819*	*262 126*	*23 693*	*474 412*	*471 138*	*3 274*
of which Level 3	-	-	-	-	-	-
Investments in associated undertakings	**3**	**3**	**0**	**3**	**3**	**-**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*3*	*3*	*0*	*3*	*3*	-
Liabilities						
Deposits from banks	**286 504**	**284 723**	**1 781**	**243 274**	**241 182**	**2 092**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*286 504*	*284 723*	*1 781*	*243 274*	*241 182*	*2 092*
Deposit from customers	**10 037 599**	**10 036 592**	**1 007**	**8 967 820**	**8 966 815**	**1 005**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*10 037 599*	*10 036 592*	*1 007*	*8 967 820*	*8 966 815*	*1 005*
Liabilities from debt securities	**776 327**	**765 251**	**11 076**	**722 080**	**713 670**	**8 410**
of which Level 1	-	-	-	-	-	-
of which Level 2	*776 327*	*765 251*	*11 076*	*722 080*	*713 670*	*8 410*
of which Level 3	-	-	-	-	-	-
Subordinated debt	**236 134**	**236 134**	**-**	**236 139**	**236 139**	**-**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*236 134*	*236 134*	-	*236 139*	*236 139*	-

51. 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:

	2017	2016
Credit risk related to balance sheet assets:		
Loans and advances to banks	220 149	147 801
Loans and advances to customers, net	9 333 280	8 351 355
Derivative financial assets	35 070	49 216
Held-for-trading securities	7 361	69 048
Financial assets at fair value through profit or loss	13 249	53 323
Held-to-maturity financial investments	1 246 146	1 725 976
Available-for-sale financial assets	177 127	32 514
Investments in associated undertakings	3	3
Current tax asset	686	8 208
Deferred tax asset	28 168	27 493
Other assets	48 611	44 037
Total	**11 109 850**	**10 508 974**

	2017	2016
Credit risk related to off-balance sheet items:		
Contingent commitments from guarantees and letters of credit	418 842	448 481
Irrevocable loan commitments/stand-by facility	1 367 278	1 217 066
Revocable loan commitments/stand-by facility	1 386 527	1 383 283
Total	**3 172 647**	**3 048 830**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2017:

	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	**220 149**	**219 750**	**399**	**399**	**-**	**-**	**219 750**	**44 969**
Loans and advances to customers	**9 526 680**	**9 289 594**	**237 086**	**145 470**	**25 849**	**21 681**	**9 333 680**	**5 288 210**
Public sector	*7 380*	*7 380*	*-*	*-*	*-*	*-*	*7 380*	*4 162*
Corporate clients	*4 377 132*	*4 251 489*	*125 643*	*89 660*	*556*	*7 816*	*4 279 100*	*1 993 499*
Retail clients	*5 142 168*	*5 030 725*	*111 443*	*55 810*	*25 293*	*13 865*	*5 047 200*	*3 290 549*
Total	**9 746 829**	**9 509 344**	**237 485**	**145 869**	**25 849**	**21 681**	**9 553 430**	**5 333 179**

Nasledujúca tabuľka predstavuje prehľad kvality úverového portfólia k 31. decembru 2016:

	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**

**Includes collateral received as part of concluded reverse repo transactions.*

The table below provides an overview of the quality of contingent liabilities and other off-balance sheet items as at 31 December 2017:

	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	**99 063**	**99 063**	**-**	**-**	**4**	**99 059**	**39 238**
Contingent liabilities and other off-balance sheet liabilities to clients	**3 073 584**	**3 069 991**	**3 593**	**3 073**	**2 513**	**3 067 998**	**355 918**
Public sector	*4 212*	*4 212*	*-*	*-*	*-*	*4 212*	*320*
Corporate clients	*2 087 852*	*2 084 927*	*2 925*	*2 872*	*2 131*	*2 082 849*	*225 923*
Retail clients	*981 520*	*980 852*	*668*	*201*	*382*	*980 937*	*129 675*
Total	**3 172 647**	**3 169 054**	**3 593**	**3 073**	**2 517**	**3 167 057**	**395 156**

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

	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 following summary represents an analysis of the individually-impaired loan portfolio as at 31 December 2017:

	Corporate clients	Retail clients	Total
Impaired loans	**126042**	**111443**	**237485**
Specific provisions – assessed on an individual basis	**90059**	**55810**	**145869**
Specific provisions – assessed on a collective basis	**556**	**25293**	**25849**
Claim value of received collateral	**25998**	**23625**	**49623**
% coverage by provisions for assets	71,9 %	72,8 %	**72,3 %**
% coverage by provisions for assets and received collateral	92,5 %	94,0 %	**93,2 %**
Interest income from impaired loans	547	184	**731**

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

	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 summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2017:

	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	**219 750**	**-**	**-**	**-**	**-**	**-**
Loans and advances to customers	**9 163 906**	**117 467**	**2 976**	**2 902**	**2 343**	**76 897**
Public sector	*7 380*	*-*	*-*	*-*	*-*	*-*
Corporate clients	*4 201 150*	*47 965*	*54*	*853*	*1 467*	*33 280*
Retail clients	*4 955 376*	*69 502*	*2 922*	*2 049*	*876*	*43 617*
Total	**9 383 656**	**117 467**	**2 976**	**2 902**	**2 343**	**76 897**

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

	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**

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

	2017	2016
Collateralisation of issued loans	**5 328 599**	**5 031 719**
Cash	52 833	59 718
Guarantees	171 185	162 610
Securities	73 536	124 124
Real estate	4 447 378	4 132 748
Movables	359 080	345 784
Receivables and other collateral	224 587	206 735
Collateralisation of receivables from derivative transactions	**4 580**	**2 926**
Cash	4 580	2 926
Total	**5 333 179**	**5 034 645**

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

	2017	2016
To cover contingent liabilities and other off-balance sheet liabilities		
Cash	54 771	48 452
Guarantees	69 298	83 677
Securities	53 690	36 723
Real estate	108 170	105 376
Movables	2 467	2 331
Receivables and other collateral	106 760	105 353
Total	**395 156**	**381 912**

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

	2017	2016
Loans and advances to banks:	**219 750**	**147 801**
Minimum risk	8 809	1 126
Excellent credit rating	32 657	78 736
Very good credit rating	171 029	66 035
Good credit rating	-	562
Standard credit rating	7 212	1 342
Ordinary credit rating	-	-
Sub-standard credit rating	-	-
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	-	-
Defaulted	-	-
With no assigned rating	43	-

Loans and advances to customers:	**9 163 906**	**8 177 188**
Of which, public sector:	***7 380***	***8 209***
Minimum risk	-	-
Excellent credit rating	-	-
Very good credit rating	4	36
Good credit rating	6 070	3 722
Standard credit rating	296	1 208
Ordinary credit rating	1 006	1 979
Sub-standard credit rating	3	1 264
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	1	-
Defaulted	-	-
With no assigned rating	-	-

Of which, corporate clients without project financing:	*3 090 448*	*2 930 217*
Minimum risk	144 674	392 357
Excellent credit rating	80 206	196 615
Very good credit rating	382 476	308 452
Good credit rating	612 535	294 171
Standard credit rating	912 688	796 990
Ordinary credit rating	515 491	525 988
Sub-standard credit rating	322 257	279 189
Significantly sub-standard credit rating	89 548	94 338
High probability of default	18 145	23 012
Defaulted	12 250	4 346
With no assigned rating	178	14 759
Of which, corporate clients – project financing:	*1 110 702*	*991 420*
Excellent project financing profile rating	844 238	674 005
Good project financing profile rating	216 982	255 076
Acceptable project financing profile rating	16 988	37 092
Weak project financing profile rating	31 019	20 886
Defaulted	1 475	4 361
Of which, retail clients	*4 955 376*	*4 247 342*
Total	**9 383 656**	**8 324 989**

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 2017, such loans amounted to EUR 128 550 thousand (31 December 2016: EUR 114 413 thousand). As at 31 December 2017, loan receivables from these clients that are not impaired or overdue amount to EUR 121 033 thousand (31 December 2016: EUR 107 070 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 117 814 thousand (31 December 2016: EUR 107 822 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 2017 and 31 December 2016. 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:

	2017	2016
Government treasury bills	-	70 141
Government bonds with no coupon	29 370	46 924
Loans and advances to banks	1 129 497	621 325
Loans and advances to customers	341 702	338 999
Debt securities	1 143 228	1 766 765
Total	**2 643 797**	**2 844 154**

The overall impact of the Slovak Republic on the Group's results of operations represented income of EUR 17 835 thousand (2016: EUR 33 044 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 2017 due to the client's default or deteriorated financial position amounted to EUR 10 556 thousand (31 December 2016: EUR 13 031 thousand). In the case of the corporate portfolio, the carrying amount was EUR 25 020 thousand (31 December 2016: EUR 9 769 thousand).

In 2017, 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 1 640 thousand (31 December 2016: EUR 4 647 thousand) and corporate clients in the amount of EUR 2 768 thousand (31 December 2016: EUR 7 809 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 2017 and 2016 were as follows:

	Net FX position 31 December 2017	***Net FX position 31 December 2016***
EUR	354 041	301 966
USD	(267 064)	(212 016)
Other (CZK, GBP, CHF, PNL, HUF and other)	(86 977)	(89 950)
Total net FX balance sheet position	**-**	**-**
EUR	(298 367)	(21 361)
USD	268 839	(3 450)
Other (CZK, GBP, CHF, PNL, HUF and other)	87 677	62 955
Total net FX off-balance sheet position	**58 149**	**38 144**
Total Net FX position	**58 149**	**38 144**

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 2017:

	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspe-cified	Total
Assets						
Cash and balances with central banks	1 129 498	-	-	-	121 829	1 251 327
Loans and advances to banks	169 709	49 999	-	-	42	219 750
Loans and advances to customers, net	3 864 627	1 205 652	3 890 892	231 974	140 534	9 333 679
Derivative financial assets	3 713	8 289	18 406	4 662	-	35 070
Held-for-trading financial assets	-	26	4	7 331	-	7 361
Financial assets at fair value through profit or loss	-	13 249	-	-	-	13 249
Held-to-maturity financial investments	14 610	370 887	454 043	406 606	-	1 246 146
Available-for-sale financial assets	1 706	41 033	104 388	20 297	9 703	177 127
Other assets	-	-	-	-	48 611	48 611
Interest rate position for financial assets as of 31 December 2017	**5 183 863**	**1 689 135**	**4 467 733**	**670 870**	**320 719**	**12 332 320**
Liabilities						
Deposits and advances from banks	91 572	56 278	134 097	2 000	776	284 723
Deposits from customers	1 995 725	4 433 794	2 634 741	2 214	970 118	10 036 592
Derivative financial liabilities	8 711	8 647	18 102	5 852	-	41 312
Held-for-trading financial liabilities	-	-	-	-	40 301	40 301
Liabilities from debt securities	352 603	131 525	85 572	195 551	-	765 251
Provisions for liabilities and charges	-	-	-	-	56 933	56 933
Other liabilities	-	-	-	-	48 587	48 587
Subordinated debt	236 134	-	-	-	-	236 134
Interest rate position for financial liabilities as of 31 December 2017	**2 684 745**	**4 630 244**	**2 872 512**	**205 617**	**1 116 715**	**11 509 833**
Net interest rate position as at 31 December 2017	**2 499 118**	**(2 941 109)**	**1 595 221**	**465 253**	**(795 996)**	**822 487**

Interest rate gap of financial assets and liabilities as at 31 December 2016:

	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspe-cified	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**

	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspe-cified	Total
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**

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 2017 (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	1.1993	1.1393	(1 319)	(66)
GBP	25.5350	26.8118	821	(41)
JPY	9.8403	9.3483	(213)	(11)
CZK	0.8872	0.9316	185	(9)
ZAR	4.6585	4.8914	164	(8)
Total			**(363)**	**(135)**

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):

	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)**

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 2017 (in thousands of EUR):

	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(5 338)
USD	-100 BPV	406
Total		**(4 932)**

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):

	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(27 925)
USD	-100 BPV	(1 322)
Total		**(29 247)**

As at 31 December 2017, the Parent Company's exposure position in the Trading Book to equity price risk is nil, as at 31 December 2016 it was also nil. The Parent Company, therefore, does not recognise this exposure position to equity price risk.

As at 31 December 2017, the Parent Company's exposure position to commodity in the Trading Book is insignificant; as at 31 December 2016, 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 2017:

	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	1 251 327	-	-	1 251 327
Loans and advances to banks	219 708	-	42	219 750
Loans and advances to customers, net	2 200 912	6 827 617	305 150	9 333 679
Derivative financial assets	12 001	23 069	-	35 070
Held-for-trading financial assets	27	7 334	-	7 361
Financial assets at fair value through profit or loss	13 249	-	-	13 249
Held-to-maturity financial assets	353 496	892 650	-	1 246 146
Available-for-sale financial investments	42 740	124 685	9 702	177 127
Investments in associate undertakings	-	-	3	3
Non-current intangible assets	-	-	45 322	45 322
Non-current tangible assets	-	-	61 478	61 478
Investment property	-	-	34 701	34 701
Current tax asset	-	-	686	686
Deferred tax asset	-	-	28 168	28 168
Other assets	-	-	48 611	48 611
Total assets	**4 093 460**	**7 875 355**	**533 863**	**12 502 678**
Liabilities				
Deposits from banks	111 678	172 269	776	284 723
Deposits from customers[1)]	3 803 446	6 189 256	43 890	10 036 592
Derivative financial liabilities	17 358	23 954	-	41 312
Held-for-trading financial liabilities	-	-	40 301	40 301
Liabilities from debt securities	163 543	601 708	-	765 251
Provisions for liabilities	-	-	56 933	56 933
Current tax liability	-	-	172	172
Deferred tax liability	-	-	422	422
Other liabilities	-	-	48 587	48 587
Subordinated debt	1 134	235 000	-	236 134
Total liabilities	**4 097 159**	**7 222 187**	**191 081**	**11 510 427**
Equity (excluding current year profit)	-	-	867 909	867 909
Profit after tax	-	-	124 342	124 342
Total equity and liabilities	**4 097 159**	**7 222 187**	**1 183 332**	**12 502 678**
Net balance sheet position	**(3 699)**	**653 168**	**(649 469)**	**-**
Net off-balance sheet position[2)]	**(2 760 087)**	**(250)**	**(918 158)**	**(3 678 495)**
Cumulative balance sheet and off-balance sheet position	**(2 763 786)**	**(2 110 868)**	**(3 678 495)**	**(3 678 495)**

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 2016:

	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 summary below represents an analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario, as at 31 December 2017 (in non-discounted amounts):

	Carrying amount	Contractual cash flows	Residual maturity Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Deposits from banks	284 723	408 647	76 372	73 591	245 624	13 060
Deposits from customers	10 036 592	10 064 156	9 383 674	530 477	147 134	2 871
Held-for-trading financial liabilities	40 301	40 301	40 301	-	-	-
Liabilities from debt securities	765 251	840 285	102 407	63 385	467 374	207 119
Other liabilities	48 587	48 587	48 587	-	-	-
Subordinated debt	236 134	293 567	2 313	7 172	37 966	246 116
Derivative financial liabilities:						
Trading derivatives	40 189	784 935	535 844	196 959	33 064	19 068
Fair value hedging derivatives	1 123	1 123	1 123	-	-	-

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 2017 (in non-discounted amounts):

	Carrying amount	Contractual cash flows	Residual maturity Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	413 575	413 575	413 575	-	-	-
Contingent liabilities from letters of credit	5 267	5 267	5 267	-	-	-
From irrevocable loan commitments	1 367 278	1 367 278	1 367 278	-	-	-

The summary below represents an analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario, as at 31 December 2016 (in non-discounted amounts):

	Carrying amount	Contractual cash flows	Residual maturity Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up 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):

	Carrying amount	Contractual cash flows	Residual maturity Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up 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	-	-	-

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 Group's operation.

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 2016, 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.

52. 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.

53. Approval of the consolidated financial statements

The annual consolidated financial statements for the immediately-preceding reporting period (as at 31 December 2016) were signed and authorised for issue on 10 March 2017.

The financial statements were signed and authorised for issue on 14 March 2018 by the following bodies/persons:

a) Statutory body

Michal Liday
Chairman of the Board of Directors
and CEO

Johannes Schuster
Member of the Board of Directors

b) Person responsible for the bookkeeping and the preparation of the financial statements

Ľubica Jurkovičová
Accounting, Reporting
and Tax Director

Proposal for 2017 Profit Distribution and Dividend Payment

Proposal for 2017 Profit Distribution

(in EUR)

Profit after tax for the year 2017	**113 265 263**
Allocation to retained earnings	113 265 263

Proposal for Dividend Payment from Retained Earnings

(in EUR)

Retained earnings	**67 882 804**
Dividends – Ordinary shares	60 000 804
Dividends – Preferred shares	7 882 000

Dividend per ordinary share with the nominal value of EUR 800 is in the amount of EUR 844.
Dividend per ordinary share with the nominal value of EUR 4 000 is in the amount of EUR 4 220.
Dividend per preference share with the nominal value of EUR 4 is in the amount of EUR 4,23.

Tatra banka, a. s.
Hodžovo námestie 3
81106 Bratislava 1
Slovenská republika

T. č.: +421-2-5919-1111
Fax: +421-2-5919-1110

SWIFT/BIC: TATRSKBX
www.tatrabanka.sk