Tatra banka

Annual report 2018

Slovak Republic

Member of Raiffeisen Bank International

TATRA BANKA

Content of Annual Report

About

Survey of key data

Survey of key data according to International Financial Reporting Standards

Tatra banka Group (in EUR thousands)

	2018	2017	Change
Consolidated Statement of Comprehensive Income			
Net interest income	289 254	269 094	7.5%
Net fees and commission income	129 280	125 215	3.2%
Net trading income and fair value result	24 396	29 627	(17.7)%
General administrative expenses	(240 841)	(240 509)	0.1%
Impairment losses on financial assets	(31 352)	(17 365)	80.5%
Consolidated profit before income taxes	154 580	155 649	(0.7)%
Consolidated profit after income taxes	119 875	124 342	(3.6)%
Comprehensive consolidated profit after tax	118 056	125 222	(5.7)%
Consolidated Statement of Financial Position			
Loans to banks, gross	122 591	157 907	(22.4)%
Loans to customers, gross	10 269 773	9 526 712	7.8%
Deposits from banks	406 440	520 857	(22.0)%
Deposits from customers	10 928 189	10 036 592	8.9%
Equity (including consolidated profit)	1 131 904	992 252	14.1%
Total assets	13 195 897	12 502 678	5.5%
Key ratios			
Return on equity (ROE) before tax	15.5%	16.7%	(7.1)%
Cost/income ratio [2]	52.7%	54.2%	(3.2)%
Return on assets (ROA) before tax	1.2%	1.3%	(7.7)%
Tier 1 ratio, total	15.4 %	13.7%	12.4%
Own funds ratio	17.7%	17.7%	0.0%
Stock data			
Earnings per ordinary share (nominal value per share: 800 EUR)	1 498	1 554	(3.6)%
Earnings per ordinary share (nominal value per share: 4 000 EUR)	7 490	7 770	(3.6)%
Resources			
Number of staff on balance sheet date	3 858	3,735	3.3%
Branches on balance sheet date [1]	179	187	(4.3)%

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 and contribution to the resolution fund.
(The Group has changed the presentation of their balance sheet and profit and loss statement with regard to the norms (FINREP) issued by the European Banking Authority (EBA). The data of the comparable period have been adjusted as well.)

Tatra banka, a.s. does not have any organization unit abroad.

Statements

Statement by the Chairman of the Management Board

Dear Shareholders, Business Partners and Clients,

I would like to summarize Tatra banka's results for the previous year for you. Since our core values include not only creativity, partnership and courage, but also a demanding approach, we strive to better our previous results every year. Sometimes, however, I have doubts whether this approach speaks sufficiently about our actual results.

Therefore, I have decided to look at the results of the bank from the broader perspective of the past several years. Over several successive years, Tatra banka has been constantly achieving nine digit financial results with double digit returns on equity. According to the Financial Statements Register, only 15 companies in Slovakia have exceeded profit before tax of EUR 100 million in 2017, and just five companies were able to exceed this result every single year in the period between 2012 and 2017.

I consider the results we achieved to be truly extraordinary and I am extremely pleased that 2018 was no different. Our profit before tax last year reached almost EUR 120 million and our return on equity reached 12 per cent. I would like to take this opportunity to emphasize the demanding work of my colleagues, their enthusiasm and creativity in the way they have faced new challenges. The success is shared between employees of both our brands – Tatra banka and Raiffeisen banka.

In May, Tatra banka, with its brand promise to be the leader in innovation, was the first bank in Slovakia to introduce online account opening via Face Biometrics. Since June, new clients can get a Digital Loan equally simply and fast without visiting a branch. The whole process of loan arrangement runs directly through the Tatra banka app: with income verification, offer approval and instant drawing. In this way we succeeded in acquiring thousands of new clients. They accounted for more than 20 per cent of all newly opened accounts and as much as 30 per cent in the student segment.

In September, we ceremonially opened a new space for the development of innovative banking solutions. *Elevator Lab powered by Tatra banka* is a physical and virtual space which houses various business and technological lectures, events and hackathons in cooperation with the HubHub co-working center. Tatra banka also offers mentoring to startups and fintechs, allowing them to scale their ideas more efficiently.

Elevator Lab powered by Tatra banka hosts a team of market research experts, programmers, designers and data analysts as well as business leaders. It is an ecosystem that combines cutting-edge technology with unique ideas at the heart of the startup community. Partners of the project include CISCO, Visa and Microsoft, which provide active technological and professional support to the *Elevator Lab powered by Tatra banka*. We look forward to cooperating with those companies whose solutions will help us push the boundaries of banking and make banking services more attractive.

Last year, we succeeded in establishing cooperation with three start-ups that won in our Elevator Lab Challenge acceleration program. The joint project of GoodAI and Datatree, introducing a unique automated financial advisory platform, was awarded the most innovative idea. The PayKey solution, which offers a new user experience by transforming the smartphone keyboard into a new communication channel, was declared the idea with the widest application potential within the RBI Group.

As part of the opening ceremony of *Elevator Lab powered by Tatra banka*, Pepper, the unique humanoid robot, was presented. Pepper's task is not only to welcome clients, but mainly to help them with various banking transactions thereby saving time. Pepper is happy to help clients install mobile banking, retrieve a forgotten card's PIN code, open an account using face biometrics, draw a loan within 15 minutes, or arrange travel insurance.

Our innovative approach was recognized by several reputable Slovak and foreign organizations. For the fourteenth year in a row, Tatra banka was declared the best Slovak bank by the British financial magazine Euromoney. In 2018, we were also named the best bank by Global Finance, The Banker, Euromoney and EMEA Finance. The renowned Global Finance magazine decorated us for the World's Best Online Deposit, Credit and Investment Product Offering. The jury particularly recognized our innovative approach to online provision of loans and accounts for new clients and a wide range of online products and services for the bank's existing clients. Our website design and corporate business banking were recognized as the best in Central and Eastern Europe. And these are just a few of the multitude of awards received last year by the bank and our colleagues.

For already six years the Raiffeisen Bank has been offering its clients a unique experience, comprehensive, user-friendly and fairly priced products and services. By the end of 2018, the bank operated 62 branches, 9 of which were franchised. Its portfolio has grown to Eur 97 million of credits, 67 thousand clients and Eur 127 million of deposits.

Regarding our support for the arts, 2018 was the twenty-third year of the Tatra banka Foundation Art Awards. Since introducing the awards, the foundation has supported 99 well-known artists, 58 new artists and nine young fashion designers. Our aim 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 Ian Johnson, 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.

As we look ahead to 2019, we see big changes in the types of challenges that the banking sector will face. While in previous years regulation and low interest rates remained at the forefront, "more traditional" challenges are ahead of us. I put the words "more traditional" in quotes because more than ten years have passed since the outset of the last crisis. The macroeconomic environment will be the main topic of 2019, be it the slowing economy of the euro area, trade wars led by the United States or the Brexit. That does not mean that regulators have lowered their expectations, but it will not be them who will have the final say in influencing the performance of the banking sector. The banking sector will depend on how well citizens and companies do.

I do not fear these challenges, because I am convinced that the strategy of our bank is set correctly. At the same time, I do feel a great deal of support from you, our shareholders, business partners and clients in achieving our mission to shift the boundaries of banking business. I sincerely thank you for that.

Michal Liday
Chairman of the Management Board and CEO

Report of the Supervisory Board

Ladies and Gentlemen,

2018 was a successful year for Tatra banka. The bank's profit has exceeded EUR 100 million for the eighth consecutive year. Loans grew by 7.2 per cent and there was a decreasing percentage of non-performing loans. Customer deposits grew as well, namely by 7.4 per cent. Return on capital fell slightly; however, the drop was caused by a changed dividend payment strategy. The continuing investment made by shareholders reflects their trust in further growth in the bank's performance. The excellent standing and high standard of Tatra banka's services was again confirmed by awards received from a number of reputable Slovak and international institutions.

The Members of the Supervisory Board held three ordinary meetings in the financial year 2018. The overall rate of attendance at the meetings was 96 per cent. In the period between meetings, the Supervisory Board adopted decisions per-rollam when necessary.

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at Tatra banka. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity as well as on the direction of the bank's business and risk strategies. The Supervisory Board also dealt at length with further development in the area of corporate governance and monitored the implementation of corresponding policies. In the course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives of the banking supervisory authorities on topical issues.

Moreover, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Supervisory Board also maintained contact with the Chairman of the Management Board and the Management Board members. The Management Board was available where required for bilateral or multilateral discussions with members of the Supervisory Board, where applicable with the involvement of experts on the matters addressed by the Supervisory Board.

The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Supervisory Board passed resolutions after considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction.

The Supervisory Board discharged its duties in accordance with generally binding legal regulations, as well as the Articles of Association of Tatra banka and the Statute of the Supervisory Board.

In the financial year 2018, the Supervisory Board elected Martin Kubík as a new member of the Management Board. Martin Kubík has been a successful banker for many years, working in the field of process and project management. He founded the section of Demand Management at Tatra banka and significantly contributed to the creation of IT change management processes. I am glad that I can welcome Martin Kubík in a position so important for us as an innovative leader. I believe that his experience will make a significant contribution to Tatra banka's mission to push the boundaries of banking.

At its meeting held in March 2019, the Supervisory Board examined the separate and consolidated financial statements for 2018, the proposed profit distribution and payment of dividends for 2018 and recommended that the General Meeting approve them without comment. The Supervisory Board paid special attention to important matters of the bank in the form of the so-called Focus Topics.

I would like to take this opportunity to thank all employees of Tatra banka for their hard work and unwavering efforts in 2018, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Supervisory Board

Andrii Stepanenko,
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

Demanding Approach, Creativity, Partnership, Courage

Raiffeisen Bank International at a glance

RBI 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 13 markets across the region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, almost 47,000 RBI employees serve 16.1 million customers in more than 2,100 business outlets, the vast majority of which are in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2018, RBI's total assets stood at EUR 140 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.

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. The 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 quality collection and preservation of relevant and potentially-relevant data;
- development of a reliable methodology for measuring individual types of risk;
- ensuring effective and high-quality processes for prudent management of individual risk types and predicting their development;
- use of efficient instruments to mitigate risk exposure;
- ensuring 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 meeting 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 vis-à-vis regulators, business partners and clients regarding risk management.

Credit risk

Since January 1, 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 January 1, 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 the 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 April 1, 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 RBI 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, limited 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 2018 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 2018, the bank continued to apply a prudent approach to security investments, which was assisted by the implemented limits that 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.

Careful monitoring of all types of market risk 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 re-assessed 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 parent 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. As the bank is well aware of the seriousness and possible impact of operational incidents on its profit and goodwill, it uses a set of qualitative and quantitative methods to identify and manage operational risk. 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 its 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 bank's risk profile and then quantified and evaluated in the context of the risk appetite 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 and in line with its risk profile, the bank covered the identified risks by its internal capital with a sufficient reserve in 2018.

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 business 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 the consistent prediction of its development, including stress testing of readiness for unforeseeable adverse events.

In 2018, 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 to a significant degree 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 3.6 per cent year-on-year, from EUR 124.3 million in 2017 to EUR 119.9 million. The profit decreased primarily due to higher provisioning costs and a higher income tax. Operating income, i.e. the result before income tax and provisioning, increased by 7.1 per cent. The growth in provisioning was not due to a decrease in the quality of our portfolio; to the contrary the level of non-performing loans continued to fall in 2018. The provisions grew due to Tatra banka's decision to apply a more conservative approach to provisioning. After a long period of decline, Tatra banka reported an increase in interest income in 2018. Fees and commission income also grew by 3.2 per cent. Growth in our operating income and a decrease in operating expenses led to the improvement of the cost-income ratio from 54.2 per cent in 2018 to 52.7 per cent in 2017. In March 2017, Moody's international ratings agency increased Tatra banka's rating to A3 with a stable outlook. The agency reconfirmed this rating in November 2018.

Return on capital in 2018 fell to 12.0 per cent year-on-year from 13.4 per cent in 2017. The reason for this was the decision by shareholders to increase equity because the profit level, as such, changed very little. This decision reflects the trust of shareholders in further growth in Tatra banka's performance.

Development of income and expenses

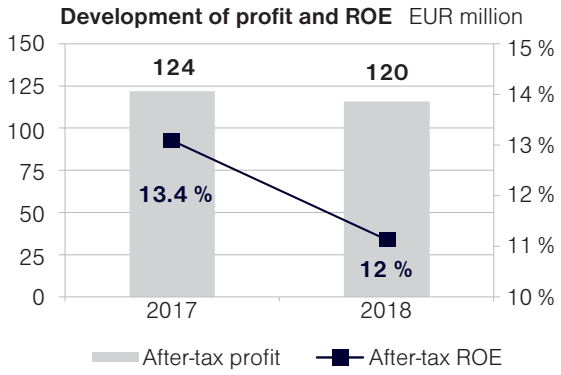
Net interest income increased 7.5 per cent year-on-year to EUR 289.3 million. Net interest income increased after a significant period of time, mainly due to stronger growth in the volume of loans. Interest rates fell only marginally in 2018; interest rates on selected products in Slovakia are currently among the lowest in the EU.

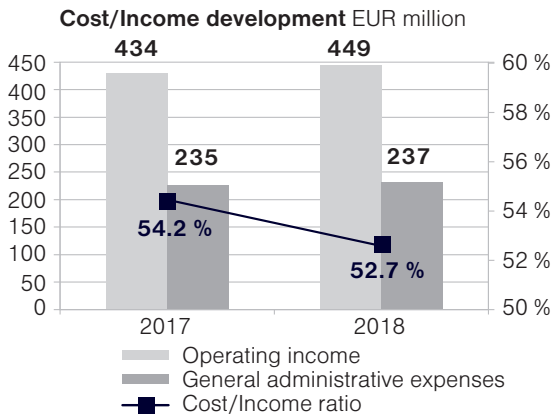
The growth in the volume of loans reached 7.2 per cent in 2018. The overall growth in loans was slower due to weaker growth in corporate financing. **Being the largest corporate bank, Tatra banka does not wish to significantly increase its level of risk.** Therefore, there has been a greater focus on growth in personal loans. Loans to individuals were growing faster than the market across all product categories.

In 2017, NBS started to tighten the conditions for providing mortgage and consumer loans. NBS further tightened these measures in 2018 and also from January 1, 2019. That is why the bank expects a slower rate of growth on loans to individuals this year.

Net fee and commission income increased 3.2 per cent year-on-year to EUR 129.3 million. The fee income grew largely due to an increase in the number of clients' accounts. This subsequently translated into higher income from transaction processing.

General administrative expenses increased 0.1 per cent to EUR 240.9 million due to growth in wage costs, which were compensated by lower write-offs and lower operating costs.



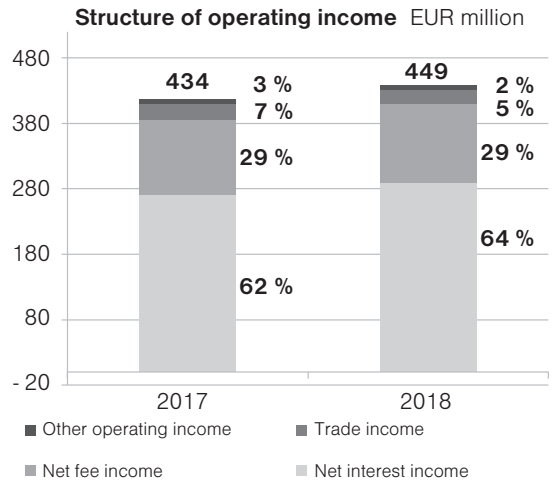


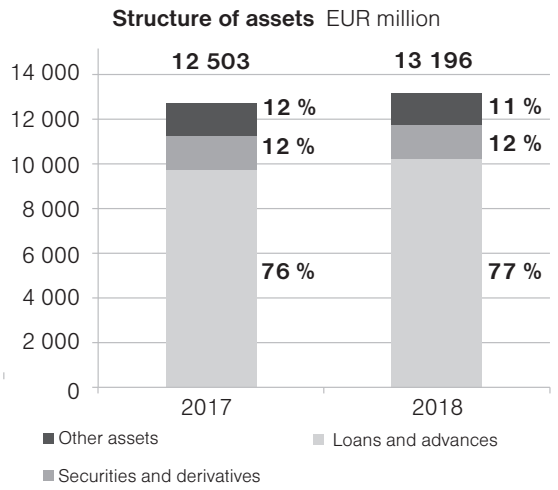
Development of assets

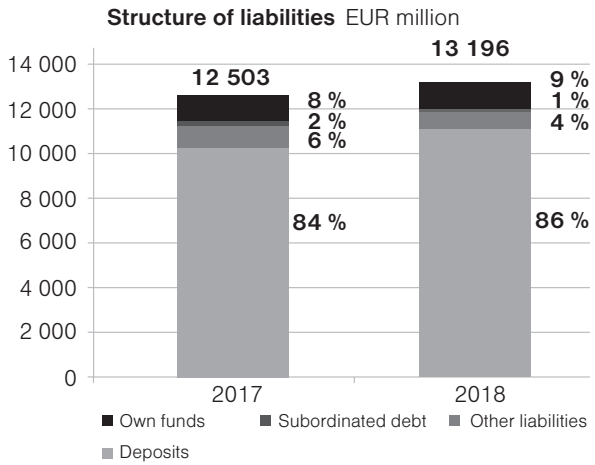
The consolidated assets of the Tatra banka Group increased 5.5 per cent to EUR 13.20 billion. Loans grew 7.2 per cent to a total of EUR 10.18 billion and were a significant contributor to this growth. The share of non-performing loans in the total portfolio decreased from 2.9 per cent to 2.3 per cent, 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.

Development of liabilities and equity

Deposits increased to EUR 11.33 billion. The departure of clients from term products can be seen both in the overall market as well as in Tatra banka. The consolidated ratio of loans to deposits was 89.8 per cent as of December 31, 2018.
As of December 31, 2018 the consolidated capital adequacy ratio was 17.69 per cent, which is substantially more than what is required by the National Bank of Slovakia and the European Central Bank.







Objectives for 2019

The main objective of Tatra banka for 2019 is to again confirm the trust of its shareholders. With the expectation of a moderate slowdown in the Slovak economy and in the growth of loans, pressure on the quality of banking services will become even stronger. Banks will not be able to rely solely on a fast-expanding market. However, that does not mean that banks' profitability should suffer. It seems that interest rates on products have already reached almost to their bottom and there is very limited room for a further decrease. So weaker growth in loans should, therefore, reflect in the growth of revenues.

Negative ECB rates and the bank tax will continue to significantly hamper the banking sector in 2019. Compared to neighboring Czech Republic, the liabilities of Slovak banks are considerably more expensive. That is the reason why banks are not very interested in deposits under these current conditions.

Follow-up to the successful development of digital channels and services will be a priority in 2019, and not only in the area of products for natural persons. The use of TB Face Biometrics will make our offer more attractive for new clients as well, with a positive impact on our market share.

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 for first-class projects by young designers and events of this type. Regarding our support for education, students and the professional community can look forward to lectures by Nobel and Pulitzer Prize winners as well as by three globally-recognized economists. In the arts, the pinnacle of the season will be the twenty-fourth year of the Tatra banka Foundation Art Awards.

The main objective of Raiffeisen Bank for 2019 will primarily be intensifying its acquisition of new clients. The Mass segment is a target where we see unmet needs of clients in our market over the long term. An important tool will be our branch network, which we plan to strengthen in terms of capacities. We also plan further improvements in internet and mobile banking services.

Top Management

Supervisory Board

Dr. Andrii Stepanenko
Chairman of the 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. Andreas Gschwenter
Member of the Supervisory Board

Mag. Hannes Mösenbacher
Member of the Supervisory Board

Mag. Lukasz Januszewski
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

Dr. Johannes Schuster
Member of the Management Board

Ing. Peter Matúš
Member of the Management Board

Ing. Martin Kubík
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

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Statement on Corporate Governance

The corporate governance system of Tatra banka is regulated by the Code of Corporate Governance in Slovakia issued by the Slovak Association of Corporate Governance (SACG). The Code is publicly available on the association's website at www.sacg.sk.

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 them to exercise influence on the bank, namely:

a. the right to attend the General Meeting
A shareholder may attend the General Meeting personally 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 or the Articles of Association. 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 the profit and dividend pay-out is decided by the General Meeting based on the 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 mailed, and also has the right to inspect the minutes of the Supervisory Board meetings.

f. the right to request the 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
The records of book-entry shares of the bank are kept by 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 the applicable 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 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, including the determination of royalties, and decision-making on the settlement of losses;
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 the applicable 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 2018, the General Meeting was held on June 11, 2018. It was attended by shareholders holding ordinary shares representing a total of 65,458 votes, which accounted for 81.41 per cent of the share capital and shareholders holding preferred shares representing a total of 1,461,075 votes, which accounted for 9.09 per cent of the share capital. The General Meeting approved the Annual Separate Financial Statements and Consolidated Financial Statements for 2017, the Annual Report for 2017, the proposed profit distribution, the terms of the dividend payout and the selection of the auditor. The General Meeting also decided on the election of new members of the Supervisory Board. The General Meeting approved the issue of AT1 investment certificates, an amendment to the Articles of Association, and decided on the terms of acquisition of the bank's 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 a 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 compensation conditions and other Management Board member benefits;
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 also determining their salary;
j. approving the nominated auditor;
k. granting approval to the Management Board to perform specific activities; and
l. other activities under the applicable legal regulations and the bank's Articles of Association.

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

Management Board

The Management Board is the bank's 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 the 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 Management Board member positions 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 all 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 authority of the Management Board includes:

a. convening the General Meeting;
b. ensuring the development of, approval of, and compliance with the bank's organizational structure;
c. ensuring the implementation of, and compliance with, the bank's governance system;
d. management and supervision of the performance of authorized banking activities;
e. adoption and regular review of general remuneration principles;
f. ensuring proper accounting is maintained by the bank;
g. ensuring the preparation and publication of the Annual Report and its submission to the General Meeting for discussion;
h. ensuring the preparation and publication of the financial statements and their submission to the General Meeting for authorization;
i. submitting the proposed profit distribution or loss settlement to the General Meeting for authorization;
j. deciding on share issuance or repurchase under an authorization granted by the General Meeting;
k. providing information concerning the principal business management objectives of the bank for the future and the projected development of the bank's assets, funds and revenues to the Supervisory Board;
l. submitting a written report of the bank's business activities and assets compared with the anticipated development at the request of the Supervisory Board;
m. 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
n. other activities under the applicable legal regulations and the bank's Articles of Association.

The names of the 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 selection and evaluation policy for 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 conflicts 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 and 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 in accordance with the law. Its members include designated Supervisory Board members.

Assets and Liabilities Committee (ALCO) – formulates 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) – formulates the 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 the alignment of approved measures and tasks with the bank's strategic interests. Its members include designated members 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 – performs competences in the area of the bank's security policy to ensure maximum security and eliminate operational risks associated with the operation of the bank. Also 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 – addresses damage caused to the bank's assets. Its members include a designated member of the Management Board and designated employees.

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

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

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

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

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

Management methods

The bank's management methods primarily 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 also via the operational guidance of activities of the managed organizational unit or employee.

Technical (indirect) management is performed 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 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 determined ICS framework within the entire bank. It also includes a phase of regular monitoring and validations. These 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 supports automated control mechanisms in selected processes and implements them on an ongoing basis. In the area of the internal control system, the bank will continue to implement the determined ICS framework, focusing on areas posing the biggest risk to the bank.

An Internal Control System Officer responsible for implementing the ICS framework, monitoring and reporting is part of 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 fulfills 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 process control represents all ongoing control measures, procedures and mechanisms which are a direct and ongoing part of daily business processes at individual bank units. 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 process control includes all ongoing control measures, procedures and mechanisms which are an indirect part of processes at individual bank units. Indirect process control is carried out by managers of individual bank units responsible for controlled processes and for control results, or by 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

As part of risk management, the bank monitors, evaluates and manages in particular the following types of risk: credit, market, liquidity, and operational. 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 Assessment 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 quarterly basis. Retail debtors are assessed using scoring models developed for individual products. SMEs and corporate clients are assessed using rating models.

In connection with its activity, the bank is exposed to **market risk** from open positions, chiefly from transactions with interest rates, and 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 parent 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 a 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 Quantity: 60,616 shares
Class: ordinary share
Form: registered share
Type: book-entry security
Description of rights and obligations: the right to attend, vote and present motions at the General Meeting; the right to a share of the 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 the documents and minutes of the bank; the obligation to pay the issue price of shares; the obligation to refund any unlawfully provided settlements to the bank; 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 Quantity: 2,095 shares
Class: ordinary share
Form: registered share
Type: book-entry security
Description of rights and obligations: the right to attend, vote and present motions at the General Meeting; the right to a share of the 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 the documents and minutes of the bank; the obligation to pay the issue price of shares; the obligation to refund any unlawfully provided settlements to the bank; 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
Quantity: 1,863,357 shares
Class: preferred share
Form: registered share
Type: book-entry security
Description of rights and obligations: the right to attend and to present motions at the General Meeting; the priority right to a share of the 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 the convening of a General Meeting; the right to inspect the documents and minutes of the bank; the obligation to pay the issue price of shares; the obligation to refund any unlawfully provided settlements to the bank; 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 Amendments to Certain Acts, as amended, 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, or 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

(in EUR ths)	12/2018	12/2017	12/2016	12/2015	12/2014	12/2013	12/2012[1]
Net interest income	66 054	64 914	66 282	73 394	87 928	88 541	97 070
Net fees and commission income	30 357	29 429	32 014	31 196	23 170	21 775	21 710
Net provisioning	8 177	8 030	4 265	(21 631)	(35 011)	(24 300)	(24 683)
Other operating income	(5 890)	(4 732)	(4 829)	(4 618)	(6 428)	(8 395)	(8 158)
Operating expenses	(43 699)	(50 220)	(52 092)	(42 909)	(39 603)	(38 333)	(40 069)
Profit before income taxes	**54 999**	**47 421**	**45 640**	**35 432**	**30 056**	**39 288**	**45 870**
Cost/Income ratio	45.33%	53.23%	53.00%	41.03%	35.65%	34.75%	33.73%

Note: Middle and large corporate clients (data in the table are provided on individual basis).
(1) Other operating income since 2012 includes an extraordinary and special levy on selected financial institutions.

Large corporate clients

2018 was a stable and again a very successful year for the segment of large corporate clients. Revenues in the segment were influenced by the overall situation on the market, prevailing low interest rates and very strong competition. The amount of loans drawn increased slightly, with the total amount of assets exceeding EUR 3.145 billion.

Asset growth was largely the result of investments in new technologies, infrastructure and real estate financing and an increase in existing lending business. Last year, the bank successfully 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 space, shopping premises and new residential properties.

During the year, the bank continued to pay particular attention to increasing client satisfaction. Also in 2018, we achieved a very high client satisfaction index. The bank invested substantial efforts in the implementation of new business banking for corporate clients, resulting in a significant increase in the number of clients who actively use this new tool.

The bank also devoted considerable efforts to further progress in the area of lending-process optimization.

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 coming to Slovakia.

Corporate centers

In the medium-sized corporate client segment, Tatra banka focused primarily on the acquisitions of new clients, its lending business, and increasing the number of clients who are active users of Business Banking, as well as on the confirmation of its leading position in client satisfaction.

As for the provision of new loans, standard instalment and overdraft loans were doing well, reaching more than 8 per cent year-on-year sales growth. In terms of economic sectors, key industries and the agricultural sector increased nicely. The amount of loans drawn in this segment increased by as much as EUR 35 million year-on-year. On the other hand, financing of real estate and energy projects fell quite significantly. The quality of our credit portfolio is further improving, with the share of non-performing loans reaching long-standing minimum levels. Current accounts dominate in deposit products due to the continuing low interest rates, with primary deposits also reaching historically high levels.

Among the activities leading to the improvement of our client satisfaction, we can highlight the process of approving new loan deals, where we managed to considerably accelerate the process for loans up to EUR 500,000 that account for more than a half of all newly granted loans in this segment.

In addition to strengthening its market position, the priorities for next year will include successful delivery of further innovations to our clients (primarily through new functionalities within Business Banking and facilitating cash handling) but also staff development and activities directed towards strengthening of the employer brand.

Corporate products

In terms of business results, 2018 saw a stable demand by corporate entities for loans and other business and project financing products.

In project financing, demand for property financing continued to increase. The amount of loans drawn stabilized slightly over the level 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 7 million to EUR 395 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

2018 was a relatively turbulent year on the financial markets. It was not a good year for global stock markets. Almost all global stock indices reported significant losses.

The following can be listed as the key factors influencing the financial markets in the past year: slowing growth dynamics of the world economy, a trade war between the US and China, interest rate hikes in the US and the associated growth of yields from US bonds, but also an overall tightening of monetary conditions.

Exchange markets faced crisis in some countries of South America, especially in Argentina, but also in Turkey. Additional uncertainty was created by the fears of an uncontrolled Brexit as well as uncertainty connected with Italy's budget and its overall debt level.

Also the decision of the ECB to gradually phase out quantitative easing, which the ECB carried out through purchases of selected bonds (Asset Purchase Program), and indicia of the future setting of basic interest rates were among the events that resonated mainly in the second half of the year. The initial expectations of the market were more hawkish than the rhetoric given by the ECB, resulting in a fall in interest rates across the entire interest curve.

Just a few of our credit clients were concerned about a sharper growth of benchmark interest rates in 2018. They decided to hedge their investments against interest rate risk through interest swaps or interest options. Some clients opted for credit financing with a fixed interest rate.

Excess EUR liquidity in the sector in combination with zero or very low interest rates, especially in the case of shorter maturities, almost completely eliminated interest by clients in increasing the value of their free funds through term deposits. This was the case, in particular, of our institutional clients.

Due to low yields, the interest of our institutional clients in investing through EUR-denominated bonds decreased further, and rather we experienced selling of their portfolios.

We witnessed increased activity of clients in connection with term deposits denominated in foreign currencies yielding higher interest, especially those denominated in USD and CZK. Besides higher interest rates, clients were also motivated by diversification of their assets, as well as by the strengthening of the relevant currencies expected by the market.

In terms of our clients' transactions in the area of foreign-exchange operations, the past year did not differ significantly from the average of previous years. The majority of their foreign-exchange deals were of a rather operational nature. Compared to the previous year, approximately the same portfolio of clients decided to use currency-hedging products. Clients were interested mainly in EUR-USD hedging. Fears of Brexit and its possible effects on the GBP exchange rate and, last but not least, also concerns regarding the risks of undesirable movements of the CZK resonated in the market. For some time now, we have been witnessing that clients seek to have their receivables and payables denominated in a single currency, thereby reducing their exchange rate risk to a minimum, i.e. they use natural hedging.

Thanks to its activities in trading government bonds in both the primary and secondary markets, Tatra banka has become a leader in this area among Slovak and foreign banks.

In the light of its position on the Slovak market and also as a sign of recognition by the state, Tatra banka was awarded the mandate to mediate the issuance of 10-year and 50-year government bonds. We successfully carried out an issuance in the amount of EUR 1.5 billion with an overwhelming interest by both foreign and domestic investors, predominantly from the institutional area.

Retail clients

(in EUR ths)	12/2018	12/2017	12/2016	12/2015	12/2014	12/2013	12/2012[1]
Net interest income	207 492	194 809	182 966	187 410	194 530	189 360	178 961
Net fees and commission income	95 128	100 718	95 380	102 423	99 782	87 295	82 202
Net provisioning	(33 006)	(22 576)	(17 606)	(12 344)	(18 241)	(21 781)	(13 699)
Other operating income	(11 535)	(12 707)	(11 215)	(9 578)	(12 979)	(16 899)	(9 967)
Operating expenses	(176 956)	(172 756)	(165 453)	(165 455)	(162 098)	(155 064)	(152 345)
Profit before income taxes	**81 123**	**87 488**	**84 072**	**102 455**	**100 994**	**82 910**	**85 152**
Cost/Income ratio	58.47%	58.46%	59.44%	57.09%	55.08%	56.05%	58.33%

Note: Natural persons, small corporate clients, micro companies, private banking clients and employees (data in the table are provided on individual basis).
(1) Other operating income since 2012 includes an extraordinary and special levy on selected financial institutions.

Natural persons

In the retail client segment, Tatra banka confirmed in 2018 its leading innovative position, introducing a unique Face Biometrics technology allowing the bank to identify non-clients by means of the Tatra banka mobile app.

Thanks to the Face Biometrics, the process of new account opening, applying for and drawing a consumer loan without the need to visit the bank's branch was considerably simplified and accelerated for new clients.

We completed the successful takeover of ZUNO banka. A substantial number of its clients accepted an offer from Tatra banka to open an account, started using our innovative banking and becoming our active customers.

In 2018, we launched a campaign for students called "Hudba platí všade" (Music Pays Everywhere) together with the unique "Play" debit card. More than 16,000 students opened a Student Account in Tatra banka thanks to the campaign.

We did not forget our youngest clients and Kozmix, our funny character, was educating them throughout the whole year. Almost 5,000 children whose parents opened a Children's Account were rewarded by "Peckové vreckové" (Smashing Pocket Money) at the end of the year.

2018 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 17 per cent.

Private clients

The amount of assets managed in the private banking segment exceeded EUR 2.5 billion in 2018, confirming Tatra banka's leading position in this segment on the Slovak market. This amount is the result of the bank's activities in the area of acquisitions, improving client satisfaction and concentration of clients' assets in Tatra banka private banking.

In 2018, we successfully issued certificates in cooperation with Raiffeisen Centrobank in the amount of more than EUR 101 million and the amount of assets managed by Tatra Asset Management exceeded the threshold of EUR 630 million.

Within the enhancement of financial advisory services, we introduced our clients to a digital platform – Digital Wealth Management – providing a unique view of their portfolio's overall performance. The platform meets the strict requirements laid down by the MiFID II Directive and allows on-going financial advisory services for our clients.

In 2018, Tatra banka's private banking received **the Best Private Banking** in Slovakia award from the renowned companies Global Finance and The Banker.

Payment cards

The growing trend of using contactless payments and making purchases over the Internet continued in 2018. The volume of Internet purchases grew 19 per cent and the volume of contactless transactions soared by an unbelievable 68 per cent compared to the year before.

We almost tripled the number of **Mobile**Pay[TB] app users. This was also reflected in the number of transactions that increased to more than half a million. The volume of transactions made via the **Mobile**Pay[TB] app reached EUR 14.8 million last year. Last year, we enriched the app with new unique functionalities – the **My Benefit** loyalty program for credit cards, the **Savings Overview** section where clients can see how much they saved thanks to the credit card and the Show PIN functionality. The **Show PIN** functionality is unique in the Slovak market. It allows clients to view their PIN code if they forget it.

Credit cards were redesigned in terms of functionalities in 2018, giving clients who have this product new benefits they can use in their daily lives. The new functionalities include the **My Benefit** loyalty program, 5% birthday **Cashback** and **Limit Alert** service. Moreover, clients who have a gold credit card can now choose the date of automatic instalments and remainder of maturity, use their total credit limit multiple times and enjoy the **Visa Luxury Hotel Collection** service.

In the area of **loan products**, 2018 was a year of innovations and legislative changes.

Tatra banka introduced an innovation which is unique in the global banking sector, namely "Face Biometrics" which debuted for the first time in October at the IT GALA, the most prestigious annual event of the Slovak information technology and telecommunications community. It received the IT Project of 2018 award. The same award was also presented to the Face Biometrics by the Project Management Association and PMI Slovakia Chapter.

In November, the success of the new technology crossed Slovakia's borders. Tatra banka received The World's Best Digital Bank 2018 award in the category of The World's Best Online Deposit, Credit and Investment Product Offerings from the prestigious Global Finance magazine. The jury

particularly recognized our innovative approach to online provision of loans and accounts for new clients and a wide range of online products and services for the bank's existing clients.

With the Face Biometrics, new clients can get their **Digital** Loan™ without visiting a branch, simply by using the **Tatra banka** mobile app.

In addition to that, clients were allowed to make, free of charge, an extra instalment during the year to save both money and time spent at a branch. An extra instalment can be made every month from the comfort of home via **Internet** Banking™ or the **Tatra banka** mobile app.

Contrary to consumer loans, mortgage loans witnessed turbulent times due to the legislative changes applicable from July 1. Loans were no longer granted for 90 per cent of property value and a limit of the share of a customer's total indebtedness was set at eight times the customer's net annual income. The limit also applies to consumer loans. Also due to the changes applicable since July, mortgage loans enjoyed growing interest of clients in borrowing. In 2018, the bank recorded the historically highest amount of loans drawn compared to previous years.

Tatra banka also achieved its plan to increase its market share in loans, posting year-on-year growth of 16.37 per cent in its housing loan portfolio and growth of 10 per cent in the portfolio of unsecured loans.

The end-to-end process of originating loans via the **DIALOG** Live call center is also popular among clients. This process saves a significant amount of time as clients only need to visit a branch once to draw a loan. Without visiting a branch, clients can consult about their loan, file a loan application and, since July 2018, also draw their loan via **DIALOG** Live.

The bank will continue to support the sale of consumer and mortgage loans in 2019. All the steps in the development and offering of products for clients will be directed towards confirming its leading position in innovations.

Internet banking, mobile applications, acceptance of payment cards

In 2018 Tatra banka's electronic banking reconfirmed its unique position in the Slovak banking market, as evidenced by a number of awards and leadership positions in this area.

Internet Banking™ has long been the most-used method for making payments. Less than two per cent of transactions are made via branches while **Internet** Banking™ 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 2018, clients made more than 30 million payments in Slovakia via **Internet** Banking™ and the **Tatra banka** mobile app.

Tatra banka won further awards in 2018 to add to those it won in previous years. Tatra banka received awards from the international monthly magazine Global Finance: Best Consumer Digital Bank and Best Web Site Design in Central and Eastern Europe (CEE). In the category of The World's Best Online Deposit, Credit and Investment Product Offerings from the prestigious Global Finance magazine, Tatra banka received: The World's Best Digital Bank 2018 award for online account opening and provision of loans in the **Tatra banka** app.

The **Tatra banka** mobile app defended its victory in two Slovak surveys on the 2018 best banking app: Techbox banking app and Smartbanka.

Internet banking

Each year, Tatra banka seeks to offer clients new and innovative features in its **Internet** Banking™. The most important milestones in 2018 are the making of an **Open** Banking™ solution available and a new 6.0.0 beta version of **Internet** Banking™.

In accordance with the PSD2 Directive, **Open** Banking™ introduces a safe and smart API solution in which a licensed company (third party) will gain access to a client's account after it has been granted the client's consent.

The new beta version of **Internet** Banking™ allows simple login with a PIN code, has a new design also available for tablets, better legibility of text and new controls. It also introduces a more accessible solution with no technological limitations.

In e-commerce services, we recorded an increase of 21 per cent in the number of transactions and 19 per cent growth in the volume of transactions made in the **TatraPay** Internet payment service (credit transfer to a merchant's account). In total, 1.2 million payments in the volume of more than EUR 72 million were made.

Mobile applications

In 2018 we continued to upgrade mobile banking.
The possibility to "become a client" of the bank without visiting a branch, simply by using the **Tatra banka** mobile app, is the most crucial. By filling in their basic information, taking a picture of their ID card and using face biometrics, potential new clients can open a current account or apply for a **Digital** Loan™ online.

The **Tatra banka** app now allows existing clients to view their payment card's PIN code, and it also introduced Push notifications for credit cards, a Client's Profile and many other changes to increase client satisfaction.

Also other mobile apps of the bank were updated with new functionalities – **Mobile**Pay™, **Tatra banka VIAMO** and **Reader**™.

With these regular updates, incorporation of changes based on inputs from clients and other activities, the bank's apps maintained high client satisfaction and helped to expand the mobile banking user base to more than 330,000 regular users.

Acceptance of payment cards

In acceptance of payment cards, Tatra banka maintained its leader position in the Slovak market in 2018. Tatra banka's business partners generated turnover of EUR 3.414 billion on payment terminals with a total of more than 148 million transactions. There were 10.1 million transactions, totaling EUR 411.2 million, using **CardPay** and **ComfortPay** in 2018. The number of payment transactions over the Internet keeps growing, increasing by 30 per cent compared to 2017.

At the end of 2018, Tatra banka had 16,826 active POS terminals, 99 per cent of which supported contactless payments. The share of contactless transactions on Tatra banka's POS terminals was almost 72 per cent in 2018.

At the end of 2018, Tatra banka had a total of 325 ATMs, with a majority of the network consisting of NCR cash dispense ATMs (316 pieces). In addition, the network was expanded by the first nine cash recycling ATMs with the extended functionality of allowing Tatra banka clients to make cash deposits to their account. Clients made more than EUR 14.6 million withdrawals from Tatra banka's ATMs in 2018 and the amount of withdrawn cash reached more than EUR 2.5 billion.

Tatra banka was the first bank in Slovakia to introduce the option of cash withdrawals from an ATM with a mobile phone. This functionality has become increasingly popular with Tatra banka clients. Clients made almost 1.05 million ATM withdrawals with a mobile phone in 2018, worth almost EUR 87 million. The number of ATM withdrawals using a mobile phone accounted for 7.2 per cent of the total number of withdrawals from Tatra banka's ATMs in 2018. This was an increase of 1.8 per cent compared to 2017.

We closed the year 2018 with total turnover of EUR 3.825 billion and 158.4 million transactions.

DIALOG Live

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, through relationship management, played a vital role because it was serving about one third of Tatra banka's premium clients during the entire year of 2018. Based on better knowledge of the Upper Mass segment, a remote team of personal financial clients was newly created, reflecting the requirements of the segment and helping to improve the percentage of sales through digital selling.

In 2018, we embarked on an expansion of **DIALOG** in Prešov to prepare for addressing a growing demand from clients for alternative forms of communication with the bank.

In terms of business and quality, **DIALOG** Live had a very successful year, becoming the most successful TB retail sales department.

Responsible business conduct

Tatra banka is part of 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 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, discreetly 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 and strategy. The Report also includes the outcomes of responsible business in 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, using all the required expertise and infrastructure. The bank provides its products and services in the best possible way.

Among other things, 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 multilingual 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

In 2018, Tatra banka made substantial progress in the strengthening of employee relations and a team atmosphere. Members of the Management Board gave each employee the opportunity to personally take part in the Roadshow where they introduced the bank's new strategy as an employer and the key activities for each area. During April and May, the bank organized 18 events with 191 participants on average. The bank's employees had considerable involvement in the creation of the strategy during the gathering of opinions and ideas as well as during the very formulation and implementation of the strategy. According to the feedback from the employees, they believe that the bank's new strategy as an employer is moving the bank in the right direction.

The vision of Tatra banka as an employer is:

We are an employer of the future, an employer for smart people
and a place where we enjoy being, to create and progress.
The achievement of this vision is built on three basic pillars:
a. Atmosphere
b. Meaningful and creative work
c. A place to work and live

As part of this strategy, the bank also changed its set of corporate values.

The bank has focused considerably on the development of leadership and a new culture. It seeks to be a company that attracts talented people from both outside and inside the company, where talents are given room to realize their own potential and leave their mark on something exceptional.
The bank has also strengthened the areas of change management and internal communication. Employer branding and activities to improve working conditions for employees are supported by the

bank's communication concept #prirodzenenajlepsi (naturally the best). The bank launched a unique mobile application for employees that has quickly become popular and is already used by 3,200 employees.

Tatra banka also supports its employees in volunteering and donations. Employees can take part in six volunteering programs. Every employee can use two working days a year for volunteering activities.

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 with 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. Involved staff members 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-mandated 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. Older 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 at the head office has replaced older PCs and screens with more energy-efficient devices.

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 according to the legislation in force.

Tatra banka offers shuttle transport for its staff between the buildings of the head office, using mainly electric cars. Video conferences are used to reduce the number of business trips. The extension of their use is part of implementation of efficient meetings principles.

Community relations

Support of arts, education and design

As part of the sponsorship, grant programs and cooperation activities of its 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 design initiatives as well**.

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 in the arts.

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

For the seventh year running, 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 achieved via the partnerships of the Tatra banka Foundation, the foundation's grant program that supports young designers (More Design), and the foundation's participation in events in this field such as the By Design conference, Days of Architecture and Design, Bratislava Design Week, Fashion Live! 2018, and Best Fashion Graduate.

Investments in art and education are part of a long-term process that must be stable and continuous. The results of the work gradually become visible. 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.

Support of university education

The world is becoming "borderless". More and more often young people are discovering opportunities to move further and to find self-actualization outside Slovakia. However, at the same time, Slovakia needs experts, and morally-stable and well-oriented people. This is also why Tatra banka has provided long-term support for higher education. It supports the quality of educational processes at universities, supports institutions that are dedicated to education and to its improvement, and, of course, supports individual students.

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 scientific experts, **supports active groups of teachers and students at universities and secondary schools, as well as young talented artists and designers**, while creating attractive opportunities for NGOs.

In 2018, Tatra banka Foundation supported 372 valuable projects and provided almost EUR 685,000 in financial support.

Grant programs

The aim of the foundation's grants is to support active groups of teachers 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 **seven open grant programs in education, art and design, as well as three employee grant programs**.

Partnerships in the regions

The **support of theatrical production** 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 assisting 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 votes cast 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 eight 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 2018, an invitation was accepted by **Pulitzer Prize winner Ian Johnson**, who gave public lectures at Comenius University in Bratislava and Pavol Jozef Šafárik University in Košice and conducted several workshops with students studying journalism.

Tatra banka Foundation Art Award

For twenty-three 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 **99** well-known artists and **58** new artists.

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

Charity

Tatra banka, an employer inspired by the motto **"if we want to change something, we need to start with ourselves"**, sees its employees as the most valuable essence of its company philanthropy. **Volunteering and donations** represent an inseparable part of the bank's activities. Tatra banka supports both smaller and larger projects that are often initiated by the employees themselves.

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 primarily through two activities – the foundation employee program More for Regions (**Viac** pre regióny™) and active involvement in the biggest corporate volunteering event in Slovakia, **Naše Mesto** (Pontis Foundation).

The More for Regions (**Viac** pre regióny™) employee grant program was organized for the fifth 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 the community issue that they consider the most pressing in their respective region and 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 2018:

- Bratislava Region – Sloboda zvierat;
- Banská Bystrica Region – kRaj;
- Prešov Region – Molodŷ Rusŷnŷ;
- Trenčín Region – OSA – Sports Academy;
- Trnava Region – Útulný domov civic association (Save Jablonica Manor House);
- Košice Region – Small Farm (Quatre Pattes civic association);
- Žilina Region – Ekocentrum Zázrivá animal rescue center;
- Nitra Region – Zatúlané psíky Šaľa dog shelter.

Tatra banka's staff members can also participate in the **Naše Mesto** event – which has been the biggest corporate volunteering program in Slovakia since it started. In 2018, 212 employees in various Slovak towns took part in the 12th year of this event. Last year, staff members had one whole day of their working time allocated for this event. They could spend the day taking part in any volunteering activity of their choice, 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™) 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 to donate 2 per cent of their taxes or contribute 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 an 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 “really important” but they all share respect and regard for 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 2018, EUR 81,500 was allocated to 152 projects as part of the Good Heart (**Dobré** srdce™) program.

The First Aid (**Prvá** pomoc™) grant program is designed for staff 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 a third party. All 68 applicants were supported in this way in 2018.

A blood donation program called **Krvná** banka™, which Tatra banka organizes twice a year in cooperation with the National Transfusion Service, has been running for eight years. Mobile blood donations took place twice last year, in both head office buildings, at the processing center in Prešov and at Dialogue in Nitra. A total of 189 employees successfully donated blood.

For the ninth time, Tatra banka participated in the collection of clothes and other items for non-governmental organizations, called Pass On (**Posuň** ďalej™) in cooperation with the Pontis Foundation. The collection was held in both the Spring and Fall. More than 363 staff members participated in Bratislava, Prešov, Banská Bystrica and the surrounding areas, and in the Nitra Region.

Employees donated clothes and soft furnishings, filling up 258 large bags. In addition to this, they collected 580 pairs of shoes and numerous boxes containing toiletries, kitchen utensils and appliances, accessories, toys and books. The collection also included roller-skates, figure and hockey skates, stroller, bicycles, scooter, printer and a camera. Tatra banka contributed 15 surplus desktop computers.

The collection was split among seven associations, exactly according to their needs: Domov pre každého civic association, Pošli ďalej civic association, Združenie mladých Rómov, Centrum pre rodinu, Podaj mi ruku Nitra, Black white horse, and Subitis Auxilium.

Consolidated financial statements

Independent Auditors' Report

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Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tatra banka, a. s. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section. We are independent of the Group in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the 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.

Impairment of loans and advances to customers

The carrying amount of loans and advances to customers as at 31 December 2018: € 10,056,221 thousand (as at 31 December 2017: € 9,333,712 thousand); total loan loss provisions recognized in 2018: € 27,235 thousand (in 2017: € 11,853 thousand); total loan loss provisions as at 31 December 2018: € 213,552 thousand (as at 31 December 2017: € 193,000 thousand).

Refer to Note II. (Principal accounting policies) and Note IV. 19. (Financial assets at amortised cost) to the consolidated financial statements.

Key audit matter	Our response
Impairment allowances represent the Management Board's best estimate of the expected credit losses within the loans and advances to customers at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment from the Management Board over both the timing of recognition and the amounts of any such impairment. Additionally, as at 1 January 2018, the Group applied the new financial instruments standard, IFRS 9 *Financial Instruments*, whose impairment requirements are based on the expected credit loss (ECL) model rather than the incurred loss model, as previously used. Following the initial application of IFRS 9, impairment allowances for all performing exposures (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and retail non-performing exposures (Stage 3) (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. For individually assessed exposures, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined	Our audit procedures in this area included, among others: • Inspecting the Group's new ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the new standard. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; • Making relevant inquiries of the Group's risk management and information technology (IT) personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing of the Group's IT control environment for data security and access, assisted by our own IT specialists; • Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances; • With respect to the impairment accounting under the new standard: – Understanding the overall transition process activities and controls, including the process and controls over determining the impact as well as the underlying process activities that generated the related disclosures;

on an individual basis by means of a discounted cash flows analysis.

For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be our key audit matter

- Assessing whether the definition of default and the new standard's staging criteria were consistently applied. Also assessing whether the definition of default applied is appropriate based on the requirements of the new standard (e.g. taking into account the 90-day presumption);

- Evaluating the overall modelling approach, of calculation of ECLs, including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD));

- Obtaining the relevant forward looking information and macroeconomic forecasts used in the Group's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; Assessing LGD and PD parameters used by the client, by reference to historical realized losses on defaults;

- Performing an analysis of the ECL-based impairment allowances as at the new standard's initial application date, to those calculated at that same date in accordance with the previous standard, and assessing their reasonableness based on inquiries of the credit risk management personnel.

- Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics (including lower value items), which we independently assessed as high-risk, such as watch listed, restructured or rescheduled exposures, loans to clients operating in higher risk industries and non-performing exposures with low provision coverage;

- For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2018;

- For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management

Board's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing respective independent recalculations, where relevant.

Provision for legal cases

The carrying amount of provision for legal cases as at 31 December 2018: € 49,105 thousand (as at 31 December 2017: € 46,390 thousand), change in provision for legal cases recognized in 2018: € 5,938 thousand (in 2017: € 6,233 thousand).

Refer to Note II. (Principal accounting policies) and Note IV. 28. (Provisions) to the consolidated financial statements.

Key audit matter	Our response
In the normal course of the Group's business, potential exposures may arise from significant court proceedings (please see note 40 of the consolidated financial statements). Whether a liability or a contingent liability is recognized or disclosed in the consolidated financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments. The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the consolidated financial statements, is inherently subjective. Due to the above factors, we considered this area to be a key audit matter	Our audit procedures in this area included, among others: • Obtaining from the Management Board a list of ongoing litigations as at 31 December 2018 and linking the cases identified in the list to the detail of provisions recognized as at the above date or contingent liabilities disclosed in the consolidated financial statements; • Reading minutes of the meetings of the Management and Supervisory Boards to identify additional potential liabilities; • Obtaining and evaluating the Group's lawyers' responses to our audit inquiries, discussing selected key matters with the lawyers and, assisted by our own legal specialists, making corroborating inquiries of the Group's management in respect of major legal disputes; • Critically assessing the Group's assumptions and estimates in respect of the key claims assessed, including the liabilities recognized or contingent liabilities disclosed in the consolidated financial statements. This involved assessing the probability of an unfavourable outcome of each such litigation and the reliability of estimates of related obligations.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated statements on 14 March 2018.

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

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

In preparing the consolidated financial statements, the statutory body 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 the statutory body 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on

the 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 auditors' 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 auditors' 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 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Consolidated Annual Report

The statutory body is responsible for the information in the Consolidated Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the consolidated financial statements does not cover other information in the Consolidated Annual Report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Consolidated Annual Report and, in doing so, consider whether the Consolidated Annual Report is materially inconsistent with the audited consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The Consolidated Annual Report was not available to us as of the date of this auditors' report.

When we obtain the Consolidated Annual Report of the Group, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the consolidated financial statements, we will express an opinion as to whether:

- the information given in the Consolidated Annual Report for the year 2018 is consistent with the consolidated financial statements prepared for the same financial year; and
- the Consolidated Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the Consolidated Annual Report in light of the knowledge and understanding of the Group and its environment that we have acquired during the course of the audit of the consolidated financial statements.

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

Appointment and approval of an auditor

We have been appointed as a statutory auditor by the statutory body of the Group 13 July 2018 on the basis of approval by the General Meeting of the Bank on 11 June 2018. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is one year.

Consistency with the additional report to the audit committee

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

Non-audit services

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

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

6 March 2019
Bratislava, Slovak Republic

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

Responsible auditor:
Ing. Ľuboš Vančo
License SKAU No. 745

Consolidated statement of comprehensive income for the year ended as at 31 December 2018

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

	Note	2018	2017
Interest income		307 929	291 272
Dividend income		257	217
Interest expense		(18 932)	(22 395)
Net interest income and dividend income	**(1)**	**289 254**	**269 094**
Fee and commission income		172 090	162 715
Fee and commission expense		(42 810)	(37 500)
Net fee and commission income	**(2)**	**129 280**	**125 215**
Net profit (loss) from derecognition of financial assets and liabilities not measured at fair value through comprehensive income	(3)	(642)	(760)
Net profit (loss) from financial instruments held for trading and exchange rate differences	(4)	24 396	29 627
Net profit (loss) from financial instruments at fair value through comprehensive income	(5)	-	(246)
Special levy of selected financial institutions	(6)	(22 268)	(20 286)
Other operating profit (loss)	(7)	6 766	11 487
General administrative expenses	(8)	(240 841)	(240 509)
(Creation)/release of provisions for liabilities	(9)	(5 679)	(6 028)
(Creation)/release of provisions for expected losses from commitments and guarantees given	(10)	1 562	516
Impairment allowances for financial assets not measured at fair value through profit or loss	(11)	(27 235)	(11 853)
Impairment allowances for non-financial assets	(12)	(13)	(608)
Profit before income tax		**154 580**	**155 649**
Income tax	(13)	(34 705)	(31 307)
Profit after tax		**119 875**	**124 342**

	Note	2018	2017
Other comprehensive income, after income tax:			
Items that can be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income		(4 534)	38
Cash flow hedges		120	(592)
Income tax related to items that can be reclassified to profit or loss		939	116
Items that can be reclassified to profit or loss		**(3 475)**	**(438)**
Equity instruments at fair value through other comprehensive income		2 096	1 669
Income tax related to items that will not be reclassified to profit or loss		(440)	(351)
Items that will not be reclassified to profit or loss		1 656	1 318
Other comprehensive income, after income tax		**(1 819)**	**880**
Comprehensive profit after tax		**118 056**	**125 222**
Basic earnings per ordinary share (face value EUR 800) in EUR	**(14)**	**1 498**	**1 554**
Basic earnings per ordinary share (face value EUR 4 000) in EUR	**(14)**	**7 490**	**7 770**
Basic earnings per preference share (face value EUR 4) in EUR	**(14)**	**7.5**	**7.8**

Consolidated statement of financial position for the year ended as at 31 December 2018

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

	Note.	2018	2017
Assets			
Cash, cash balances at central banks and other demand deposits	(15)	1 144 212	1 313 569
Financial assets held for trading	(16)	26 146	40 730
Financial assets at fair value through profit or loss	(17)	-	13 249
Financial assets at fair value through other comprehensive income	(18)	502 391	177 127
Financial assets at amortised cost	(19)	11 248 247	10 737 366
Hedging derivative financial assets	(20)	2 168	1 701
Property and equipment	(21)	58 930	61 478
Investment property	(21)	33 143	34 701
Intangible assets	(21)	48 592	45 322
Current tax asset	(22)	752	686
Deferred tax asset	(23)	32 661	28 168
Other assets	(24)	98 655	48 581
Total assets		**13 195 897**	**12 502 678**
Equity and liabilities			
Financial liabilities held for trading	(25)	28 226	80 490
Financial liabilities at amortised cost	(26)	11 923 175	11 322 699
Hedging derivative financial liabilities	(27)	256	1 123
Provisions	(28)	79 048	56 933
Current tax liability	(29)	4 623	172
Deferred tax liability	(30)	194	422
Other liabilities	(31)	28 471	48 588
Total liabilities		12 063 993	11 510 427
Equity (excluding current year profit)	(32)	1 012 029	867 909
Profit after tax		119 875	124 342
Total equity		**1 131 904**	**992 251**
Total equity and liabilities		**13 195 897**	**12 502 678**

Consolidated statement of changes in equity for the year ended 31 December 2018

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

	Share capital	Share capital – treasury shares	Share premium	Share premium – treasury shares	Reserve and other funds	Fair value reserve for financial instruments at fair value through other comprehensive income	Cash flow hedging reserve	Retained earnings	AT1 capital	Profit after tax	Total
Equity as at 31 December 2017	**64 326**	**(368)**	**297 134**	**(4 383)**	**15 746**	**2 506**	**648**	**492 300**	**-**	**124 342**	**992 251**
IFRS 9 impact	-	-	-	-	-	(396)	-	(13 022)	-	-	(13 418)
Equity as at 1 January 2018	**64 326**	**(368)**	**297 134**	**(4 383)**	**15 746**	**2 110**	**648**	**479 278**	**-**	**124 342**	**978 833**
Total profit after tax											
Profit after tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***119 875***	***119 875***
Other comprehensive income											
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	(3 570)	-	-	-	-	(3 570)
Cash flow hedge	-	-	-	-	-	-	95	-	-	-	95
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	1 656	-	-	-	-	1 656
Other comprehensive income net of income tax	**-**	**-**	**-**	**-**	**-**	**(1 914)**	**95**	**-**	**-**	**-**	**(1 819)**
Total profit after tax	**-**	**-**	**-**	**-**	**-**	**(1 914)**	**95**	**-**	**-**	**119 875**	**118 056**
Transactions with owners of the Group											
Contributions and distributions											
Distribution of profit out of which	-	-	-	-	21	-	-	56 902	-	(124 342)	(67 419)
Transfer to retained earnings	-	-	-	-	-	-	-	*124 342*	-	*(124 342)*	-
Increase in legal reserve fund	-	-	-	-	*21*	-	-	*(21)*	-	-	-
Dividend paid – ordinary shares	-	-	-	-	-	-	-	*(60 001)*	-	-	*(60 001)*
Dividend paid – preference shares	-	-	-	-	-	-	-	*(7 418)*	-	-	*(7 418)*
Disposal of equity shares	-	660	-	7 961	-	-	-	-	-	-	8 621
Sale of ordinary and preference shares	-	-	211	-	-	-	-	-	-	-	211
Repurchase of preference shares	-	(480)	-	(5 904)	-	-	-	-	-	-	(6 384)
AT1 capital issue	-	-	-	-	-	-	-	(14)	100 000	-	99 986
Total contributions and distributions	**-**	**180**	**211**	**2 057**	**21**	**-**	**-**	**56 888**	**100 000**	**(124 342)**	**35 015**
Equity as at 31 December 2018	**64 326**	**(188)**	**297 345**	**(2 326)**	**15 767**	**196**	**743**	**536 166**	**100 000**	**119 875**	**1 131 904**

	Share capital	Share capital – treasury shares	Share premium	Share premium – treasury shares	Reserve and other funds	Fair value reserve for financial instruments at fair value through other compre-hensive income	Cash flow hedging reserve	Retained earnings	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**
Total profit after tax										
Profit after tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**124 342**	**124 342**
Other comprehensive income										
Debt instruments at fair value through other comprehensive income	-	-	-	-	-	30	-	-	-	30
Cash flow hedge	-	-	-	-	-	-	(468)	-	-	(468)
Equity instruments at fair value through other comprehensive i ncome	-	-	-	-	-	1 318	-	-	-	1 318
Other comprehensive income net of income tax	**-**	**-**	**-**	**-**	**-**	**1 348**	**(468)**	**-**	**-**	**880**
Total profit after tax	**-**	**-**	**-**	**-**	**-**	**1 348**	**(468)**	**-**	**124 342**	**125 222**
Transactions with owners of the Group										
Contributions and distributions										
Distribution of profit out of which	-	-	-	-	314	-	-	1 290	(125 980)	(124 376)
Transfer to retained earnings	-	-	-	-	*314*	-	-	*125 666*	*(125 980)*	-
Dividend paid – ordinary shares	-	-	-	-	-	-	-	*(110 333)*	-	*(110 333)*
Dividend paid – preference shares	-	-	-	-	-	-	-	*(14 043)*	-	*(14 043)*
Repurchase of preference shares	-	(204)	-	(2 438)	-	-	-	-	-	(2 642)
Total contributions and distributions	**-**	**(204)**	**-**	**(2 438)**	**314**	**-**	**-**	**1 290**	**(125 980)**	**(127 018)**
Equity as at 31 December 2017	**64 326**	**(368)**	**297 134**	**(4 383)**	**15 746**	**2 506**	**648**	**492 300**	**124 342**	**992 251**

Consolidated cash flow statement for the year ended 31 December 2018

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

	2018	2017
Cash flows from operating activities		
Profit before tax	***154 580***	***155 649***
Adjustments for non-cash transactions:	***(253 767)***	***(239 522)***
Interest expense	18 932	19 274
Interest income	(307 929)	(290 614)
Dividends received	(257)	(217)
Impairment loss allowances, provisions for losses and other provisions, net	10 843	1 751
(Profit)/loss on sale and other disposal of non-current assets	(1 182)	(251)
Unrealized (profit)/loss from financial derivatives and financial assets held for trading	2 542	2 653
Unrealized (profit)/loss from financial assets at fair value through profit or loss	-	246
Unrealized (profit)/loss from financial assets at fair value through other comprehensive income	3 864	556
Unrealized (profit)/loss from hedging derivatives	(1 354)	914
Net (profit)/loss from financial assets at fair value through other comprehensive income	(12)	-
Depreciation and amortisation	21 154	25 239
Impairment allowances for investment property	112	(69)
(Profit)/loss from foreign exchange operations and other operations with cash and cash equivalents	(480)	996
Cash flows used in operating activities before changes in working capital, interest received and paid and income tax paid	***(99 187)***	***(83 873)***
(Increase)/decrease in operating assets:		
Obligatory reserve with National Bank of Slovakia	110 989	(508 172)
Loans and advances to banks and customers	(696 373)	(1 037 622)
Financial assets held for trading	12 892	64 927
Financial assets at fair value through profit or loss	13 249	42 356
Financial assets at fair value through other comprehensive income	(328 430)	(139 549)
Other Assets	(50 142)	(4 093)
(Increase)/decrease in operating liabilities:		
Deposits from customers and current bank accounts	880 444	1 114 010
Financial liabilities held for trading	(52 145)	(32 425)
Liabilities from debt securities	(180 399)	53 728
Other liabilities	(2 731)	1 409
Cash (used in) earned from operations before interest paid and received and income tax paid	***(391 833)***	***(529 304)***
Interest paid	(19 358)	(20 925)
Interest received	276 577	261 023
Income tax paid	(32 847)	(25 786)
Net cash flows from operating activities	**(167 461)**	**(314 992)**

	2018	2017
Cash flows from investing activities		
Increase in debt securities at amortised cost	(511 178)	(347 893)
Decrease in debt securities at amortised cost	700 374	807 212
Interest received from financial assets at amortised cost	3 304	38 587
Proceeds from the sale or disposal of non-current tangible and intangible assets	233	272
Proceeds from the sale or disposal of investment property	3 283	1 857
Purchase of non-current tangible and intangible assets	(22 707)	(23 465)
Dividends received	257	217
Net cash flows from investing activities	**173 566**	**476 787**
Cash flows from financing activities		
(Redemption) or sale of preference shares	2 448	(2 643)
Issue of AT1 capital	99 986	-
Subordinated debt	(100 000)	-
Dividends paid	(67 419)	(124 793)
Net cash flows from financing activities	**(64 985)**	**(127 436)**
Effects of exchange rate changes on cash and cash equivalents and other effects	512	(1 006)
Change in cash and cash equivalents	**(58 368)**	**33 353**
Cash and cash equivalents, beginning of the year	184 072	150 719
Cash and cash equivalents, end of the year	**125 704**	**184 072**

Notes to Consolidated financial statements as at 31 December 2018

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

I. GENERAL INFORMATION

Scope of activities

The consolidated group of Tatra banka (hereinafter referred to as the "Group") consists of the parent company Tatra banka, a joint stock company (hereinafter referred to as "the Bank" or "the Parent company") with its registered office in Bratislava at Hodžovo námestie č. 3 and 12 subsidiaries. The Bank was established on 17 September, 1990 and registered in the Commercial Register on 1 November 1990. The Bank has a general banking licence issued by the National Bank of Slovakia ("NBS"). The identification number of the Bank is 00 686 930; the tax identification number is 202 040 8522.

The Group is a disclosed universal bank offering 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. Valid list of all the Group's activities is issued in the Commercial Register of the Parent company, its subsidiaries and associates.

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

	31 December 2018	31 December 2017
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 2018	31 December 2017
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 2018	31 December 2017
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 116 branches, corporate centres and corporate centre sub-agencies, Centrum bývania TB and Centrum investovania TB, and 62 branches of the Organisational Unit of Raiffeisen Bank. In addition, there are other 7 branches of Tatra Leasing.

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's (the Group) as at 31 December 2018:

Supervisory Board	
Chairman:	Andrii STEPANENKO
Vice-chairman:	Igor VIDA
Members:	Peter LENNKH
	Johann STROBL
	Lukasz JANUSZEWSKI
	Andreas GSCHWENTER
	Iveta UHRINOVÁ
	Peter BALÁŽ
	Hannes MÖSENBACHER

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

Changes in the Parent company's Supervisory Board in 2018:
Martin Grüll – – end of office as Member of the Supervisory Board as at 30 June 2018
Lukasz Januszewski – start of office as Member of the Supervisory Board on 6 September 2018
Andrii Stepanenko – start of office as Chairman of the Supervisory Board on 10 October 2018

Changes in the Parent company's Board of Directors in 2018:
Vladimír Matouš – end of office as Member of the Board of Directors as at 30 June 2018
Martin Kubík – start of office as Member of the Board of Directors on 1 July 2018

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

The RBI Group represents the parent company Raiffeisen Bank International and its subsidiaries and associated undertakings 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.

Definition of the consolidated group:

As at 31 December 2018, 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 companies	Company ID No.	Hlavná činnosť	Principal activities	Seat
Tatra Residence, a. s.	100 %	100 %	n/a	35 730 561	Business services	Full consolidation	Bratislava
Tatra Asset Management, správ. spol., a.s.	100 %	100 %	n/a	35 742 968	Asset management	Full consolidation	Bratislava
Doplnková dôchodková spoločnosť Tatra banky, a.s.	100 %	100 %	n/a	36 291 111	Supplementary pension Savings	Full onsolidation	Bratislava
Group Cloud Solutions, s. r. o.	-	100 %	Tatra Residence, a. s.	35 780 860	Rental and property management	Full consolidation	Bratislava
BA Development, s.r.o.	-	100 %	Tatra Residence, a. s.	36 658 545	Rental and property management	Full consolidation	Bratislava
PRODEAL, a.s.	-	100 %	Tatra Residence, a. s.	36 702 196	Rental and property management	Full consolidation	Bratislava
Dúbravčice, s.r.o.	-	100 %	Tatra Residence, a. s.	45 945 080	Rental and property management	Full consolidation	Bratislava
Tatra-Leasing, s.r.o.	100 %	100 %	n/a	31 326 552	lízing	Full consolidation	Bratislava
Eurolease RE Leasing, s.r.o.	-	100 %	Tatra-Leasing, s.r.o.	45 985 812	sprostredkova-teľská činnosť	Full consolidation	Bratislava
Rent CC, s.r.o.	-	100 %	Tatra-Leasing, s.r.o.	35 824 999	Leasing	Full consolidation	Bratislava
Rent GRJ, s.r.o.	-	100 %	Tatra-Leasing, s.r.o.	36 804 738	Leasing	Full consolidation	Bratislava
Rent PO, s.r.o.	-	100 %	Tatra-Leasing, s.r.o.	35 823 267	Leasing	Full consolidation	Bratislava

Changes in the Group during year 2018

During 2018 the Group transferred its interest in Slovak Banking Credit Bureau, s.r.o. from *"Investments in subsidiaries, joint ventures and associates"* to portfolio *"Financial assets at fair value through other comprehensive income"*.

Distribution of the Group's profit for 2017

Contribution to retained earnings	113 265
Total	**113 265**

Payment of dividends from the Bank's retained earnings

Dividends – ordinary shares	60 001
Dividends – preference shares	7 882
Total	**67 883**

A dividend per ordinary share with a face value of EUR 800 amounted to EUR 844. A dividend per ordinary share with a face value of EUR 4 000 amounted to EUR 4 220. A dividend per preference share with a face value of EUR 4 amounted to EUR 4.23.

The annual separate and consolidated financial statements for 2017, the Annual Report for 2017, the profit distribution, retained earnings and the determination of royalties to the Supervisory Board members for 2017 were approved by the Parent Company's General Meeting held on 11 June 2018. Dividends to which no title arose as at the date of the General Meeting in the amount of EUR 464 thousand were recognised in the retained earings as at 31 December 2018.

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 rates and foreign exchange position of the Group.

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 „financial statements") for 2018 and comparatives for 2017 have been prepared in accordance with International Financial Reporting Standards („IFRS") as adopted by the European Union („EU") in Commision Regulation (EC) no. 1126/2008 as amended including valid interpretations of the International Financial Reporting Interpretations Committee („IFRIC"), further „IFRS".

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 2018. 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:

- **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);

- **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 initially applied);

- **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);

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

- **Amendments to IFRS 2 „Share-based payment„** – Clasification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018);

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

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

The adoption of these standards and amendments to the existing standards and new interpretations had no significant impact on the Group's accounting policies, with the exception of IFRS 9 Financial Instruments. The Group initially implemented IFRS 9, as issued in July 2014, on 1 January 2018.

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these financial statements.

- **IFRS 16 Leases** (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the Group also applies IFRS 15.)

  IFRS 16 Leases („IFRS 16") supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

  Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:
- Leases with a lease term of 12 months or less and containing no purchase options;
- Leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

Leases in which the Group is a lessee

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements of the Group. It will require the Group to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Group acts as a lessee.

The Group will recognise new assets and liabilities (expected MEUR 60) for its operating leases in respect of branch and office premises. The nature and expenses related to those leases will then change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on the lease liabilities.

Previously, the Group recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised.

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019 using the modified retrospective approach B. Therefore no adjustment to the opening balance of retained earnings at 1 January 2019 will be recognised, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
(Effective for annual periods beginning on or after 1 January 2019)

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The Group does not expect that the amendments will have a material impact on the financial statements because the Group does not have prepayable financial assets with negative compensation.

The following amended standards are not expected to have a significant impact on the Group's Consolidated financial statements.

- **Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures** (Effective for annual periods beginning on or after 1 January 2019);
- **Annual Improvements to IFRS 2015-2017 Cycle** (Effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19: Employee Benefits;**
- **Amendments to IFRS 3 Business Combinations** (Effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** (Effective for annual periods beginning on or after 1 January 2020);

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

IFRS 9 implementation

On 1 January 2018, the new accounting standard for financial instruments (IFRS 9) became effective, replacing the previous accounting standard, IAS 39 (Financial Instruments: Recognition and Measurement). The regulations set out in the new standard are primarily reflected in the impairment allowances, as they apply to impairment losses on financial assets valued at amortised cost or at fair value recognized directly in equity through other comprehensive income. Under IFRS 9, the impairment requirements also apply to off-balance loan commitments and financial guarantees off the statement of financial position (contingent liabilities and other off-balance sheet items). The model used to determine impairment losses changes from and historically oriented model under IAS 39 (incurred losses) to and future oriented model under IFRS 9 (expected credit losses).

The adoption resulted in decrease of equity in the amount of EUR 13 million on 1 January 2018.

In addition to the adoption of IFRS 9, the Group also changed the presentation of its statement of financial position, which is now aligned with the financial reporting standards framework (FINREP) issued by the European Banking Authority (EBA). With the adoption of the framework, it was also necessary to adjust the comparative period.

In the following transition table the Group shows the impact of the implementation of IFRS 9 and other reclassifications on the Consolidated statement of financial position (assets) as at 1 January 2018:

IAS 39 Category	IFRS 9 Category	IAS 39 measurement	Reclassification from IFRS 9*	Reclassification IFRS 9	Expected credit losses	Other	IFRS 9 measure-ment
Assets							
Cash and deposits at central banks	Cash, cash balances at central banks and other demand deposits	1 251 327	-	-	-	-	1 251 327
Loans and advances to banks	Cash, cash balances at central banks and other demand deposits	62 242	-	-	-	-	62 242
Loans and advances to banks	Financial assets at amortised cost: Loans and advances to banks	157 907	-	-	-	-	157 907
Loans and advances to customers, gross	Financial assets at amortised cost: Loans and advances to customers	9 526 679	-	-	-	-	9 526 679
Impairment allowances for loans and advances	Financial assets at amortised cost: Loans and advances to banks	(399)	-	-	(1)	-	(400)
Impairment allowances for loans and advances	Financial assets at amortised cost: Loans and advances to customers	(193 000)	-	-	(12 779)	-	(205 779)
Hedging derivative financial assets		35 070	(35 070)	-	-	-	-
	Financial assets held-for-trading	-	33 369	-	-	-	33 369
	Hedging derivative financial assets	-	1 701	-	-	-	1 701
Financial assets held-for-trading	Financial assets held-for-trading: Debt securities	7 361	-	13 249	-	-	20 610
Financial assets at fair value through profit or loss	Financial assets held-for-trading: Debt securities	13 249	-	(13 249)	-	-	-
Financial investments held-to-maturity	Financial assets at amortised cost: Debt securities	1 246 146	-	-	(29)	-	1 246 117
Financial assets available-for-sale	Financial assets at fair value through other comprehensive income	177 127	-	-	(4)	(503)	176 620
Investments in subsidiaries and associated undertakings	Investments in subsidiaries, joint ventures and associates	3	(3)	-	-	-	-
Intangible assets	Property and equipment	61 478	-	-	-	-	61 478
Investment property	Investment property	34 701	-	-	-	-	34 701
Tangible assets	Tangible assets	45 322	-	-	-	-	45 322
Current tax asset	Current tax asset	686	-	-	-	-	686
Deferred tax asset	Deferred tax asset	28 168	-	-	1 588	107	29 863
Other assets		48 611	(48 611)	-	-	-	-
	Financial assets at amortised cost: Loans and advances to customers	-	33	-	-	-	33
	Other Assets	-	48 581	-	-	-	48 581
Total		**12 502 678**	**-**	**-**	**(11 225)**	**(396)**	**12 491 057**

**reclassification due to change in presentation of statement of financial position items in accordance with financial reporting framework (FINREP) issued by the European Banking Authority (EBA)*

In the following transition table the Group shows the impact of the implementation of IFRS 9 and other reclassifications on the individual statement of financial position (Equity and liabilities) as at 1 January 2018:

IAS 39 Category	IFRS 9 Category	IAS 39 measurement	Reclassification other from IFRS 9*	Expected credit losses	Other	IFRS 9 measurement
Equity and liabilities						
Deposits from banks	Financial liabilities at amortised cost: Deposits from banks	284 723	-	-	-	284 723
Deposits from customers	Financial liabilities at amortised cost: Deposits from customers	10 036 592	-	-	-	10 036 592
Derivate financial liabilities		41 312	(41 312)	-	-	-
	Held-for-trading financial liabilities: negative fair value of a hedging derivative held-for- trading	-	40 189	-	-	40 189
	Hedging derivate financial liabilities	-	1 123	-	-	1 123
Held-for-trading financial liabilities	Held-for-trading financial liabilities: Held-for-trading debt securities liabilities	40 301	-	-	-	40 301
Liabilities from debt securities	Financial liabilities at amortised cost: Debt securities liabilities	765 251	-	-	-	765 251
Provisions	Provisions	56 933	17 339	1 797	-	76 069
Current tax liability	Current tax liability	172	-	-	-	172
Deferred tax liability	Deferred tax liability	422	-	-	-	422
Other liabilities		48 587	(48 587)	-	-	-
	Financial liabilities at amortised cost: Deposits from customers	-	2 271	-	-	2 271
	Other liabilities	-	28 977	-	-	28 977
Subordinated debts	Financial liabilities at amortised cost: Deposits from banks	236 134	-	-	-	236 134
Total liabilities		**11 510 427**	**-**	**1 797**	**-**	**11 512 224**
Equity		**992 251**	**-**	**(13 022)**	**(396)**	**978 833**
Retained earings		*616 642*	-	*(13 022)*	-	*603 620*
Other comprehensive income, after income tax	-	-	-	*(396)*	*(396)*	
Total		**12 502 678**	**-**	**(11 225)**	**(396)**	**12 491 057**

**reclassification due to change in presentation of statement of financial position items in accordance with financial reporting framework (FINREP) issued by the European Banking Authority (EBA)*

Purpose of preparation

The purpose of preparing these 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 regulation – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS). Separate and consolidated financial statements prepared in compliance with IFRS as at 31 December 2018, dated 6 March 2019, 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, the 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 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 accounting estimates 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:

- The creation of impairment allowances 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. Measurement of the impairment allowances for expected credit losses for financial assets of amortised cost and at fair value through other comprehensive income is area which requires application of models and significant judgements regarding such future economic conditions and credit behaviour. Considering the current economic conditions, the result of estimates may differ from the impairment provisions recognised as at 31 December 2018. The item is reported in *"(Creation)/Release of Provisions for Liabilities"* or *"Impairment allowances for financial assets not measured through income and loss statement"*.

Amounts recognized as provisions are based on the management's judgment and represent the best estimate of expenses required to settle the liability with uncertain timing or 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. Since many areas of Slovak tax law have so far not been sufficiently validated by practice, there is uncertainty as to how they will be applied by the tax authorities. The extent of this uncertainty can not be quantified and disappears only when legal precedents or official interpretations of the competent authorities are available. Item Adjustment for the uncertain realization of a deferred tax asset is disclosed in the note 13 "Income Tax".

- 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. (Creation)/ Release of provisions for litigation is reported in "(Creation)/ Release of provisions for liabilities".

b) Consolidation principles

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (refer to Note I) for the year ended 31 December 2018.

IFRS 12 requires disclosure about significant judgments and assumptions used to define the character of an investment in a company or in an agreement, investments in subsidiaries, joint-agreements and affiliates and in non-consolidated structured entities. Based on the analysis performed by management, the Group does not have any interest in consolidated structured entities, nor in unconsolidated structured entities.

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

I. Business combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

II. Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

III. Non-controlling interests (NCI)
NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

IV. Loss of control
When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other component of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

V. Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

VI. Method of consolidation
The Bank has assessed the shares in and control over its subsidiaries with respect to IFRS 10, IFRS 11 and IFRS 12. Subsidiaries are consolidated using the full consolidation method.

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 financial instruments held for trading and exchange rate differences"*.

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 *"Hedging financial assets"* or in the item *"Hedging financial liabilities"* in the statement of financial position, and *"Net profit (loss) from financial instruments held for trading and exchange rate differences"* in the statement of comprehensive income.

d) Cash, cash balances at central banks and other demand deposits

Cash, cash balances at central banks and other demand deposits consist of cash and balances on advances in the National Bank of Slovakia, including the compulsory minimum reserve in the National Bank of Slovakia. Other demand deposits include current deposits due to banks payable on demand.
The compulsory minimum reserve in 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) Financial instruments under IAS 39 (applicable for comparative figures)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.
In accordance with intention to acquire the financial instruments and pursuant to its investment strategy, the Group classifies six categories of financial instruments:

1. Loans and receivables,
2. Financial assets at fair value through profit or loss,
   a. Financial assets held for trading,
   b. Derivated financial instruments,
   c. Financial assets at fair value through profit or loss,
3. Financial investments held to maturity,
4. Financial assets held for sale,
5. Hedging derivatives and
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 cost using the effective interest rate method less impairment provisions.

When signing a loan agreement, the Group records the issued loan commitment on the off-balance sheet. Loans are recognised in the statement of financial position when the funds are provided to debtors. During the performance of their activities, the Group records contingent liabilities with inherent credit risk. The Group 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. No provisions are recorded for unused retail credit facilities.

Provisions for loan impairment

Provisions are recorded to cover estimated losses from receivables for which an 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 *„Impairment allowances for financial assets not measured at fair value through profit or loss"* 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 Group records two types of provisions: 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 outstanding amount.

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 Group 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 Group uses the model of best estimated expected losseses 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 Group 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 IRB models, flow rate model and the vintage based recovery, the Group uses portfolio segmentation per products and their types (according to their risk characteristics). 12-month flow rate averages are used to calculate the final flow rates (if a significant change is seen in the population's behaviour, 6- or 3- month averages can be used).

The Group adjusts the measurement of retail receivables on a monthly basis or when the receivable demonstrates indicators of its impairment. If the Group identifies such indicators (fraud, debtor's death, foreclosure in the specific amount), the Group 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 Group bodies (*Problem Loan Committee, Executive Committee*), the Group 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 Group 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 *"Impairment allowances for financial assets not measured at fair value through profit or loss"*.

Loan collateral

In terms of handling collateral, the Group places great emphasis mainly on valuing and revaluing individual collaterals, 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 Group mainly accepts the following types of collateral:

- Financial collateral
- Guarantees
- Real estates
- Chattels
- Receivables
- Life insurance

In terms of legal instruments, the Group 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 depends on the type of collateral and the minimum requirements pursuant to the effective legislative standards implemented in the Group's internal regulations. The method of determining the value of collateral is specific for each type of collateral, and the Group respects an adequate degree of prudence.

The value of pledged collateral is determined on a case-by-case basis for each type of collateral depending on the type of collateral and transaction, and individual risk characteristics. The value of pledged collateral is obtained by discounting the initial value of collateral obtained in valuation and revaluation. Factors based on which discounting factors are determined relate mainly to the enforceability of collateral if the counterparty defaults (e.g. type, location and condition of real estate), potential default of the security provider (e.g. credit quality and maturity of financial collateral), and other factors (business strategy and Group 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 Group 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 Group's decision 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 Group decides which security instrument will be used in the specific case.

The Group mainly uses the following forms of enforcement of collateral:

- Voluntary auction
- Foreclosure procedure
- Realisation of the collateral for the Group's receivable in a bankruptcy procedure
- Sale of receivables

2. Financial assets at fair value through profit or loss

i. 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 fair value net of transaction costs. 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*".

ii. 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 Group'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 the line *"Derivative financial instruments"*.

iii. 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 fair value net of transaction costs.

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 Group 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 portfolio of available-for-sale financial assets includes debt securities and the Group's investments in other entities with ownership interest less than 20% of the registered capital and voting rights.

Debt securities in the portfolio of available-for-sale financial assets are measured at fair value net of transaction costs. 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-forsale financial asset. In 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 derecognition of financial assets and liabilities not measured at fair value through comprehensive income"*.

Equity investments in the portfolio of available-for-sale financial assets are measured at fair value less provisions for impairment losses that are recognised in the statement of comprehensive income as *"Net profit (loss) from derecognition of financial assets and liabilities not measured at fair value through comprehensive income"*, 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 under pending bankruptcy proceedings, 100% provisions are created and the participation interests are written off after the completion of such 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 derecognition of financial assets and liabilities not measured at fair value through comprehensive income"*.

5. Hedging derivatives

Hedging derivatives are derivatives designed in the Group's strategy to hedge certain risks and meeting 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 of 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 income statement 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, 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.

f) Financial instruments under IFRS 9

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.
The Group has applied a new approach to the classification and measurement of financial assets that takes into account the business model in which the assets are managed and the characteristics of their cash flows.

The Group classifies financial instruments in four categories of financial assets and two categories of financial liabilities:

1. financial assets measured at amortised cost (AC),
2. financial assets measured at fair value through other comprehensive income (FVOCI),
3. financial assets mandatorily measured at fair value through profit or loss (FVTPL),
4. financial assets measured at fair value through profit or loss (FVTPL),
5. financial liabilities measured at amortised cost (AC) and
6. financial liabilities measured at fair value through profit or loss (FVTPL).

Financial assets are measured at amortised cost if both of the following conditions are met:

- Financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, 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 outstanding principal amount.

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 debt 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 other comprehensive income. This election is made on an investment–by–investment basis for each investment and covers strategic interests. Revaluation profits and losses from revaluation are not recognised in profit or loss. After derecognition of the investment, the final profit or loss is recognised in retained earnings.

All other financial assets, i.e. 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, i.e. an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. Based on the business model and cash flow circumstances 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 Group has the following business models:

- Credit and investment portfolio "hold-to-collect"
- Liquid portfolio "hold and sell"
- Trading portfolio
- Hedging portfolio
- Equity investment portfolio

The following is 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) is evaluated and reported to the entity's key management personnel;
- What are 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 Group are compensated (e.g. 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 measured based 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. For this purpose, interest is defined as a consideration for the time value of money, the credit risk associated with the principal 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 initial recognition of the financial asset.

When assessing whether contractual cash flows are solely the 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, and Interest rate.

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 repay 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, the entity 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.

1. Financial assets measured at amortised cost (AC)

The main components of the portfolio of financial assets measured at amortised cost are:

- Loans and advances in *„hold-to-collect"* business model and
- Debt securities in *„hold-to-collect"* business model.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are measured at amortised cost using the effective interest rate method, less impairment losses.

When signing a loan agreement, the Group books the credit facility as off-balance sheet. The loan is recognized by the Group in the statement of financial position when providing funds to the debtor. During exercise, the Group creates potential liabilities that are associated with credit risk. The Group recognizes potential off-balance sheet liabilities and creates provisions for such liabilities that represent the level of risk of issued guarantees, letters of credit and undrawn credit limits as at the balance sheet date.

Debt securities

The portfolio is a non-derivative financial asset with fixed or determinable payments and a fixed maturity that the Group intends and has the ability to hold to maturity in accordance with the established hold-to-collect business model. The portfolio includes, in particular, securities issued by the government and other creditworthy securities.

Debt securities at amortised cost are measured using the effective interest rate, taking into account impairment. Interest income, discounts and premiums on debt securities at amortised cost are recognized in the statement of comprehensive income under *"Interest income"*.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

The main components of the portfolio of financial assets at fair value through other comprehensive income are:

- Equity investments not held for trading and
- Debt securities in *„hold and sell"* business model.

Equity investments

Equity investments in the portfolio of financial assets at fair value through other comprehensive income are measured at fair value. This portfolio includes, in particular, shares in privately-owned companies for which there is no active market, or in companies in which participation is mandatory (Burza cenných papierov v Bratislave, a.s., S.W.I.F.T., VISA INC., USA). As a result, in respect of these shares the Group applies the level 3 for fair value measurement and for VISA INC., USA level 2 for fair value measurement (see note g).

Dividends on financial assets at fair value through other comprehensive income are recognized in the statement of comprehensive income under *"Dividend income"*. Profit or loss on sale of financial assets held for sale is recognized in the statement of comprehensive income (not in profit or loss) under *"Equity istruments at fair value through other comprehensive income"*. The Group does not create impairment allowances on equity investments.

Debt securities

Debt securities in the portfolio of financial assets at fair value through other comprehensive income are initially measured at fair value plus or minus transaction cost directly attributable to the acquisition on issue. Unrealized gains and losses arising from changes in fair value are recognized *in the item "Fair value reserve for financial instruments at fair value through other comprehensive income"* within the Group's equity until the moment of disposal or impairment.

In the event of a disposal or impairment of a debt security, the cumulative gains and losses *recognized in "Fair value reserve for financial instruments at fair value through other comprehensive income"* are reclassified to the statement of comprehensive income under *"Net profit (loss) from derecognition of financial assets and liabilities not measured at fair value through comprehensive income"*.

Impairment of financial assets at amortised cost and financial assets at fair value through other comprehensive income

The calculation of expected credit losses requires the use of accounting estimates which differ from 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 instruments – assets measured at amortised cost and FVOCI and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The Group recognises impairment allowance for such losses as 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 at fair value through other comprehensive income is 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 impaired on initial recognition is classified as 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 impaired. If the financial instrument is 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 impaired financial assets are financial assets that are impaired on initial recognition. Their expected credit loss is measured on a lifetime basis (Stage 3).

Expected credit losses are recognized in the Statement of comprehensive income as *"Impairment allowances for financial assets not measured at fair value through profit or loss"* and as *"(Creation)/release of provisions for expected losses from commitments and guarantees given"*. If the reason for recognition of an allowance/provision no longer applies or the amount of the allowance/provision is unreasonable, surplus allowances/provisions will be released through the same lines of the Statement of comprehensive income.

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 date 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 both of he criteria enlisted below:

- 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 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 exemption for debt securities due to low credit risk.

Definition of Default and 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:

When 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 the cases 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 measured at amortised cost and debt instruments at fair value through other comprehensive income 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 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.

This probability of default is calculated separately for each product type based on the longest possible history of data for the product concerned available in the Group's internal database. Subsequently, various statistical methods are used to estimate the development of the default profile

since the initial recognition over the lifetime of the loan or the loan portfolio, in particular: survival rating level analysis, interpolation of 12-month probability of default to loan lifetime and, In case of insufficient data for the above mentioned models, benchmark values (constants) were recommended by a group methodology that differs depending on the product type.

In 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 by counting the yield collected for 36 months from the loan default, the resulting percentage loss given default being expressed as an add-up to 100% to the weighted average of all yields over the 36-month observation period of the number of defaulted loans for that product type. In a simplified methodology, the Group does not use the loan-level yields, but yields are counted by date of default.

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.

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, EAD and 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 achiev 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 the 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. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking into account the range of possible outcomes each chosen scenario is representative of.

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

Economic scenarios used as at 31 December 2018 include the following key indicators for the Slovak republic for the years ended 31 December 2018 to 2021:

	(%)	2018	2019	2020	2021
Unemployment rates	Baseline	6.33	5.18	5.58	6.88
	Downside	7.14	8.53	8.63	10.47
	Upside	5.80	3.61	3.26	4.21
Interest rates	Baseline	(0.35)	(0.39)	0.31	0.46
	Downside	0.14	1.65	2.51	2.99
	Upside	(0.35)	(0.15)	0.31	0.42
GDP growth	Baseline	4.01	3.70	1.07	0.11
	Downside	3.49	2.09	0.74	(0.52)
	Upside	4.46	5.64	4.62	4.01
House prices index	Baseline	1.66	1.71	1.75	1.79
	Downside	1.63	1.60	1.55	1.48
	Upside	1.67	1.79	1.92	2.05

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.

Write-offs

The Group writes off the loans and advances provided to clients if, on the basis of an in-depth analysis, it proves that there is no real expectation of another recovery or the chance of another recovery is minimal. The usual, but not the only write-off indicators are the following: (i) the debtor does not carry out any activity, no repayment has been done over the past two years and there is no collateral or (ii) the debtor is in bankruptcy, all the assets being monetised and the proceeds realized; (iii) the court has decided (e.g. In case of legal restructuring, debt elimination, etc.) to write off part of the receivable, or (iv) the Group sells the claim and others. In the event of ongoing litigation or other actions that might eventually lead to a recovery, the Group usually writes off the receivables into the off-balance sheet.

Loans are written off on the basis of a valid decision of a court, Board of Directors, or another body of the Group (i.e. Problem Loan Committee and Executive Committee), in line with an internal directive on waiving their enforcement against booked impairment allowance. If the amount of the written-off receivable is higher than the impairment allowance created, the difference is written off to the statement of comprehensive income. Write-off receivables for which the right to recovery have not expired are recorded in the off-balance sheet.

After the write-off, the Group does not carry out active enforcement, only in cases of write-offs to the off-balance sheet it continues to conduct litigation in order to achieve a recovery in the future. If the Group, after writing off the loans and advances provided to the client, collects additional amounts from the client or obtains control over the collateral that is higher than originally estimated, the yield is recognized in the statement of comprehensive income under *"Impairment allowances for financial assets not measured at fair value through profit or loss"*.

Loan collateral

In terms of handling collateral, the Group 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 Group mainly accepts the following types of collateral:

- Financial collateral
- Guarantees
- Real estate
- Chattel
- Receivables
- Life insurance

In terms of legal instruments, the Group uses:

- Liens
- Assignments of receivable intended to serve as security
- Transfers of title intended to serve as security
- Cash collateral
- 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 Group's internal regulations. The method of determining the value of collateral is specific for each type of collateral, and the Group respects an adequate degree of prudence.

The value of pledged collateral is determined on a case-by-case basis for each type of collateral depending on the type of collateral and transaction, and individual risk characteristics. The value of pledged collateral is obtained by discounting the initial value of collateral obtained in valuation and revaluation. Factors based on which discounting factors are determined relate mainly to the enforceability of collateral if the counterparty defaults (e.g. type, location and condition of real estate), potential default of the security provider (e.g. credit quality and maturity of financial collateral), and other factors (business strategy and Group 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 Group 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 Group's decision 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 Group decides which security instrument will be used in the specific case.

The Group 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

3. Financial assets mandatorily measured at fair value through profit or loss (FVTPL)

When the Group determines that a specific portfolio business model is to hold financial assets in order to collect contractual cash flows (or both: to collect contractual cash flows and to sell financial assets) and assumes that for the financial assets in question, the contractual cash flows do not constitute purely principal and interest payments, the Group recognizes those financial assets under "Financial assets mandatorily measured at fair value through profit or loss". Primary as well as subsequent valuation of the listed financial assets is at a fair value.

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

a. Financial assets held for trading

The Group has acquired financial assets held for trading to utilise short-term price fluctuations in order to generate profits. In this category, the Group recognises securities - debt securities, treasury bills and shares. Debt securities and treasury bills are recognised by the Group in the statement of financial position line *"Financial assets held for trading"*. All purchases and sales of trading securities are recognised as at the settlement date.

Financial assets held for trading are initially recognised at fair value net of transaction costs. 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 financial instruments held for trading and exchange rate differences"*.

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 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 financial instruments held for trading and exchange rate differences"*.

5. Hedging derivatives

Within implementation of IFRS 9, the Group has decided to continue using the original accounting under IAS 39 in the reporting of hedging derivatives. Hedging derivatives are derivatives designed in the Group'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 of 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 *"Hedging derivative financial assets"*. The negative fair value of a hedging derivative is recognised in the statement of financial position, line *"Hedging 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 financial instruments held for trading and exchange rate differences"*. 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 *"Net interest income and dividend income"* depending on the hedged item type.

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 *"Hedging derivative financial assets"*. The negative fair value of a hedging derivative is recognised in the statement of financial position, line *"Hedging 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 *"Net interest income and dividend income"*.

6. Financial liabilities measured at amortised cost (AC)

All liabilities of the Group, except for financial liabilities held for trading and hedging derivative financial liabilities, are measured at amortised cost. Subordinated debt is recognised under Financial liabilities measured at amortised cost.

Subordinated debt refers to the Group's external funds and, in the event of bankruptcy, composition or Group's liquidation, the entitlement to its repayment is subordinated to liabilities to other creditors. Interest expense paid on the received subordinated debt is recognised through the statement of comprehensive income in *"Interest expense"*.

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.

The Group issues debt securities as part of financial liabilities measured at amortised cost.

7. Financial liabilities measured at fair value through profit or loss (FVTPL)

The Group, within financial liabilities recognised at fair value through profit or loss, recognizes short-sell debt securities ("short selling") and the negative fair value of derivatives from the portfolio of financial liabilities held for trading.

g) 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 party. 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.

If the financial assets are modified resulting in a significant change in cash flows (see *"Modification of financial instruments"*), the original asset is derecognised and a new financial asset is recognized.

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

If debt instruments are exchanged between the borrower and the creditor with significantly different terms, the group derecognises the original financial liability and recognizes a new financial liability. The Group proceeds similarly in case there is a fundamental change in the terms of the existing financial liability or part of it.

h) Modification of financial instruments

Modification under IFRS 9 represents a change in the contractual cash flows of the loan/asset on the basis of a change in the contractual terms. If the modification meets the following qualitative or quantitative criteria (substantial modification), it leads to derecognition of the original loan or other asset and recognition of a new one.

The Group defines qualitative criteria as follows:
- change in loan currency,
- changes that cause the SPPI test to fail,
- change in the type of financial asset (e.g. from loan to debt security).

The Group defines the quantitative criteria as follows:
- extending maturity by more than 50% and over 2 years (cumulative), and/or
- change in the amortised value (NPV before and after change using the original effective interest rate) of more than 10% and/or more than EUR 100,000.

In the event that a modification does not result in the obligation to derecognise the loan/asset, the Group is required to recognise gains or losses on modifications. Gain or loss is equal to the difference between NPV from the new (modified) cash flow and current book value.

i) 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 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 impairment allowances.

- 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 (i.e. as prices) or indirectly (i.e. 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 inputs other 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.

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 theoretical price – Level 2, the Group changes the security's category 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.

j) Sale and repurchase agreements – repo transaction

Securities sold under sale and repurchase agreements ("repo transactions") are recorded as assets in the statement of financial position line *"Financial assets at amortised cost"*, and the counterparty liabilities are included in *"Financial liabilities at amortised cost"*.

Debt securities purchased under agreements to purchase and resell ("reverse repos") are recorded as assets in the statement of financial position line *"Financial assets at amortised cost"*.

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.

k) 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 17
Fixtures, fittings and equipment	6 – 10
Energy machinery and equipment	10 – 15
Optical network	30
Buildings and structures	Up to 40

l) 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 and investment property"*. The creation and release of provisions due to the impairment of investment property is recognised as *"(Creation)/release of impairment allowances 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.

m) 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.

n) 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.

o) 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"*.

p) 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 in 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 *"Financial assets at amortised cost"*, line *"Finance lease receivables"*.

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.

q) Provisions for liabilities

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

r) Provision for employee benefits

The Group has a long-term employee benefit program comprising a lump-sum retirement benefit. As at 31 December 2018, the Group had 3 708 employees included in the program (31 December 2017: 3 584 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. 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"*. Discount from the liability in this provision is recognised in the current period in the statement of comprehensive income under *"Interest expense"*. The provision for employee benefits is recognised in the statement of financial position as *"Provisions"*.

The Group also has a defined contribution plan for employees. All company contributions are included in personnel expenses in Note 8 *"General administrative expenses"*.

s) Accrued interest

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

t) Recognition of income and expense

Income represents an increase in economic benefits during the accounting period in the form of an asset appreciation or a reduction in liabilities resulting in equity increase and are other than those relating to shareholder contributions.

Expense represents a decrease in economic benefits during the accounting period in the form of decrease or impairment of assets, impairment or rise of liability resulting in equity decrease and are other than those relating to the distribution of profit to shareholders.

The Group asseses each contract and product terms and conditions on an individual basis when recognising income and expense:
- Service or other fulfillment for which the reward is received or paid,
- The period in which the income or expense are to be recognised,
- Correct income and expense amount to be recognized depending on product terms and conditions or contract,
- Correct recognition of all discounts and rebates related to received or provided service,
- Significant financial component, if any
- Non-financial services,
- Client rewards,
- Uncertain income

1) Interest related charges and fees

Paid interest related charges and fees are transaction costs. Transaction costs represent incremental expenses that are part of an effective interest rate which can be directly added to acquisition, issue or disposal of financial assets or liabilities. Incremental expense would not arise without acquisition, issue or disposal of the financial instruments.

Received interest, interest related charges and fees are initial fees related to the acquisition/provision of financial instrument including compensation for activities such as for the assessment of debtor financial status, assessment and evidence of guarantees and other hedging measurements, preparation and processing of documents and closing of transaction.

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 and expenses, and interest related charges arising on all interest-bearing instruments except for *"Financial assets held for trading"* are accrued in the statement of comprehensive income using the effective interest rate method.

Interest income from *"Financial assets held for trading"* are in the statement of comprehensive income in "Net interest income and dividend income".

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

If the Group is a contractual party with deferred payment for received or provided services, income or expense are recognised individually in interest income or expense in the amount related to the service price.

2) Fee and commision income/expense

Fees and commissions that do not form part of the effective interest rate are recognised depending on whether the service is provided on a one-off basis or for a specified period. In case of a service received or provided during a specified period, fees and commissions are recognised during that period on an accrual basis as earned. Fees paid and received for a one-time service are recognised immediately.

Fees and commissions recognised as expenses and income in the statement of comprehensive income in *"Net fee 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 "Net interest income and dividend income".

4) Income to be partially returned

Received income, part of which the Group promised to return, is recognised as liability that is measured as at each financial statement date on contractual and probability basis.

u) Basic and diluted earnings per share

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

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

The Group does not report diluted earnings per share as there were no dilutive potential ordinary shares in issue as at 31 December 2018 nor 31 December 2017.

v) Taxation and deferred taxation

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

Deferred income tax is provided, using the balance sheet 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, i.e. 21%. Deferred tax liabilities are generally recognized for all taxable temporary differences. 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 pays 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 noncurrent 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 clients 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 public sector include:

Banks/Supra-Nationals, which include all local and international banks and their majority-owned subsidiaries in the country and 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 lowincome 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**ÚverTB **Expres**, **Business**ÚverTB **Hypo** and **Business**ÚverTB **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** úverTB **Classic**, **Bezúčelový** úverTB **Garant**, private credit cards (Visa Standard/Visa Gold/Visa Platinum) and other products. Retail customers placed their financial funds mainly in current accounts and term deposits.

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

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

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

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

The structure of items presented in Note III *"Segment Reporting"* is consistent with similar items of thestatement 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 2018:

	Corporate customers	Financial institutions and public sector	Retail customers	Investment banking and Treasury	Total reportable segments	Equity investments and other	Total
Net interest income and dividend income	68 726	1 253	212 163	1 744	**283 886**	5 368	**289 254**
Net fee and commission income	25 476	6 296	99 071	(118)	**130 725**	(1 445)	**129 280**
Net profit (loss) from derecognition of financial assets and liabilities not measured at fair value through profit or loss	269	(1 008)	(26)	-	**(765)**	123	**(642)**
Net profit (loss) from financial instruments held for trading and exchange rate differences	5 017	366	13 077	5 939	**24 399**	(3)	**24 396**
Special levy of selected financial institutions	(6 148)	(933)	(11 535)	(2 493)	**(21 109)**	(1 159)	**(22 268)**
Other operating profit (loss)	-	-	-	-	**-**	6 766	**6 766**
General administrative expenses	(43 878)	(2 547)	(184 475)	(3 648)	**(234 548)**	(6 293)	**(240 841)**
(Creation)/release of provisions for liabilities	-	-	-	-	**-**	(5 679)	**(5 679)**
(Creation)/release of provisions for expected losses from commitments and guarantees given	1 748	(25)	(161)	-	**1 562**	-	**1 562**
Impairment allowances for financial assets not measured at fair value through profit or loss	6 669	(53)	(33 805)	(46)	**(27 235)**	-	**(27 235)**
Impairment allowances for non-financial assets	-	-	-	-	**-**	(13)	**(13)**
Profit before income tax	**57 879**	**3 349**	**94 309**	**1 378**	**156 915**	**(2 335)**	**154 580**
Total assets	**3 819 388**	**176 477**	**6 125 881**	**2 666 739**	**12 788 485**	**407 412**	**13 195 897**
Total equity and liabilties	**2 830 891**	**753 692**	**7 254 853**	**1 007 832**	**11 847 268**	**1 348 629**	**13 195 897**

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 banking and Treasury	Total reportable segments	Equity investments and other	Total
Net interest income and dividend income	67 336	759	200 132	(5 628)	262 599	6 495	269 094
Net fee and commission income	23 752	6 653	96 223	-	126 628	(1 413)	125 215
Net profit (loss) from derecognition of financial assets and liabilities not measured at fair value through profit or loss	(678)	203	(1 752)	-	(2 227)	1 467	(760)
Net profit (loss) from financial instruments held for trading and exchange rate differences	5 782	422	10 349	13 078	29 631	(4)	29 627
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	(246)	(246)	-	(246)
Special levy of selected financial institutions	(4 732)	(1 195)	(12 707)	(1 676)	(20 310)	24	(20 286)
Other operating profit (loss)	-	-	-	-	-	11 487	11 487
General administrative expenses	(55 747)	(2 424)	(180 201)	(4 146)	(242 518)	2 009	(240 509)
(Creation)/release of provisions for liabilities	-	-	-	-	-	(6 028)	(6 028)
(Creation)/release of provisions for expected losses from commitments and guarantees given	679	(203)	45	-	521	(5)	516
Impairment allowances for financial assets not measured at fair value through profit or loss	9 570	(516)	(20 907)	-	(11 853)	-	(11 853)
Impairment allowances for non-financial assets	-	-	-	-	-	(608)	(608)
Profit before income tax	**45 962**	**3 699**	**91 182**	**1 382**	**142 225**	**13 424**	**155 649**
Total assets	**3 912 480**	**238 593**	**5 250 602**	**2 738 619**	**12 140 294**	**362 384**	**12 502 678**
Total equity and liabilties	**2 531 730**	**580 716**	**6 720 575**	**1 454 659**	**11 287 680**	**1 214 998**	**12 502 678**

IV. OTHER NOTES

1. Net interest and dividend income

	2018	2017
Interest income calculated using the effective interest rate:	**306 222**	**290 344**
From loans and advances to banks at amortised cost	1 909	348
From loans and advances to customers at amortised cost	285 397	271 094
From debt securities at amortised cost	16 205	18 076
From debt securities at fair value through other comprehensive income	2 711	826
Other interest income:	**1 707**	**928**
From debt securities at fair value through profit or loss	-	176
From debt securities held for trading	391	658
From derivatives held for trading	650	-
From other interest income	666	94
Dividend income:	**257**	**217**
From financial assets at fair value through other comprehensive income	257	217
Interest expense:	**(18 932)**	**(22 395)**
On deposits from banks	(1 199)	(3 019)
On deposits from customers	(4 805)	(3 659)
On subordinated debts	(7 175)	(8 619)
On liabilities from debt securities issued by the bank at amortised cost	(2 639)	(1 385)
On derivatives held for trading	-	(2 257)
On liabilities from debt securities held as measured at fair value through profit or loss	(352)	(864)
On loans and deposits on financial assets at amortised cost (negative interest)	(2 230)	(2 369)
Other interest expenses	(532)	(223)
Net interest and dividend income	**289 254**	**269 094**

2. Net fee and commission income

	2018	2017
Fee and commission income:	**172 090**	**162 715**
From payment transfers business	103 000	97 982
From credit processing and guarantee business	22 447	20 237
From securities business	11 327	10 033
From activities regarding investment and pension funds	28 320	27 813
From activities regarding mediation for third parties	5 316	4 987
For other banking services	1 680	1 663
Fee and commission expense:	**(42 810)**	**(37 500)**
From payment transfers business	(33 382)	(29 617)
From credit processing and guarantee business	(1 720)	(465)
From securities business	(2 090)	(1 686)
From activities regarding investment and pension funds	(3 801)	(3 761)
From activities regarding mediation for third parties	(583)	(952)
For other banking services	(1 234)	(1 019)
Net fee and commission income	**129 280**	**125 215**

3. Net profit (loss) from derecognition of financial assets and liabilities not measured at fair value through comprehensive

	2018	2017
Net profit (loss) from derecognition of financial assets at amortised cost:	**(728)**	**(2 222)**
Due direct write-off of loans and advances	(678)	(2 222)
Profit (loss) from debt securities sold	(50)	-
Net profit (loss) from derecognition of financial assets at fair value through other comprehensive income:	**86**	**1 462**
Profit (loss) from debt securities sold	86	1 462
Total	**(642)**	**(760)**

4. Net profit (loss) from financial instruments held for trading and exchange rate differences

	2018	2017
Interest-rate contracts – Securities:	**2 197**	**1 125**
Revaluation to fair value	1 077	3 018
Profit (loss) from securities sold	1 120	(1 893)
Interest-rate contracts – Liabilities from hedged debt securities:	**(1 402)**	**2 982**
Revaluation to fair value	(1 402)	2 982
Interest-rate contracts – Derivatives:	**1 634**	**1 107**
Realised profit (loss) from derivatives	491	78
Revaluation to fair value	(211)	2 962
Revaluation to fair value – derivatives to hedge fair value	1 354	(1 933)
Currency contracts:	**6 013**	**3 454**
Realised profit (loss) from derivatives	1 789	6 969
Revaluation to fair value of derivatives	4 224	(3 515)
Index-related contracts:	**-**	**-**
Realised profit (loss) from derivatives	-	-
Revaluation to fair value of derivatives	-	-
Commodity contracts:	**(2)**	**3**
Realised profit (loss) from derivatives	-	-
Revaluation to fair value of derivatives	(2)	3
Foreign exchange differences	**15 956**	**20 956**
Total	**24 396**	**29 627**

5. Net profit (loss) from financial instruments at fair value through comprehensive income

	2018	2017
Interest-rate contracts – Securities:		
Revaluation to fair value	-	(246)
Total	**-**	**(246)**

6. Special levy of selected financial institutions

	2018	2017
Special levy of selected financial institutions:		
Special levy of selected financial institutions	(22 268)	(20 286)
Total	**(22 268)**	**(20 286)**

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 2018) of the amount of the liabilities defined in line with the Special Levy Act.

7. Other operating profit (loss)

	2018	2017
Net profit (loss) from disposals of tangible and intangible assets	801	177
Other taxes and charges	(540)	(576)
Revenues from lease of investment property	3 345	3 593
Profit from sale of assets held for development and construction	517	1 198
Other operating income	5 600	9 640
Other operating expenses	(2 957)	(2 545)
Total	**6 766**	**11 487**

8. General administrative expenses

	2018	2017
Personnel expenses:	**(130 078)**	**(124 872)**
Wages and salaries	(93 675)	(89 629)
Social security costs	(32 381)	(31 438)
Other social expenses	(3 885)	(3 848)
(Creation) release of provisions for employee benefits	(137)	43
Other administrative expenses:	**(89 609)**	**(91 445)**
Costs of premises	(20 268)	(20 611)
Costs of information technology	(19 036)	(22 681)
Communication costs	(6 697)	(6 592)
Legal and consultancy costs*	(9 908)	(9 695)
Advertising and entertainment expenses	(14 700)	(14 554)
Deposits guarantee fund	(461)	(403)
Contribution to the resolution fund**	(4 136)	(5 185)
Consumption of stationeries	(1 288)	(1 530)
Transport and processing of cash	(773)	(778)
Travel costs	(1 891)	(1 876)
Education of employees	(2 136)	(1 663)
Sundry administrative expenses	(8 315)	(5 877)
Depreciation and amortisation of non-current tangible and intangible assets:	**(21 154)**	**(24 192)**
Non-current tangible assets	(11 405)	(11 881)
Investment property	(1 679)	(1 812)
Non-current intangible assets	(8 070)	(10 499)
Total	**(240 841)**	**(240 509)**

* *"Legal and consultancy costs" include fee for the statutory audit in the amount of EUR 214 thousand (2017: EUR 196 thousand) and other audit-related assurance services in the amount of EUR 221 thousand (2017: EUR 217 thousand), that related to audit and review of the Group reporting, audit procedures related to NBS prudential returns and FINREP and COREP returns, agreed upon procedures under Act No. 566/2001 Coll. on Securities and Investment Services, preparation of Long-form report for NBS, and other non-audit services in the amount of EUR 7 thousand (2017: EUR 6 thousand), related to English translation, provided training and consultancy.*

** *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.*

9. (Creation)/release of provisions for liabilities

	2018	2017
(Creation)/release of other provisions:	**(5 679)**	**(6 028)**
(Creation)/release of provisions for legal disputes	(2 716)	(5 428)
(Creation)/release of employee provisions	(455)	43
(Creation)/release of other provisions	(2 508)	(643)
Total	**(5 679)**	**(6 028)**

10. (Creation)/release of provisions for expected losses from commitments and guarantees given

	2018	2017
Provisions for commitments and guarantees given (Stage 1)*:	**(786)**	**256**
(Creation)/release	(786)	256
Provisions for commitments and guarantees given (Stage 2):	**(538)**	**-**
(Creation)/release	(538)	-
Provisions for commitments and guarantees given (Stage 3)*:	**2 886**	**260**
(Creation)/release	2 886	260
Total	**1 562**	**516**

** In the comparable period the Group disclosed provisions for unimpaired commitments and guarantees given as Stage 1 and provisions for impaired commitments and guarantees given as Stage 3.*

11. Impairment allowances for financial assets not measured at fair value through profit or loss

	2018	2017
Impairment allowances for financial assets without significant increase in credit risk since initial recognition (stage 1)*:	**(3 662)**	**(174)**
(Creation)/release	(3 662)	(174)
Impairment allowances for financial assets with significant increase in credit risk since initial recognition, but not credit impaired (stage 2):	**(8 437)**	**-**
(Creation)/release	(8 437)	-
Impairment allowances for credit impaired financial assets (stage 3)*:	**(15 136)**	**(11 679)**
(Creation)/release	(15 136)	(11 679)
Total	**(27 235)**	**(11 853)**

** In the comparable period the Group disclosed impairment allowances for unimpaired loan receivables as Stage 1 and impairment allowances for impaired loan receivables as Stage 3.*

For further information on the impairment allowances for expected credit losses, see Note 19 *„Financial assets at amortised cost"*.

12. Impairment allowances for non-financial assets

Movement in impairment allowances for non-financial assets:

	2018	2017
(Creation)/release of impairment allowances for non-current tangible and intangible assets	129	(772)
Creation)/release of impairment allowances for investment property	(184)	69
(Creation)/release of impairment allowances for other assets	42	95
Total	**(13)**	**(608)**

13. Income tax

	2018	2017
Current tax expense	(37 232)	(33 274)
Deferred tax (expense)/income	2 527	1 967
Total	**(34 705)**	**(31 307)**

Slovak legal entities must individually report taxable income and remit corporate income taxes thereon to the appropriate authorities. In 2018, the corporate income tax rate amounted to 21% (2017: 21%).

Pre-tax profit tax differs from the theoretical tax that would arise using the applicable income tax rate as follows:

	2018	2017
Profit before tax	**154 580**	**155 649**
Theoretical tax calculated at the tax rate rate 21% (2017: 21%)	32 462	32 686
Tax impact:		
Non-taxable income	(2 807)	(5 047)
Tax non-deductible expense	1 578	1 774
Impairment allowances and provisions, net	2 774	5 257
Additional tax of prior periods	102	13
Creation/(release) of allowances for uncertain realisation of deferred tax receivables	(151)	(2 243)
Tax losses carried forward	(142)	(625)
Effect of non-tax losses	51	63
Effect of consolidation	838	(571)
Income tax expense	**34 705**	**31 307**
Effective tax for accounting period	**22.45%**	**20.11%**

Deferred tax assets and liabilities as at 31 December 2018 and as at 31 December 2017 relate to the following items:

	Book value	Tax value	Permanent difference	Temporary difference	2018	2017
Deferred tax assets						
Financial assets at amortised cost	11 248 247	11 442 876	3 888	190 741	40 056	36 817
Non-current tangible assets and investment property	92 285	113 202	584	20 333	4 270	3 357
Other assets	98 655	100 380	1 126	599	126	159
Provisions for liabilities	79 048	2 139	49 078	27 831	5 845	1 548
Other liabilities	28 471	13 358	-	15 113	3 173	6 295
Total					**53 470**	**48 176**
Deferred tax liabilities						
Financial assets at fair value through other comprehensive income	502 391	502 222	-	(169)	(35)	(666)
Derivative financial assets	2 168	1 227	-	(941)	(198)	(172)
Total					**(233)**	**(838)**
Net deferred tax assets					**53 237**	**47 338**
Uncertain realization adjustment of deffered tax assets					(20 770)	(19 592)
Net deferred tax asset/(liability)					**32 467**	**27 746**

** As part of the IFRS 9 implementation, the Group increased the deferred tax asset by EUR 1 588 thousand as shown in the table under section Implementation of IFRS 9.*

As at 31 December 2018, the Group did not present a deferred tax asset of EUR 20 770 thousand (31 December 2017: EUR 19 592 thousand), which relates mainly to deductible temporary differences arising from impairment allowances for loans and advances. The Group regularly performs testing of derecognition of loan receivables for write-offs from the tax point of view and, based on the results, adjusts the percentage of eligibility estimate of impairment allowances for loans and advances.

14. Earnings per share

2018	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:	90 817	15 694	13 364
Weighted average number of shares outstanding during the period	60 616	2 095	1 784 002
Earnings per share	**1 498**	**7 490**	**7.5**

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**

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

15. Cash, cash balances at central banks and other demand deposits

	2018	2017
Cash in hand	95 610	121 830
Balances at central banks:	1 018 508	1 129 497
Obligatory minimum reserves	*1 018 508*	*1 129 497*
Other deposits payable on demand	30 094	62 242
Total	**1 144 212**	**1 313 569**

The obligatory minimum 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 Bank. Therefore it is not included in *"Cash and cash equivalents"* for the purposes of cash flow statement preparation (see *"Consolidated cash flow statement"*).

16. Financial assets held for trading

	2018	2017
Positive fair value of financial derivatives held for trading	**26 143**	**33 369**
Interest–rate contracts	15 452	21 307
Currency contracts	10 570	9 159
Commodity contracts	121	2 903
Debt securities	**3**	**7 361**
Government bonds	3	7 361
Bonds issued by other sectors	-	-
Total	**26 146**	**40 730**

17. Financial assets at fair value through profit or loss

	2018	2017
Debt securities and other fixed income securities	**-**	**13 249**
Government bonds	-	13 249
Total	**-**	**13 249**

As part of the implementation of IFRS 9, the Group reclassified debt securities in the portfolio of financial assets at fair value through profit or loss to the portfolio of financial assets held-for-trading in the amount of EUR 13 249 thousand EUR. The entire volume of reclassified debt securities was due in November 2018.

18. Financial assets at fair value through other comprehensive income

	2018	2017
Debt securities	**491 401**	**167 425**
Government treasury bills	60 070	-
Government bonds	163 007	116 371
Bonds issued by bank sector	186 521	26 986
Bonds issued by other sectors	81 803	24 068
Equity investments	**10 990**	**9 702**
Equity instruments	10 527	9 261
Fund share certificates	463	441
Total	**502 391**	**177 127**

Classification of debt securities at fair value through other comprehensive income as at 31 December 2018:

	Gross book value	Impairment allowances	Net book value
Debt securities	**491 463**	**(62)**	**491 401**
Government treasury bills	60 071	(1)	60 070
Government bonds	163 013	(6)	163 007
Bonds issued by bank sector	186 551	(30)	186 521
Bonds issued by other sectors	81 828	(25)	81 803
Total	**491 463**	**(62)**	**491 401**

Classification of debt securities at fair value through other comprehensive income as at 31 December 2017:

	Gross book value	Impairment allowances	Net book value
Debt securities	**167 425**	**-**	**167 425**
Government treasury bills	-	-	-
Government bonds	116 371	-	116 371
Bonds issued by bank sector	26 986	-	26 986
Bonds issued by other sectors	24 068	-	24 068
Total	**167 425**	**-**	**167 425**

Equity instruments broken down per company:

Company	Group investment (v%)	Acqui-sition Cost	Impair-ment revaluation	Carrying amount as at 31 December 2018	Carrying amount as at 31 December 2017
Burza cenných papierov v Bratislave, a. s.	0.09	10	(10)	-	10
S.W.I.F.T. s. c., Belgicko	0.03	52	18	70	52
D. Trust Certifikačná Autorita, a. s.	10.00	37	(37)	-	37
Slovak Banking Credit Bureau, s. r. o.	33.33	3	-	3	-
VISA INC., USA	N/A	515	(515)	-	515
VISA INC., USA (Class C shares)	N/A	6 050	4 404	10 454	8 647
Total		**6 667**	**3 860**	**10 527**	**9 261**

19. Financial assets at amortised cost

Classification of financial assets measured at amortised cost as at 31 December 2018:

	Gross book value	Impairment allowances	Net book value
Loans and advances to banks	**122 591**	**(400)**	**122 191**
Money-market business	61 550	(400)	61 150
Reverse repo transactions	58 303	-	58 303
Other loans and receivables to banks	2 738	-	2 738
Loans and advances to customers	**10 269 773**	**(213 552)**	**10 056 221**
Overdraft loans and current account overdrafts	907 571	(21 826)	885 745
Receivables from credit cards	94 947	(6 188)	88 759
Factoring and loans backed by bills of exchange	49 890	(4 991)	44 899
Mortgage and housing loans	3 998 520	(38 404)	3 960 116
American mortgages	542 477	(11 035)	531 442
Consumer loans	871 003	(50 940)	820 063
Finance lease receivables	233 624	(4 584)	229 040
Investment, operating and other loans	3 571 741	(75 584)	3 496 157
Debt securities	**1 069 881**	**(46)**	**1 069 835**
Government bonds	939 535	(18)	939 517
Bonds issued by bank sector	130 346	(28)	130 318
Total	**11 462 245**	**(213 998)**	**11 248 247**

Classification of financial assets measured at amortised cost as at 31 December 2017:

	Gross book value	Impairment allowances	Net book value
Loans and advances to banks	**157 907**	**(399)**	**157 508**
Money-market business	127 948	(399)	127 549
Reverse repo transactions	28 009	-	28 009
Other loans and receivables to banks	1 950	-	1 950
Loans and advances to customers	**9 526 712**	**(193 000)**	**9 333 712**
Overdraft loans and current account overdrafts	832 593	(20 696)	811 897
Receivables from credit cards	90 000	(6 622)	83 378
Factoring and loans backed by bills of exchange	67 712	(5 982)	61 730
Mortgage and housing loans	3 469 391	(24 145)	3 445 246
American mortgages	426 311	(5 830)	420 481
Consumer loans	777 052	(39 509)	737 543
Finance lease receivables	230 990	(3 633)	227 357
Investment, operating and other loans	3 632 663	(86 583)	3 546 080
Debt securities	**1 246 146**	**-**	**1 246 146**
Government bonds	1 097 532	-	1 097 532
Bonds issued by bank sector	137 885	-	137 885
Bonds issued by other sectors	10 729	-	10 729
Total	**10 930 765**	**(193 399)**	**10 737 366**

As at 31 December 2018, the total amount of syndicated loans managed by the Group was in the amount of EUR 1 382 171 thousand (31 December 2017: EUR 1 080 862 thousand). The Group's share amounted to EUR 434 441 thousand (31 December 2017: EUR 387 756 thousand). Syndicated loans are included in *"Investment, operating and other loans"*.

Classification of financial assets measured at amortised cost by customer group as at 31 December 2018:

	Gross book value	Impairment allowances	Net book value
Banks	252 937	(428)	252 509
Public sector	946 022	(22)	946 000
Corporate clients	4 377 122	(88 543)	4 288 579
Retail clients	5 886 164	(125 005)	5 761 159
Total	**11 462 245**	**(213 998)**	**11 248 247**

Classification of financial assets measured at amortised cost by customer group as at 31 December 2017:

	Gross book value	Impairment allowances	Net book value
Banks	295 792	(399)	295 393
Public sector	1 104 912	-	1 104 912
Corporate clients	4 387 861	(98 021)	4 289 840
Retail clients	5 142 200	(94 979)	5 047 221
Total	**10 930 765**	**(193 399)**	**10 737 366**

An overview of the quality of financial assets measured at amortised values is stated in Note 39 *"Risk report"*.

Movement in impairment allowances for financial assets measured at amortised cost as at 31 December 2018:

	As at 1 January 2018	Creation/ Release*	Usage	Transfers, exchange rate differences	As at 31 December 2018
Impairment allowances for financial assets without significant increase in credit risk since initial recognition (stage 1)	**13 249**	**3 602**	**-**	**-**	**16 851**
Banks	1	-	-	-	1
Corporate clients	5 303	2 120	-	-	7 423
Retail clients	7 916	1 465	-	-	9 381
Debt securities	29	17	-	-	46
Impairment allowances for financial assets with significant increase in credit risk since initial recognition, but not credit impaired (stage 2)	**23 725**	**8 436**	**-**	**-**	**32 161**
Banks	-	-	-	-	-
Corporate clients	5 921	4 177	-	-	10 098
Retail clients	17 804	4 259	-	-	22 063
Debt securities	-	-	-	-	-
Specific impairment allowances for individually and collectively assessed items (stage 3)	**169 234**	**17 476**	**(21 755)**	**31**	**164 986**
Banks	399	-	-	-	399
Corporate clients	90 342	(10 398)	(8 944)	26	71 026
Retail clients	78 493	27 874	(12 811)	5	93 561
Debt securities	-	-	-	-	-
Total	**206 208**	**29 514**	**(21 755)**	**31**	**213 998**

** The amount of creation/release of the impairment allowances for financial assets measured at amortised cost includes the impact of unwinding in the amount of EUR 2 341 thousand.*

The impact of implementing the new standard IFRS 9 Financial Instruments to the amount of impairment allowances for financial assets measured at amortised cost and other reclassification as at 1 January 2018:

	As at 31 December 2017	Reclassification	Impact of IFRS 9	As at 1 January 2018
Impairment allowances for financial assets without significant increase in credit risk since initial recognition (stage 1)	**21 681**	**-**	**(8 432)**	**13 249**
Banks	4	(4)	1	1
Corporate clients	7 578	45	(2 320)	5 303
Retail clients	14 099	(41)	(6 142)	7 916
Debt securities	-	-	29	29
Impairment allowances for financial assets with significant increase in credit risk since initial recognition, but not credit impaired (stage 2)	**-**	**-**	**23 725**	**23 725**
Banks	-	-	-	-
Corporate clients	-	-	5 921	5 921
Retail clients	-	-	17 804	17 804
Debt securities	-	-	-	-
Specific impairment allowances for individually and collectively assessed items (stage 3)	**171 718**	**-**	**(2 484)**	**169 234**
Banks	399	-	-	399
Corporate clients	90 439	137	(234)	90 342
Retail clients	80 880	(137)	(2 250)	78 493
Debt securities	-	-	-	-
Total	**193 399**	**-**	**12 809**	**206 208**

Movement in impairment allowances for financial assets measured at amortised cost as at 31 December 2017:

	As at 1 January 2017	Creation/ Release	Usage	Transfers, exchange rate differences	As at 31 December 2017
Specific impairment allowances for individually and collectively assessed loans	**178 402**	**11 679**	**(18 470)**	**107**	**171 718**
Banks	-	399	-	-	399
Corporate clients	105 192	(6 923)	(7 969)	139	90 439
Retail clients	73 210	18 203	(10 501)	(32)	80 880
Portfolio impairment allowances	**21 624**	**174**	**-**	**(117)**	**21 681**
Corporate clients	9 635	(2 008)	-	(45)	7 582
Retail clients	11 989	2 182	-	(72)	14 099
Total	**200 026**	**11 853**	**(18 470)**	**(10)**	**193 399**

The following table represents the carrying amount of transfers between the impairment stages for financial assets at amortised cost and contingent liabilities and other off-balance sheet items at 31 December 2018:

	From stage 2 to stage 1	From stage 1 to stage 2	From stage 3 to stage 2	From stage 2 to stage 3	From stage 3 to stage 1	From stage 1 to stage 3
Loans and advances to banks	**-**	**106**	**-**	**-**	**-**	**-**
Loans and advances to customers	**781 048**	**1 203 977**	**7 300**	**48 085**	**3 113**	**37 883**
Corporate clients	31 772	158 584	1 449	14 128	174	18 464
Retail clients	749 276	1 045 393	5 851	33 957	2 939	19 419
Provided commitments and financial guarantees	**73 922**	**257 416**	**325**	**968**	**48 668**	**42 566**
Banks	-	658	-	-	-	-
Corporate clients	17 809	148 786	11	710	48 482	42 332
Retail clients	56 113	107 972	314	258	186	234
Total	**854 970**	**1 461 499**	**7 625**	**49 053**	**51 781**	**80 449**

Balance of finance lease receivables as at 31 December 2018 and 31 December 2017:

	2018	2017
Gross investment	**248 097**	**246 475**
Up to 3 months	22 629	24 180
From 3 months up to 1 year	59 302	58 893
From 1 up to 5 years	150 114	140 122
More than 5 years	16 052	23 280
Unrealised finance income	**14 473**	**15 485**
Up to 3 months	1 586	1 667
From 3 months up to 1 year	4 039	4 174
From 1 up to 5 years	7 731	8 245
More than 5 years	1 117	1 399
Net investment	**233 624**	**230 990**
Up to 3 months	21 043	22 513
From 3 months up to 1 year	55 263	54 719
From 1 up to 5 years	142 383	131 877
More than 5 years	14 935	21 881

Assets leased under finance lease contracts:

	2018	2017
Lease of vehicles	108 707	118 545
Lease of real estate	40 364	48 004
Lease of movable assets	84 553	64 441
Total	**233 624**	**230 990**

20. Hedging derivative financial assets

	2018	2017
Positive fair value of financial derivatives for fair value hedging	**1 226**	**877**
Interest–rate contracts	1 226	877
Positive fair value of financial derivatives for cash flow hedging	**942**	**824**
Interest–rate contracts	942	824
Total	**2 168**	**1 701**

Fair value hedges relating to interest rate risk

The Group 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 portfolio of financial assets at fair value through other comprehensive income. 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 2018 the Group recognised a net profit in the amount of EUR 1 354 thousand. With respect to the hedging instruments, the Group recognised a net loss of EUR 1 933 thousand as at 31 December 2017. Net loss from hedged items that related to the hedged risk amounted to EUR 1 402 thousand. As at 31 December 2017, the Group recognised a net profit of EUR 2 982 thousand. Both items are recognised in Note 4 *"Net profit (loss) from financial instruments held for trading and exchange rate differences"*.

Cash flow hedges

The Group 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 Group 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 2018, in relation to the hedging instruments, the Group recognised a net profit in the amount of EUR 778 thousand, which is recognised in Other comprehensive income under *"Cash flow hedges"* (As at 31 December 2017 a net profit of EUR 1 348 thousand).

The following tables represent overview of Hedging derivative financial assets and liabilities as at 31 December 2018:

The Amount, Timing and Uncertainty of future cash flows - Information regarding Hedging Instruments:

	Up to 3 Months	More than 3 Months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Cash Flow Hedges	-	-	51 574	-
Fair Value Hedges	-	-	34 240	128 000
Interest based Transactions	**-**	**-**	**85 814**	**128 000**

Effects of Hedge Accounting on Financial Position and Performance - Information regarding Hedging Instruments:

	Nominal Amount of the hedging instrument	Assets - Carrying amount of the hedging instrument	Liabilities - Carrying amount of the hedging instrument	Changes in Fair Value used for calculating hedge ineffectiveness
Interest Rate Risk	51 574	942	-	-
Micro Cash Flow Hedges	**51 574**	**942**	**-**	**-**
Interest Rate Risk	161 240	1 226	256	1 354
Micro Fair Value Hedges	**161 240**	**1 226**	**256**	**1 354**
Interest Rate Risk	1 000	-	-	-
Portfolio Fair Value Hedges	**1 000**	**-**	**-**	**-**

Effects of Hedge Accounting on Financial Position and Performance - Information regarding Hedged Items:

	Assets - Carrying amount of the Hedged Item	Liabilities - Carrying amount of the Hedged Item	Assets - Accumulated amount of Fair Value Hedge adjustments on the hedged item included in the carrying amount of the hedged item	Liabilities - Accumulated amount of Fair Value Hedge adjustments on the hedged item included in the carrying amount of the hedged item	Changes in used for calculating hedge ineffectiveness
Debt Securities	-	31 416	-	-	(451)
Debt Securities Issued	-	-	128 693	-	(1 019)
Fair Value Hedges	**-**	**31 416**	**128 693**	**-**	**(1 470)**

Cash Flow Hedge - Additional Information:

	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss
Loans and advances	120	-
Interest rate risk	**120**	**-**

The following tables represent overview of Hedging derivative financial assets and liabilities as at 31 December 2017:

The Amount, Timing and Uncertainty of future cash flows - Information regarding Hedging Instruments:

	Up to 3 Months	More than 3 Months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Cash Flow Hedges	-	-	29 596	25 391
Fair Value Hedges	-	45 000	8 386	78 000
Interest based Transactions	**-**	**45 000**	**37 982**	**103 391**

Effects of Hedge Accounting on Financial Position and Performance - Information regarding Hedging Instruments:

	Nominal Amount of the hedging instrument	Assets - Carrying amount of the hedging instrument	Liabilities - Carrying amount of the hedging instrument	Changes in Fair Value used for calculating hedge ineffectiveness
Interest Rate Risk	54 988	954	-	-
Micro Cash Flow Hedges	**54 988**	**954**	**-**	**-**
Interest Rate Risk	131 386	1 095	783	(1 021)
Micro Fair Value Hedges	**131 386**	**1 095**	**783**	**(1 021)**
Interest Rate Risk	-	-	-	-
Portfolio Fair Value Hedges	**-**	**-**	**-**	**-**

Effects of Hedge Accounting on Financial Position and Performance - Information regarding Hedged Items:

	Assets - Carrying amount of the Hedged Item	Liabilities - Carrying amount of the Hedged Item	Assets - Accumulated amount of Fair Value Hedge adjustments on the hedged item included in the carrying amount of the hedged item	Liabilities - Accumulated amount of Fair Value Hedge adjustments on the hedged item included in the carrying amount of the hedged item	Changes in used for calculating hedge ineffectiveness
Debt Securities	-	-	-	-	-
Debt Securities Issued	-	-	122 949	-	115
Fair Value Hedges	**-**	**-**	**122 949**	**-**	**115**

Cash Flow Hedge - Additional Information:

	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss
Loans and advances	(364)	-
Interest rate risk	**(364)**	**-**

21. Development of non-current tangible and intangible assets and investment property

Development of non-current tangible assets for own use as at 31 December 2018:

	Land and buildings – operating lease	Land and buildings	Machinery & equipment	Other non-current assets	Means of transport	Assets in progress	Total
Cost							
1 January 2018	**3 536**	**78 317**	**58 580**	**17 207**	**4 732**	**4 067**	**166 439**
Additions	-	-	-	-	-	10 218	10 218
Consolidation adjustments	-	-	-	-	-	-	-
Disposals	-	(1 439)	(1 689)	(1 282)	(969)	-	(5 379)
Transfer from own use to investment property	-	(957)	(3)	-	-	-	(960)
Transfer from tangible assets in progress	-	2 288	2 948	2 094	1 372	(8 702)	-
31 December 2018	**3 536**	**78 209**	**59 836**	**18 019**	**5 135**	**5 583**	**170 318**
Accumulated depreciation and provisions							
1 January 2018	**(1 785)**	**(41 687)**	**(46 875)**	**(11 580)**	**(3 034)**	**-**	**(104 961)**
Depreciation charge	(238)	(4 618)	(4 530)	(1 430)	(589)	-	(11 405)
Consolidation adjustments	-	-	-	-	-	-	-
Disposals	-	1 417	1 675	1 187	813	-	5 092
Provision	-	57	-	-	-	-	57
Transfer from own use to investment property	-	(171)	-	-	-	-	(171)
31 December 2018	**(2 023)**	**(45 002)**	**(49 730)**	**(11 823)**	**(2 810)**	**-**	**(111 388)**
Carrying amount as at 1 January 2018	**1 751**	**36 630**	**11 705**	**5 627**	**1 698**	**4 067**	**61 478**
Carrying amount as at 31 December 2018	**1 513**	**33 207**	**10 106**	**6 196**	**2 325**	**5 583**	**58 930**

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	-	-	-	-	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)**
Carrying amount as at 1 January 2017	**1 988**	**36 062**	**11 336**	**6 962**	**1 923**	**3 051**	**61 322**
Carrying amount as at 31 December 2017	**1 751**	**36 630**	**11 705**	**5 627**	**1 698**	**4 067**	**61 478**

Development of investment property as at 31 December 2018:

	Land and buildings	Assets in progress	Total
Cost			
1 January 2018	**58 018**	**462**	**58 480**
Additions	-	1 012	1 012
Disposals	(2 492)	-	(2 492)
Transfer from own use to investment property	960	-	960
Transfer from tangible assets in progress	1 004	(1 004)	-
31 December 2018	**57 490**	**470**	**57 960**
Accumulated depreciation and provisions			
1 January 2018	**(23 779)**	**-**	**(23 779)**
Depreciation charge	(1 679)	-	(1 679)
Disposals	582	-	582
Provision	(112)	-	(112)
Transfer from own use to investment property	171	-	171
31 December 2018	**(24 817)**	**-**	**(24 817)**
Carrying amount as at 1 January 2018	**34 239**	**462**	**34 701**
Carrying amount as at 31 December 2018	**32 673**	**470**	**33 143**

Development of investment property as at 31 December 2017:

	Land and buildings	Assets in progress	Total
Cost			
1 January 2017	**64 207**	**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	1 056	(1 056)	-
31 December 2017	**58 018**	**462**	**58 480**
Accumulated depreciation and provisions			
1 January 2017	**(24 412)**	**-**	**(24 412)**
Depreciation charge	(1 782)	-	(1 782)
Disposals	2 136	-	2 136
Provision	69	-	69
Transfer from own use to investment property	210	-	210
31 December 2017	**(23 779)**	**-**	**(23 779)**
Carrying amount as at 1 January 2017	**39 795**	**381**	**40 176**
Carrying amount as at 31 December 2017	**34 239**	**462**	**34 701**

As at 31 December 2018, the Group owns buildings that are leased to third parties at the net book value in the amount of EUR 28 078 thousand (2017: EUR 30 409 thousand). Total rental income in 2018 amounted to EUR 3 345 thousand (2017: EUR 3 593 thousand) and is recognized under *"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 1 679 thousand (2017: EUR 1 782 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 5 065 thousand (31 December 2017: EUR 5 478 thousand).

As at 31 December 2018, the estimated fair value of the investment property amounted to EUR 33 623 thousand. Owing to a change in the fair value of investment property as at 31 December 2018, the Group released a provision in the amount of EUR 78 thousand (31 December 2017: EUR 322 thousand).

Insurance coverage

The Parent Company concluded insurance coverage for assets and business disruption (International Insurance Program) 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 up to a maximum risk for EUR 4 189 thousand.

Development of non-current intangible assets as at 31 December 2018:

	Software	Goodwill	Other intangible assets	Intangible assets in progress	Total
Cost					
1 January 2018	**133 100**	**44 120**	**3 372**	**8 250**	**188 842**
Additions	-	-	-	11 477	11 477
Consolidation adjustments	-	-	-	-	-
Disposals	(1 428)	-	-	-	(1 428)
Transfer from intangible assets in progress	14 120	-	-	(14 120)	-
31 December 2018	**145 792**	**44 120**	**3 372**	**5 607**	**198 891**
Accumulated depreciation and provisions					
1 January 2018	**(111 087)**	**(31 900)**	**(533)**	**-**	**(143 520)**
Additions	(7 227)	-	(843)	-	(8 070)
Consolidation adjustments	-	-	-	-	-
Disposals	1 291	-	-	-	1 291
Provision	-	-	-	-	-
31 December 2018	**(117 023)**	**(31 900)**	**(1 376)**	**-**	**(150 299)**
Carrying amount as at 1 January 2018	**22 013**	**12 220**	**2 839**	**8 250**	**45 322**
Carrying amount as at 31 December 2018	**28 769**	**12 220**	**1 996**	**5 607**	**48 592**

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 depreciation and provisions					
1 January 2017	**(108 115)**	**(30 853)**	**-**	**-**	**(138 968)**
Additions	(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)**
Carrying amount as at 1 January 2017	**24 526**	**13 267**	**-**	**5 519**	**43 312**
Carrying amount as at 31 December 2017	**22 013**	**12 220**	**2 839**	**8 250**	**45 322**

Development of goodwill:

	2018	2017
As at 1 January	12 220	13 267
Additions	-	-
Impairment	-	(1 047)
As at 31 December	**12 220**	**12 220**

Goodwill of EUR 9 020 thousand arose on the acquisition of Doplnková dôchodková spoločnosť Tatra banky, a.s. in 2006 and goodwill of EUR 3 199 thousand arose on the acquisition of 51.5% ownership interest in Tatra-Leasing s.r.o. in 2015.

Goodwill in Doplnková dôchodková spoločnosť Tatra banky, a.s. arose as a result of a business combination, mainly from the expected future income from pension funds management, as well as expected synergies from the integration of the company into the Group structure. These benefits are not reported separately as the related future economic benefits cannot be separately measured reliably.

Goodwill impairment testing

At the end of each year, the Bank performs a goodwill impairment test by comparing the recoverable amount for each cash-generating unit at which goodwill originated and its carrying amount.

The impairment testing is performed by comparing the carrying amount of each cash-generating unit and its recoverable amount. If the recoverable amount is lower than its carrying amount, the difference is recognized in the statement of comprehensive income in item *"Impairment allowances for non-financial assets"*.

As a recoverable amount for each cash-generating unit, the Bank determined value in use using the expected future cash flows. The calculation of the recoverable amount is based on the plans for the next 10-year period.

Value in use of each cash-generating unit is sensitive to volatile parameters: primarily to the amount and development of future cash flows, discount rates, and growth rates.

22. Current tax asset

	2018	2017
Tax asset – current	752	686
Total	**752**	**686**

23. Deferred tax asset

	2018	2017
Tax asset – deferred	32 661	28 169
Total	**32 661**	**28 169**

Net deferred income tax asset resulted mainly from temporary deductible differences described in Note 13 *"Income tax"*.

24. Other assets

	2018	2017
Prepayments and other deferrals	18 130	11 976
Receivables to a service company	60 686	22 872
Inventories	1 382	1 028
Assets held for development and construction	447	1 186
Settled lease-related prepayments	7 017	8 815
Investments in subsidiaries, joint ventures and associates	-	3
Other assets	10 993	2 701
Total	**98 655**	**48 581**

In "*Receivables to a service company"* the Group recognises a receivable to an entity that provides services related to the operation of ATMs and cash transport.

25. Financial liabilities held for trading

	2018	2017
Negative fair value of financial derivatives held for trading	**25 638**	**40 189**
Interest-rate contracts	20 008	23 345
Currency contracts	5 511	13 971
Commodity contracts	119	2 873
Liabilities from debt securities held for trading*	**2 588**	**40 301**
Total	**28 226**	**80 490**

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

26. Financial liabilities at amortised cost

Financial liabilities measured at amortised cost by product group are as follows:

	2018	2017
Deposits from banks	**406 440**	**520 857**
Current accounts and interbank settlement	11 739	21 271
Money-market business	40	43 202
Loans received - repo deals from the NBS	203 316	165 040
Loans received - repo deals from other banks	55 648	55 210
Subordinated debt	135 697	236 134
Deposits from customers	**10 928 189**	**10 036 592**
Current accounts and settlement	9 578 688	8 771 291
Time deposits	1 174 772	1 041 704
Savings deposits	163 076	212 964
Loans received	11 653	10 633
Other financial liabilities	**585 239**	**765 250**
Issued debt securities – mortgage bonds	575 210	751 006
Issued debt securities – other bonds	10 029	13 043
Investment notes	-	1 201
Other financial liabilities	3 307	-
Total	**11 923 175**	**11 322 699**

Deposits measured at amortised cost by customer segment as at 31 December 2018 and as at 31 December 2017 are as follows:

	2018	2017
Banks	406 440	520 857
Public sector	241 857	28 099
Corporate clients	3 522 909	3 185 631
Retail clients	7 163 423	6 822 862
Total	**11 334 629**	**10 557 449**

Within the TLTRO programme (targeted longer-term refinancing operations), the Parent Comapny received a REPO loan from the National Bank of Slovakia in the amount of EUR 54 648 thousand. As collateral for the received repo deals, the Parent Company provided loan receivables amounting to EUR 62 740 thousand from the portfolio of loans and advances to customers.

Received loans by type of counterparty is as follows:

Type of loan	Currency	Type of loan By maturity	Contractual maturity	2018	2017
Subordinated debt from banks:					
– Commercial banks	EUR	Long-term	March 2021	6 263	13 285
– Commercial banks	EUR	Long-term	January 2020	6 807	-
– Commercial banks	EUR	Long-term	September 2021	64 276	42 398
– Bank for reconstruction and development	EUR	Long-term	May 2024	125 970	109 357
Total				**203 316**	**165 040**

Subordinated debt by type of counterparty is as follows:

Type of loan	Currency	Type of loan By maturity	Start of loan drawing	Type of interest rate	Contractual maturity	2018	2017
Subordinated debt from banks:							
– Commercial banks	EUR	Long-term	Aug 2013	FLOAT 3M EURIBOR	Aug 2023	-	100 439
– Commercial banks	EUR	Long-term	Nov 2016	FLOAT 3M EURIBOR	Nov 2024	135 697	135 695
Total						**135 697**	**236 134**

Subordinated debt due in August 2023 was prematurely repaid in August 2018 in accordance with the contract. The Parent Company drew subordinated debt from a counterparty.

The Group 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 Maturity	2018	2017
HZL 067 - repaid	3.875 %	EUR	-	10 000	14.10.2011	14.10.2018	Annually	-	8 759
HZL 068	5.00 %	EUR	1 000	10 000	14.10.2011	14.10.2031	Annually	10 015	10 010
HZL 074 - repaid	1.70 %	EUR	-	100 000	3.9.2013	3.9.2018	Annually	-	48 990
HZL 079	0.50 %	EUR	300	100 000	7.10.2014	7.4.2020	Annually	30 053	30 007
HZL 080	6M EURIBOR + 0.388 %	EUR	500	100 000	28.10.2014	28.10.2019	Semi-annually	49 980	50 065
HZL 081 - repaid	6M EURIBOR + 0.25 %	EUR	-	100 000	29.1.2015	29.1.2018	Semi-annually	-	50 000
HZL 082 - repaid	6M EURIBOR + 0.30 %	EUR	-	100 000	25.3.2015	25.3.2018	Semi-annually	-	49 996
HZL 083	1.110 %	EUR	500	100 000	29.4.2015	29.4.2025	Annually	50 348	49 523
HZL 084	6M EURIBOR + 0.50 %	EUR	2 500	100 000	19.8.2015	19.8.2020	Semi-annually	250 546	250 742
HZL 085 - repaid	6M EURIBOR + 0.50 %	EUR	-	100 000	17.12.2015	17.12.2020	Semi-annually	-	19 990
HZL 086	0.75 %	EUR	600	100 000	15.2.2016	15.2.2023	Annually	60 151	60 094
HZL 087	0.50 %	EUR	458	100 000	21.3.2016	21.9.2021	Annually	45 772	45 739
HZL 088	1.00 %	EUR	500	100 000	16.11.2016	16.11.2026	Annually	49 752	48 856
HZL 089	0.90 %	EUR	280	100 000	10.2.2017	10.2.2024	Annually	28 593	28 235
Total								**575 210**	**751 006**

The Group 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	2018	2017
Bond 6 AUV - repaid	0.83 %	EUR	3 000	1 000	21. 6. 2016	21. 6. 2018	Annually	-	3 013
Bond Tatra-Leasing 09 Fix	0.68 %	EUR	10 000	1 000	26. 7. 2017	26. 7. 2019	Annually	10 029	10 030
Total bonds								**10 029**	**13 043**

Total liabilities from debt securities	**585 239**	**764 049**

Act on Banks No. 279/2017 Coll. amending Act no. 483/2001 Coll. introduced new legislation for the issue of covered bonds and abolished the bank's obligation to finance mortgage loans of at least 90% by issuing and selling mortgage bonds. The Group has re-registered mortgage bonds to its covered bond register on 14 December 2018. All covered bonds are registered, in bearer form.

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.

Covered bonds of the Group are quoted on the Bratislava Stock Exchange.

As at 31 December 2017, in addition to mortgage bonds and debt securities, the Group has also issued investment bills of exchange issued by Tatra-Leasing, s.r.o. in the amount of EUR 1 201 thousand.

As at 31 December 2018 and as at 31 December 2017, mortgage bonds/respectively covered bonds issued by the Group were not secured by any form of collateral.

27. Hedging derivative financial liabilities

	2018	2017
Negative fair value of financial derivatives for fair value hedging	**256**	**1 123**
Interest–rate contracts	256	1 123
Total	**256**	**1 123**

28. Provisions

Movements in provisions as at 31 December 2018 were as follows:

	As at 1 January 2018	Creation /(Release)	Usage	As at 31 December 2018
Provision for guarantees and irrevocable loan commitments without significant increase in credit risk since initial recognition (stage 1)	2 185	852	-	3 037
Provision for guarantees and irrevocable loan commitments with significant increase in credit risk since initial recognition (stage 2)	1 113	542	-	1 655
Specific impairment allowances for guarantees and irrevocable loan commitments (stage 3)	4 089	(2 887)	-	1 202
Legal disputes (Note 40)	46 390	5 938	(3 223)	49 105
Provisions for employee benefits	3 503	484	(29)	3 958
Employee provisions	17 339	7 999	(7 939)	17 399
Other provisions	1 450	1 330	(88)	2 692
Total	**76 069**	**14 258**	**(11 279)**	**79 048**

The impact of implementation of IFRS 9 Financial instruments and other reclassifications on the amount of provision for guarantees and irrevocable loan commitments as at 1 January 2018:

	As at 31 December 2017	Reclassification other than IFRS 9	Impact of IFRS 9	As at 1 January 2018
Provision for guarantees and irrevocable loan commitments without significant increase in credit risk since initial recognition (stage 1)	2 517	-	(332)	2 185
Provision for guarantees and irrevocable loan commitments with significant increase in credit risk since initial recognition (stage 2)	-	-	1 113	1 113
Specific impairment allowances for guarantees and irrevocable loan commitments (stage 3)	3 073	-	1 016	4 089
Legal disputes (Note 40)	46 390	-	-	46 390
Provisions for employee benefits	3 503	-	-	3 503
Employee provisions*	-	17 339	-	17 339
Other provisions	1 450	-	-	1 450
Total	**56 933**	**17 339**	**1 797**	**76 069**

** the Group, under the change of presentation of financial statements (FINREP), reclassified short-term employee provisions in the amount of EUR 17 399 thousand from Note 31 "Other liabilities". The above provisions will be recognised by the Group under Note 28 "Provisions".*

Movements in provisions as at 31 December 2017 were as follows:

	As at 1 January 2017	Creation /(Release)	Usage	Transfers, exchange rate differences	As at 31 December 2017
Provision for off-balance sheet items	2 773	(256)	-	-	2 517
Specific impairment allowances for guarantees and irrevocable loan commitments	3 333	(260)	-	-	3 073
Legal disputes (Note 40)	40 982	6 233	(825)	-	46 390
Provisions for employee benefits	3 546	(43)	-	-	3 503
Other provisions	580	978	(108)	-	1 450
Total	**51 214**	**6 652**	**(933)**	**-**	**56 933**

Key assumptions used in actuarial valuation of provisions for employee benefits:

Real annual discount rate	2.7%
Annual future real rate of salary increases	2%
Annual employee turnover	3.5% – 12.7%
Retirement age	Based on valid legislation

Long-term provisions for employee benefits are calculated using the valid mortality tables issued by the Statistical Office of the Slovak Republic.

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, 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.

29. Current tax liability

	2018	2017
Current tax liability	4 623	172
Total	**4 623**	**172**

30. Deffered tax liability

	2018	2017
Current tax liability	194	422
Total	**194**	**422**

31. Other liabilities

	2018	2017
Deferred items [1)]	19 434	20 690
Other liabilities to the state budget	114	124
Social fund	1 150	1 166
Liabilities to employees [2)]	2 710	18 965
Other liabilities [1)]	5 063	7 643
Total	**28 471**	**48 588**

1) the Group moved uninvoiced items relating to deferred expenses and revenues from "Other liabilities" to "Deferred items" in the amount of EUR 17 533 thousand. As at 31 December 2017, the Group recognized only operating advances under "Deferred items".

2) the Group, under change of presentation of financial statements (FINREP), reclassified short-term employee provisions in the amount of EUR 17 339 thousand from Note 31 "Other liabilities". The above provisions will be recognised by the Group under Note 28 "Provisions".

32. Equity

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

	2018	2017
Share capital – ordinary shares	56 873	56 873
Share capital – preference shares	7 453	7 453
Treasury shares	(188)	(368)
Share premium – ordinary shares	226 611	226 612
Share premium – preference shares	70 734	70 522
Share premium – treasury shares	(2 326)	(4 383)
Reserve and other funds	15 767	15 746
Cash flow hedging reserve	743	648
Revaluation reserve for financial instruments at fair value through other comprehensive income	196	2 506
Fair value earnings (excluding current year net profit after tax)	536 166	492 300
AT1 capital	100 000	-
Total	**1 012 029**	**867 909**

The type, form, nature, number 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 1 pc	EUR 800	EUR 4 000	EUR 4
Issue No. (ISIN)	SK1110001502 series 01-05	SK1110015510	SK1110007186 SK1110008424 SK1110010131 SK1110012103 SK1110013937 SK1110014901 SK1110016237 SK1110016591

Description of rights:

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

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

Each holder of preference shares has 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 solely consists 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.

In August 2018, the Parent Company issued subordinated AT1 capital investment certificates in the amount of EUR 100,000 thousand meeting the requirements for Tier 1 capital.

The AT1 capital investment certificate is a perpetual instrument without the obligation to deliver cash. The Group may, on the basis of its decision, early repay the certificate at the earliest 5 years after the issue. Early repayment must be approved by the supervisory board of the parent company and the regulator. AT1 capital investment certificates comply with the definition of an equity instrument in accordance with IAS 32.

33. Values in custody and management

	2018	2017
Values in custody	**14 440**	**17 628**
Investment promissory notes	-	1 205
Merchandise and trust receipts	14 052	15 864
Gold	388	559
Total	**14 440**	**17 628**

The Group recognizes values received in custody and management at fair values. Values received in custody and management do not represent the Group's property and accordingly they are not part of the Group's assets.

In addition to amounts in the table above, in accordance with the depositary function for Tatra Asset Management, správ. spol., a.s. ("TAM"), as at 31 December 2018 the Group reported deposited securities in custody of the TAM mutual funds in the amount of EUR 1 313 339 thousand (as at 31 December 2017: EUR 1 237 753 thousand). Simultaneously, the Group manages 20 open funds with net value in the amount of EUR 2 020 712 thousand (2017: EUR 2 031 052 thousand) in TAM and 5 supplementary pension funds in Doplnková dôchodková spoločnosť Tatra banky, a.s. with net value in the amount of EUR 622 349 thousand (2017: 604 412 thousand).

34. Repurchase agreements

As at 31 December 2018 and as at 31 December 2017 the following repurchase agreements were concluded:

	2018	2017
Repo deals (debtor)		
Deposits from banks	55 648	55 210
Total	**55 648**	**55 210**

Within the TLTRO programme (targeted longer-term refinancing operations), the Group received a REPO loan from the National Bank of Slovakia in the amount of EUR 54 648 thousand. As collateral for the received repo deals, the Group provided loan receivables amounting to EUR 62 740 thousand from the portfolio of loans and advances to customers.

	2018	2017
Reverse repo deals (creditor)		
Loans and advances to banks	58 303	28 010
Total	**58 303**	**28 010**

As part of the reverse repo deals, the Group received government debt securities as collateral with a fair value of EUR 57 770 thousand.

35. Assets pledged as collateral

Liabilities secured by the Group's assets:

	2018	2017
Deposits to banks at amortised cost – Received loans - repo transactions with National Bank of Slovakia	55 648	55 210
Financial liabilities held for trading – Negative fair value of financial derivatives held for trading	21 455	20 855
Total	**77 103**	**76 065**

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

	2018	2017
Loans and advances to banks at amortised cost	7 996	34 699
Loans and advances to customers at amortised cost	63 740	62 741
Debt securities at amortised cost	28 002	13 644
Total	**99 738**	**111 084**

Other pledged assets without a liability:

	2018	2017
Debt securities at amortised cost	400 436	758 571
Total	**400 436**	**758 571**

The Group opened margin accounts as a collateral for derivative transactions. The amount of cash deposited by the Group 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 *"Financial assets at amortised cost"*.

The Group pledged in favour of the NBS government bonds and bonds issued by the banking sector, which are held in the securities measured at amortised cost portfolio in the amount of EUR 400 436 thousand (31 December 2017: EUR 758 571 thousand). For the pledged securities, the Group can draw an intraday credit in the amount of EUR 500 000 thousand (31 December 2017: EUR 500 000 thousand).
As at 31 December 2018, no funds were drawn against the said collateral (31 December 2017: no drawing).

36. Setting-off financial assets and liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are offset in the Group's statement of financial position or are subject to an enforceable/unenforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position or not.

The following summary represents the structure of framework agreements for setting-off assets and liabilities as at 31 December 2018:

			Value not set-off in the statement of financial position		
	Asset/ Liability in the statement of financial position	Asset/ Liability set-off in the statement of financial position	Net value in the statement of financial position	Financial instrument	Net value
Assets:					
Positive fair value of financial derivatives available-for-sale	23 440	-	-	18 957	4 483
Total assets	**23 440**	**-**	**-**	**18 957**	**4 483**
Liabilities:					
Negative fair value of financial derivatives available-for-sale	24 515	-	-	18 957	5 558
Total liabilities	**24 515**	**-**	**-**	**18 957**	**5 558**

The following summary represents the structure of framework agreements for setting-off assets and liabilities as at 31 December 2017:

			Value not set-off in the statement of financial position		
	Asset/ Liability in the statement of financial position	Asset/ Liability set-off in the statement of financial position	Net value in the statement of financial position	Financial instrument	Net value
Assets:					
Positive fair value of financial derivatives available-for-sale	25 159	-	-	16 685	8 474
Total assets	**25 159**	**-**	**-**	**16 685**	**8 474**
Liabilities:					
Negative fair value of financial derivatives available-for-sale	33 284	-	-	16 685	16 599
Total liabilities	**33 284**	**-**	**-**	**16 685**	**16 599**

37. Derivative financial instruments

The total volume of unsettled derivative financial instruments as at 31 December 2018 was as follows:

	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 16 and Note 20)	Negative (Note 25 and Note 27)
a) Interest-rate contracts for hedging	**1 000**	**84 814**	**128 000**	**213 814**	**2 168**	**(256)**
OTC products:						
Interest rate swaps	1 000	84 814	128 000	213 814	2 168	(256)
b) Interest-rate contracts for trading	**376 011**	**1 008 497**	**362 161**	**1 746 669**	**18 498**	**(20 008)**
OTC products:						
Interest rate swaps	302 957	760 703	345 242	1 408 902	18 312	(19 476)
Interest rate options – buy	19 035	132 619	12 919	164 573	186	(346)
Interest rate options – sell	-	115 175	4 000	119 175	-	(186)
Stock exchange products:						
Interest rate futures	54 019	-	-	54 019	-	-
c) Currency contracts for trading	**611 982**	**153 869**	**-**	**765 851**	**7 523**	**(5 511)**
OTC products:						
Currency swaps	442 024	-	-	442 024	2 583	(605)
Currency-interest rate swaps	-	149 598	-	149 598	1 473	(1 567)
Currency forwards	62 184	58	-	62 242	438	(332)
Currency options-buy	56 411	2 099	-	58 510	3 029	-
Currency options-sell	51 363	2 114	-	53 477	-	(3 007)
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	**60 542**	**-**	**-**	**60 542**	**121**	**(119)**
OTC products:						
Commodity swaps	-	-	-	-	-	-
Commodity options - buy	30 515	-	-	30 515	121	-
Commodity options - sell	30 027	-	-	30 027	-	(119)
Total	**1 049 535**	**1 247 180**	**490 161**	**2 786 876**	**28 310**	**(25 894)**

The total volume of unsettled derivative financial instruments as at 31 December 2017 was as follows:

	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 16 and Note 20)	Negative (Note 25 and Note 27)
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)**

38. 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 external expert opinions were used.

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 2018:

Financial assets at fair value	Level 1*	Level 2**	Level 3***	Total
Financial assets held for trading	**-**	**26 146**	**-**	**26 146**
Positive fair value of financial derivative instruments for trading	-	26 143	-	26 143
Debt securities	-	3	-	3
Financial assets at fair value through other comprehensive income	**393 942**	**107 913**	**536**	**502 391**
Equity instruments	-	10 454	536	10 990
Debt securities	393 942	97 459	-	491 401
Hedging derivative financial assets	**-**	**2 168**	**-**	**2 168**
Positive fair value of financial derivative instruments for fair value hedging	-	1 226	-	1 226
Positive fair value of financial derivative instruments for cash flow hedging	-	942	-	942
Total	**393 942**	**136 227**	**536**	**530 705**

Financial liabilities at fair value	Level 1*	Level 2**	Level 3***	Total
Financial liabilities held for trading	**2 588**	**25 638**	**-**	**28 226**
Negative fair value of financial derivative instruments for trading	-	25 638	-	25 638
Debt securities and other fixed income securities	2 588	-	-	2 588
Hedging derivative financial liabilities	**-**	**256**	**-**	**256**
Negative fair value of financial derivative instruments for fair value hedging	-	256	-	256
Total	**2 588**	**25 894**	**-**	**28 482**

* *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 Group, as part of the Financial Assets at fair value through other comprehensive income, transferred the equity instrument VISA INC., USA (Class C shares) in the amount of EUR 10 454 thousand from Level 3 to Level 2..

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
Financial assets held for trading	**20 606**	**33 373**	**-**	**53 979**
Positive fair value of financial derivative instruments for trading	-	33 369	-	33 369
Debt securities	20 606	4	-	20 610
Financial assets at fair value through other comprehensive income	**165 421**	**2 004**	**9 702**	**177 127**
Equity instruments	-	-	9 702	9 702
Debt securities	165 421	2 004	-	167 425
Hedging derivative financial assets	**-**	**1 701**	**-**	**1 701**
Positive fair value of financial derivative instruments for fair value hedging	-	877	-	877
Positive fair value of financial derivative instruments for cash flow hedging	-	824	-	824
Total	**186 027**	**37 078**	**9 702**	**232 807**

Financial liabilities at fair value	Level 1*	Level 2**	Level 3***	Total
Financial liabilities held for trading	**40 301**	**40 189**	**-**	**80 490**
Negative fair value of financial derivative instruments for trading	-	40 189	-	40 189
Debt securities and other fixed income securities	40 301	-	-	40 301
Hedging derivative financial liabilities	**-**	**1 123**	**-**	**1 123**
Negative fair value of financial derivative instruments for fair value hedging	-	1 123	-	1 123
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)*

Movements between Level 1 and Level 2
During 2018 there were no movements in bonds that were transferred from Level 1 to Level 2 based on a change in the bond price source.

Movements in Level 3 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 3 measured at fair value. The following table shows changes in the financial instruments at fair value whose valuation models are based on unobservable inputs:

	As at 31 December 2017	Revaluation	Increase/ Decrease	Profit/ loss in comprehensive income	As at 31 December 2018
Fund share certificates	441	-	22	-	463
Equity investments	9 261	(507)	(8 681)*	-	73
Total	**9 702**	**(507)**	**(8 659)**	**-**	**536**

** As at year-end 2018, the Group moved the investment in VISA INC., USA (Class C shares) from Level 3 to Level 2.*

Qualitative information on financial instruments for Level 3 measurements:

Financial instrument	Valuation method	Fair value	Significant unobservable inputs	Range of unobservable inputs
Fund share certificates	Net asset value	463	discount	20 – 50%
Equity investments	Market value	73	discount	20%
Total		**536**		

Financial instruments recognised at amortised cost

For purposes of valuation of non-impaired receivables to banks and customers, the Group uniformly implemented approach applicable for the whole Group. For valuation of retail and corporate portfolio the method of discounting future cash flows until maturity is used.

For the retail portfolio future cash flows are discounted by a rate that takes into consideration actual market situation and specific risk factors of respective retail sub-portfolios. For the corporate portfolio, future cash flows are discounted by a rate that takes into consideration actual market situation and risk specific factors of respective transactions.

Calculation of fair value of respective transactions comprises of two essential steps:

1. Determination of future cash flows at the level of individual transaction representing the loan receivable
2. Calculation of the respective discount rate that takes into consideration factors such as:
   - Market rates
   - Client's credit quality
   - Liquidity
   - Administration expenses

For discounted future cash flows method, components of discount factor which take into consideration credit quality, level of liquidity costs and market rates, change during the lifetime of transaction (depending on current situation at the time of respective cash flows), while for example administrative costs are constant all the time at level given by calibration at the beginning of transation.

In case of debt securities at amortised cost and debt securities liabilities at amortised cost and available market prices, the Group classifies the securities to 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 and classifies the security to Level 2.

In case of valuation of the defaulted portfolio, the Group recognised the fair value as net value of respective exposures, which represents gross amount less any impairment allowances.

Liabilities to Groups and liabilities to customers with fixed interest was remeasured to fair value that was different from their carrying amount, provided that their remaining maturity exceeded one year. Floating interest liabilities were taken into account only if the interest extension period was longer than 1 year. Only then will discounting on the basis of the presumed interest rate in line with market rates have a significant impact.

The Group used the income approach to calculate the fair value of its liabilities to banks and customers. Within the income approach, it applied the present value technique. The Group used the discounted rate calculated by the discount rate adjustment technique to discount future contractual cash flows.

	Fair value as at 2018	Carrying amount as at 2018	Difference as at 2018	Fair value as at 2017	Carrying amount as at 2017	Difference as at 2017
Assets						
Financial assets at amortised cost	**11 637 239**	**11 248 247**	**388 992**	**10 844 056**	**10 737 366**	**106 690**
Loans and advances to banks	**122 191**	**122 191**	**-**	**157 508**	**157 508**	**-**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*122 191*	*122 191*	-	*157 508*	*157 508*	-
Loans and advances to customers	**10 390 391**	**10 056 220**	**334 171**	**9 372 924**	**9 333 712**	**39 212**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*10 390 391*	*10 056 220*	*334 171*	*9 372 924*	*9 333 712*	*39 212*
Debt securities	**1 124 657**	**1 069 835**	**54 822**	**1 313 624**	**1 246 146**	**67 478**
of which Level 1	*961 609*	*907 767*	*53 842*	*1 027 805*	*984 020*	*43 785*
of which Level 2	*163 048*	*162 068*	*980*	*285 819*	*262 126*	*23 693*
of which Level 3	-	-	-	-	-	-

Liabilities						
Financial liabilities at amortised cost	**11 928 694**	**11 923 175**	**5 519**	**11 338 835**	**11 324 971**	**13 864**
Deposits from banks	*519 109*	*519 109*	-	*522 638*	*520 857*	*1 781*
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*519 109*	*519 109*	-	*522 638*	*520 857*	*1 781*
Deposit from customers	**10 812 994**	**10 815 518**	**(2 524)**	**10 037 599**	**10 036 592**	**1 007**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*10 812 994*	*10 815 518*	*(2 524)*	*10 037 599*	*10 036 592*	*1 007*
Liabilities from debt securities	**593 283**	**585 240**	**8 043**	**776 327**	**765 251**	**11 076**
of which Level 1	-	-	-	-	-	-
of which Level 2	*593 283*	*585 240*	*8 043*	*776 327*	*765 251*	*11 076*
of which Level 3	-	-	-	-	-	-
Other financial liabilities	**3 308**	**3 308**	**-**	**2 271**	**2 271**	**-**
of which Level 1	-	-	-	-	-	-
of which Level 2	-	-	-	-	-	-
of which Level 3	*3 308*	*3 308*	-	*2 271*	*2 271*	-

39. Risk report

Credit risk

The Group bears a credit risk, i.e. the risk that the counterparty will not be able to repay the amounts owed at their maturity in full. The Group classifies loan exposure borne by the Group 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 Groups 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 Group 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 Group in the loan decision-making process for private individuals and retail legal entities. An 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 Group. 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 Group.

When collecting receivables, the Group uses a very broad scale of tools and collection strategies depending on the amount and type of receivable. The Group 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 Group.

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

Exposure risk represents the risk resulting from the concentration of the Group'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 Group's focuses on quality portfolio management and its adequate diversification while adhering to set exposure limits (large assets exposure and others). The Group also develops methods for exposure risk quantification.

Residual risk represents the risk stemming from the insufficient enforceability of rights arising to the Group from security received against credit risk. The Group 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 Group also bears a credit risk in trading with OTC derivatives. This risk is monitored on a daily basis and mitigated by collateral contracts which allow the Group to request additional collateral from the counterparty to ensure at least the current value of the derivative transactions with this counterparty. In case of counterparties that are not financial institutions, the Group requires, in addition to current value, a potential future value of derivatives within the 10-day horizon. In the event of failure to provide the relevant collateral, the Group has the right to terminate all derivative transactions with the counterparty prematurely, offsetting the individual losses and gains, and the potential resulting loss to the client is realized against the collateral provided by the client.

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

	2018	2017
Credit risk related to balance sheet assets:		
Cash, cash balances at central banks and other demand deposits	1 144 212	1 313 569
Financial assets held for trading	26 146	40 730
Financial assets at fair value through profit or loss	-	13 249
Financial assets at fair value through other comprehensive income	502 391	177 127
Financial assets at amortised cost	11 248 247	10 737 366
Hedging derivative financial assets	2 168	1 701
Other assets	98 655	48 581
Total	**13 021 819**	**12 332 323**

	2018	2017
Credit risk related to off-balance sheet items:		
Contingent commitments from guarantees and letters of credit	389 717	418 842
Irrevocable loan commitments/stand-by facility	1 447 379	1 367 278
Revocable loan commitments/stand-by facility	1 457 102	1 386 527
Total	**3 294 198**	**3 172 647**

The table below shows a summary of the quality of the financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income as at 31 December 2018:

	Total carrying amount	Carrying amount – stage 1 *	Carrying amount – stage 2 **	Carrying amount – stage 3 ***	Allowances for expected credit losses - stage 1	Allowances for expected credit losses - stage 2	Allowances for expected credit losses - stage 3	Net carrying amount
Financial assets at amortised cost	**11 462 245**	**9 492 725**	**1 729 941**	**239 579**	**16 851**	**32 161**	**164 986**	**11 248 247**
Loans and advances to banks	122 591	122 086	106	399	1	-	399	122 191
Loans and advances to customers	10 269 773	8 301 769	1 728 824	239 180	16 804	32 161	164 587	10 056 221
Public sector	*6 488*	*5 304*	*1 184*	*-*	*2*	*2*	*-*	*6 484*
Corporate clients	*4 377 120*	*3 985 672*	*282 163*	*109 285*	*7 421*	*10 096*	*71 026*	*4 288 577*
Retail clients	*5 886 165*	*4 310 793*	*1 445 477*	*129 895*	*9 381*	*22 063*	*93 561*	*5 761 160*
Debt securities	1 069 881	1 068 870	1 011	-	46	-	-	1 069 835
Banks	*130 346*	*129 335*	*1 011*	*-*	*28*	*-*	*-*	*130 318*
Public sector	*939 535*	*939 535*	*-*	*-*	*18*	*-*	*-*	*939 517*
Corporate clients	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Financial assets at fair value through other comprehensive income	**491 463**	**491 463**	**-**	**-**	**62**	**-**	**-**	**491 401**
Debt securities	491 463	491 463	-	-	62	-	-	491 401
Banks	*186 551*	*186 551*	*-*	*-*	*30*	*-*	*-*	*186 521*
Public sector	*223 084*	*223 084*	*-*	*-*	*7*	*-*	*-*	*223 077*
Corporate clients	*81 828*	*81 828*	*-*	*-*	*25*	*-*	*-*	*81 803*
Contingent liabilities and other off-balance sheet items	**3 294 198**	**2 880 213**	**392 258**	**21 727**	**3 037**	**1 655**	**1 202**	**3 288 304**

* *stage 1 – without significant increase in credit risk since initital recognition.*
** *stage 2 – with significant increase in credit risk since initital recognition, but not credit impaired.*
*** *stage 3 – credit impaired*

The table below shows a summary of the quality of the financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income as at 31 December 2017:

	Total carrying amount	Carrying amount – stage 1 *	Carrying amount – stage 2 **	Carrying amount – stage 3 ***	Allowances for expected credit losses - stage 1	Allowances for expected credit losses - stage 2	Allowances for expected credit losses - stage 3	Net carrying amount
Financial assets at amortised cost	**10 930 765**	**10 689 865**	**-**	**240 900**	**21 681**	**-**	**171 718**	**10 737 366**
Loans and advances to banks	157 907	157 508	-	399	-	-	399	157 508
Loans and advances to customers	9 526 712	9 286 211	-	240 501	21 681	-	171 319	9 333 712
Public sector	*7 380*	*7 380*	-	-	-	-	-	*7 380*
Corporate clients	*4 377 165*	*4 248 192*	-	*128 973*	*7 582*	-	*90 439*	*4 279 144*
Retail clients	*5 142 167*	*5 030 639*	-	*111 528*	*14 099*	-	*80 880*	*5 047 188*
Debt securities	1 246 146	1 246 146	-	-	-	-	-	1 246 146
Banks	*137 885*	*137 885*	-	-	-	-	-	*137 885*
Public sector	*1 097 532*	*1 097 532*	-	-	-	-	-	*1 097 532*
Corporate clients	*10 729*	*10 729*	-	-	-	-	-	*10 729*
Financial assets at fair value through other comprehensive income	**167 425**	**167 425**	**-**	**-**	**-**	**-**	**-**	**167 425**
Debt securities	167 425	167 425	-	-	-	-	-	167 425
Banks	*26 986*	*26 986*	-	-	-	-	-	*26 986*
Public sector	*116 371*	*116 371*	-	-	-	-	-	*116 371*
Corporate clients	*24 068*	*24 068*	-	-	-	-	-	*24 068*
Contingent liabilities and other off-balance sheet items	**3 172 647**	**3 169 054**	**-**	**3 593**	**2 517**	**-**	**3 073**	**3 167 057**

* *stage 1 – without significant increase in credit risk since initital recognition.*
** *stage 2 – with significant increase in credit risk since initital recognition, but not credit impaired.*
*** *stage 3 – credit impaired*

In 2017 the Group disclosed unimpaired financial assets at amortised cost and guarantees and commitments given in stage 1 and impaired financial assets at amortised cost and guarantees and commitments given in stage 3.

The summary below represents net book value of financial assets at amortised cost and financial assets at fair value through other comprehensive income by overdue days as at 31 December 2018:

	Stage 1 ≤ 30 days	Stage 1 > 30 days ≤ 90 days	Stage 1 > 90 days	Stage 2 ≤ 30 days	Stage 2 > 30 days ≤ 90 days	Stage 2 > 90 days	Stage 3 ≤ 30 days	Stage 3 > 30 days ≤ 90 days	Stage 3 > 90 days
Loans and advances to banks	-	-	-	-	-	-	-	-	-
Loans and advances to customers	61 585	20	-	31 638	12 938	400	5 551	5 469	33 318
Public sector	-	-	-	-	-	-	-	-	-
Corporate clients	19 282	15	-	11 807	1 000	-	1 438	413	14 968
Retail clients	42 303	5	-	19 831	11 938	400	4 113	5 056	18 350
Debt securities	-	-	-	-	-	-	-	-	-
Banks	-	-	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-	-	-
Corporate clients	-	-	-	-	-	-	-	-	-
Total	61 585	20	-	31 638	12 938	400	5 551	5 469	33 318

The summary below represents net book value of financial assets at amortised cost and financial assets at fair value through other comprehensive income by overdue days as at 31 December 2017:

	Stage 1 ≤ 30 days	Stage 1 > 30 days ≤ 90 days	Stage 1 > 90 days	Stage 2 ≤ 30 days	Stage 2 > 30 days ≤ 90 days	Stage 2 > 90 days	Stage 3 ≤ 30 days	Stage 3 > 30 days ≤ 90 days	Stage 3 > 90 days
Loans and advances to banks	-	-	-	-	-	-	-	-	-
Loans and advances to customers	95 970	11 188	483	-	-	-	7 183	9 396	29 912
Public sector	-	-	-	-	-	-	-	-	-
Corporate clients	44 903	1 978	-	-	-	-	1 568	2 526	11 449
Retail clients	51 067	9 210	483	-	-	-	5 615	6 870	18 463
Debt securities	-	-	-	-	-	-	-	-	-
Banks	-	-	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-	-	-
Corporate clients	-	-	-	-	-	-	-	-	-
Total	95 970	11 188	483	-	-	-	7 183	9 396	29 912

The following summary represents an analysis of the impaired portfolio of financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income as at 31 December 2018:

	Gross carrying amount (stage 3)	Impairment allowances (stage 3)	Recoverable value of received collateral	% coverage by allowances for assets
Banks	399	399	-	100%
Corporate clients	109 285	71 026	29 847	92%
Retail clients	129 895	93 561	32 243	97%
Total	**239 579**	**164 986**	**62 090**	**95%**

The following summary represents an analysis of the impaired portfolio of financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income as at 31 December 2017:

	Gross carrying amount (stage 3)	Impairment allowances (stage 3)	Recoverable value of received collateral	% coverage by allowances for assets
Banks	399	399	-	100%
Corporate clients	128 973	90 439	25 998	90%
Retail clients	111 528	80 880	23 625	94%
Total	**240 900**	**171 718**	**49 623**	**92%**

The summary of individual types of received collateral for financial assets at recoverable value is provided as follows:

	2018	2017
Collateralisation of issued loans	**5 076 442**	**5 328 599**
Cash	41 750	52 833
Guarantees	179 193	171 185
Securities	116 460	73 536
Real estate	4 226 402	4 447 378
Movables	352 069	359 080
Receivables and other collateral	160 568	224 587
Collateralisation of receivables from derivative transactions	**-**	**4 580**
Cash	-	4 580
Total	**5 076 442**	**5 333 179**

The summary of individual types of received collateral for contingent liabilities and other off-balance sheet liabilities at recoverable value is provided as follows:

	2018	2017
To cover contingent liabilities and other off-balance sheet liabilities		
Cash	60 220	54 771
Guarantees	56 995	69 298
Securities	77 280	53 690
Real estate	169 597	108 170
Movables	2 604	2 467
Receivables and other collateral	145 847	106 760
Total	**512 543**	**395 156**

The summary below represents the quality of the portfolio of financial assets at amortised cost that is non-impaired (Stage 1 and 2) and non-overdue in accordance with the internal rating:

	2018	2017
Loans and advances to banks:	**122 192**	**157 508**
Minimum risk	4 999	-
Excellent credit rating	116 928	27 792
Very good credit rating	108	129 596
Good credit rating	-	-
Standard credit rating	-	83
Ordinary credit rating	106	-
Sub-standard credit rating	-	-
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	-	-
Defaulted	-	-
With no assigned rating	51	37

Loans and advances to customers:	**9 946 540**	**9 202 994**
Of which, public sector:	***6 488***	***7 380***
Minimum risk	-	-
Excellent credit rating	-	-
Very good credit rating	221	4
Good credit rating	5 336	6 069
Standard credit rating	897	296
Ordinary credit rating	14	1 006
Sub-standard credit rating	20	3
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	-	1
Defaulted	-	-
With no assigned rating	-	-

Of which, corporate clients without project financing:	***3 120 079***	***3 108 373***
Minimum risk	113 885	144 674
Excellent credit rating	69 122	80 204
Very good credit rating	115 471	382 460
Good credit rating	787 192	620 163
Standard credit rating	979 403	912 042
Ordinary credit rating	518 370	515 104
Sub-standard credit rating	381 661	329 521
Significantly sub-standard credit rating	118 069	89 966
Doubtful/high risk of default	33 822	18 617
Defaulted	2	10 421
With no assigned rating	3 082	5 201
Of which, corporate clients – project financing:	***1 129 788***	***1 110 851***
Excellent project financing profile rating	959 088	844 952
Good project financing profile rating	136 817	217 727
Acceptable project financing profile rating	14 133	16 924
Weak project financing profile rating	19 750	31 248
Defaulted	-	-
Of which, retail clients	***5 690 185***	***4 976 390***
Excellent credit rating	2 921 597	2 279 362
Very good credit rating	2 392 372	1 612 163
Good credit rating	112	80
Ordinary credit rating	273 750	232 279
Sub-standard credit rating	17 610	47 106
Defaulted	-	-
With no assigned rating	84 744	805 400

Debt securities	**1 069 881**	**1 246 146**
Minimum risk	-	-
Excellent credit rating	130 907	156 347
Very good credit rating	879 687	1 056 521
Good credit rating	32 608	33 278
Standard credit rating	26 679	-
Ordinary credit rating	-	-
Sub-standard credit rating	-	-
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	-	-
Defaulted	-	-
With no assigned rating	-	-

Financial assets at amortised cost	**11 138 613**	**10 606 648**

The summary below represents the quality of the portfolio of contingent liabilities and other off-balance sheet items that is non-impaired (Stage 1 and 2) and non-overdue in accordance with the internal rating:

	2018	2017
Contingent liabilities and other off-balance sheet items to banks	**73 627**	**99 063**
Minimum risk	500	-
Excellent credit rating	66 445	42 961
Very good credit rating	6 588	50 017
Good credit rating	-	6 000
Standard credit rating	93	85
Ordinary credit rating	1	-
Sub-standard credit rating	-	-
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	-	-
Defaulted	-	-
With no assigned rating	-	-

Contingent liabilities and other off-balance sheet items to customers	**3 198 844**	**3 069 991**
of which public sector:	***3 408***	***4 212***
Minimum risk	-	-
Excellent credit rating	2 851	17
Very good credit rating	218	149
Good credit rating	241	4 017
Standard credit rating	98	-
Ordinary credit rating	-	-
Sub-standard credit rating	-	-
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	-	29
Defaulted	-	-
With no assigned rating	-	-
of which corporate clients – no project financing	***2 000 637***	***1 842 374***
Minimum risk	120 968	190 568
Excellent credit rating	110 195	105 365
Very good credit rating	342 219	239 991
Good credit rating	485 408	438 912
Standard credit rating	490 776	515 997
Ordinary credit rating	275 779	223 076
Sub-standard credit rating	128 483	97 607
Significantly sub-standard credit rating	37 199	25 972
Doubtful/high risk of default	8 765	4 719
Defaulted	-	-
With no assigned rating	845	167

of which corporate clients – project financing	***200 368***	***219 814***
Excellent project financing profile rating	198 050	180 417
Good project financing profile rating	1 497	37 929
Acceptable project financing profile rating	762	1 183
Weak project financing profile rating	59	285
Defaulted	-	-
of which retail clients	***994 431***	***1 003 591***
Excellent credit rating	563 141	418 136
Very good credit rating	221 004	120 123
Good credit rating	-	-
Standard credit rating	5 550	5 018
Sub-standard credit rating	350	1 704
Defaulted	-	-
With no assigned rating	204 386	458 610
Contingent liabilities and other off-balance sheet items	**3 272 471**	**3 169 054**

The summary below represents the quality of the portfolio of financial assets at fair value through other comprehensive income that is non-impaired (Stage 1 and 2) and non-overdue in accordance with the internal rating:

	2018	2017
Debt securities	**491 463**	**167 425**
Minimum risk	10 316	24 068
Excellent credit rating	183 168	24 982
Very good credit rating	220 029	49 013
Good credit rating	56 200	53 671
Standard credit rating	10 945	15 691
Ordinary credit rating	10 805	-
Sub-standard credit rating	-	-
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	-	-
Defaulted	-	-
With no assigned rating	-	-
Financial assets at fair value through other comprehensive income	**491 463**	**167 425**

The scoring system of the Group'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 summary below represents the net book value of the loans and advances to banks and loans and advances to customers in terms of the concentration risk by industry:

	2018	2017
A. Agriculture, forestry and fisheries	167 511	139 767
B. Mining and quarrying	20 590	22 739
C. Industrial production	681 695	607 201
D. Supply of electricity, gas, steam and air-conditioning	510 793	600 091
E. Water supply	113 899	115 380
F. Construction	332 390	303 401
G. Wholesale and retail trade	679 061	668 610
H. Transport and storage	353 445	316 852
I. Accommodation and catering services	57 750	55 032
J. Information and Communication	139 415	121 390
K. Financial and insurance activities	197 259	295 713
L. Real estate activities	1 003 773	1 001 788
M. Professional, scientific and technical activities	119 773	120 606
N. Administrative and support services	160 173	153 606
O. Public administration and defense, compulsory social security	15 452	17 326
P. Education	17 818	15 988
Q. Health and social assistance	101 648	112 373
R. Arts, entertainment and recreation	33 216	69 992
S. Other service activities	20 198	14 267
T. Activities of households, private households with domestic staff	5 452 553	4 739 098
Total	**10 178 412**	**9 491 220**

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:

	2018	2017
Government treasury bills	60 070	-
Government bonds with no coupon	29 476	29 370
Loans and advances to banks	1 018 508	1 129 497
Loans and advances to customers	300 200	341 702
Debt securities	1 010 606	1 143 228
Total	**2 418 860**	**2 643 797**

Non-performing exposures (NPE)

Non-performing exposures are defined in the technical standard governing the reporting of forborne exposures and non-performing exposures, as issued by EBA (European Bank Authority). Non-performing exposures include both defaulted and non-defaulted exposures.

Based on change (implementation of IFRS 9), in line with the EBA standard definition (FINREP ANNEX III REV1/FINREP ANNEX V), cash balances at central banks and other demand deposits and government and corporate bonds purchased to the Banking book are part of share of non-performing exposures, resulting in decrease of the indicator.

The table below represents summary of non-performing exposures as at 31 december 2018:

	Gross carrying amount	Share of non-performing exposures	% coverage of non-performing exposures
Loans and advances to banks	**399**	**0.03 %**	**100.00 %**
Loans and advances to customers	**243 580**	**2.37 %**	**67.60 %**
Public sector	-	-	-
Corporate clients	*109 237*	*2.50%*	*64.78%*
Retail clients	*134 343*	*2.28%*	*69.88%*
Debt securities	**-**	**-**	**-**
Total	**243 979**	**2.13%**	**67.65%**

The table below represents the summary of non-performing exposures as 31 December 2017:

	Gross carrying amount	Share of non-performing exposures	% coverage of non-performing exposures
Loans and advances to banks	**399**	**0.03%**	**100.00%**
Loans and advances to customers	**291 177**	**3.06%**	**58.78%**
Public sector	-	-	-
Corporate clients	*143 458*	*3.28%*	*62.81%*
Retail clients	*147 719*	*2.87%*	*54.88%*
Debt securities	**-**	**-**	**-**
Total	**291 576**	**2.68%**	**58.84%**

Forborne exposures

This section applies exclusively to non-default exposures based on Article 178 CRR. In the business sphere, when credit conditions change for the benefit of the client, the Group differentiates between modified loans and forborne loans based on valid definition in the technical standard (ITS) governing the reporting of forborne exposures and non-performing exposures, as issued by the EBA (European Bank Authority).

A key aspect when deciding whether a loan is forborne, is in the business sector the client's financial situation at the time of the change in maturity or loan terms. If, on the basis of the client's creditworthiness (taking into account the internal early warning system), it can be assumed that the client has financial difficulties at the time of changing loan terms, and if the change is treated as easing of conditions, such loans are flagged as forborne exposures. If such change is made to a loan or such loan becomes more than 30 days overdue that was previously considered to be defaulted but subsequently considered as non-defaulted (under Article 178 CRR), the loan is considered to be a default exposure (NPE) regardless of whether there is a reason for default under Article 178 CRR. The decision as to whether the loan is classified as defaulted and/or forborne is not a reason for creation of a specific impairment allowance.

Under IFRS 9, non-defaulted forborne exposures are automatically transferred to Stage 2 and are therefore subject to lifetime expected credit losses. The transfer back to Stage 1 is only possible after all of the exit criteria have been met (including trial period in retail segment) and at the same time criteria for classification to Stage 2 are not met (quantitative or qualitative).

The Group may adjust the terms and conditions of repayment of its loan receivables if the client's financial situation is not good and the client would not be able to repay its obligations to the Group in real time.

In case of overdrafts, an agreement on repayments of debt due is concluded - the contract is not prolonged, it is only transformed into an instalment loan after being declared as due.

In case of instalment loans, repayment schedules are changed for the client's inability to pay within the agreed deadlines. For retail loans, there is a possibility to apply for loan restructuring in the form of a temporary reduction of repayments mostly for a period of 12 months, with subsequent changes to the original loan (extension of the maturity, change of the instalment amount) so as not to reduce the cash flows after termination of the credit relationship (ie there is no impairment).

The summary below represents the analysis of forborne exposures as at 31 December 2018:

	Gross carrying amount	Allowances for expected credit losses	Net carrying amount
Loans and advances to banks	**-**	**-**	**-**
Loans and advances to customers	**93 711**	**(42 052)**	**51 659**
Public sector	-	-	-
Corporate clients	*63 026*	*(32 809)*	*30 217*
Retail clients	*30 685*	*(9 243)*	*21 442*
Total	**93 711**	**(42 052)**	**51 659**

The summary below represents the analysis of forborne exposures as at 31 December 2017:

	Gross carrying amount	Allowances for expected credit losses	Net carrying amount
Loans and advances to banks	**-**	**-**	**-**
Loans and advances to customers	**114 988**	**(46 736)**	**68 252**
Public sector	-	-	-
Corporate clients	*85 504*	*(38 744)*	*46 760*
Retail clients	*29 484*	*(7 992)*	*21 492*
Total	**114 988**	**(46 736)**	**68 252**

Default loan portfolio (NPL)

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

To determine the client's default, the Group 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 at the amount of EUR 10.

The summary below represents analysis of the default loan portfolio (balance sheet items) and impairment off-balance sheet portfolio analysis (guarantees and irrevocabale loan commitments) as at 31 December 2018:

	Default loans (Gross book value)	Impairment allowances for default loans	Impaired loans (Net book value)	Recoverable value of received collateral for default loans	% coverage of default loans
Loan and advances:	**239 575**	**164 983**	**74 592**	**62 090**	**95%**
Banks	*399*	*399*	*-*	*-*	*100%*
Corporate clients	*109 284*	*70 909*	*38 375*	*29 847*	*92%*
Retail clients	*129 892*	*93 675*	*36 217*	*32 243*	*97%*
Contingent liabilities and other off-balance sheet items	**21 727**	**1 202**	**20 525**	**3 222**	**20%**
Corporate clients	*20 593*	*326*	*20 267*	*3 172*	*17%*
Retail clients	*1 134*	*876*	*258*	*50*	*82%*
Total	**261 302**	**166 185**	**95 117**	**65 312**	**89%**

The summary below represents analysis of the default loan portfolio (balance sheet items) and impairment off-balance sheet portfolio analysis (guarantees and irrevocabale loan commitments) as at 31 December 2017:

	Default loans (Gross book value)	Impairment allowances for default loans	Impaired loans (Net book value)	Recoverable value of received collateral for default loans	% coverage of default loans
Loan and advances:	**276 451**	**171 565**	**104 886**	**81 730**	**92%**
Banks	*399*	*399*	*-*	*-*	*100%*
Corporate clients	*142 117*	*90 100*	*52 017*	*38 150*	*90%*
Retail clients	*133 935*	*81 066*	*52 869*	*43 580*	*93%*
Contingent liabilities and other off-balance sheet items	**54 117**	**3 073**	**51 044**	**8 701**	**22%**
Corporate clients	*53 058*	*2 872*	*50 186*	*8 588*	*22%*
Retail clients	*1 059*	*201*	*858*	*113*	*30%*
Total	**330 568**	**174 638**	**155 930**	**90 431**	**80%**

Concentration risk by geographic regions

Structure of assets and liabilities related to entities outside the Slovak Republic:

	2018	2017
Assets	**938 922**	**739 762**
Of which Austria	*221 462*	*272 656*
Of which Czech Republic	*256 499*	*254 580*
Of which Germany	*2 032*	*5 784*
Of which Poland	*7 799*	*21 309*
Of which Netherlands	*93 953*	*77 976*
Of which Great Britain	*24 344*	*3 215*
Of which Romania	*37 834*	*15 797*
Of which Ireland	*33 925*	*21 274*
Of which Spain	*28 226*	*222*
Of which Lithuania	*24 382*	*9 431*
Of which other countries (mainly EU countries)	*208 466*	*57 518*

Liabilities	**1 148 925**	**1 191 525**
Of which Austria	*397 365*	*450 424*
Of which Hungary	*244 367*	*243 524*
Of which Luxembourg	*126 031*	*13 303*
Of which Czech Republic	*73 790*	*66 769*
Of which Denmark	*52 890*	*40 736*
Of which Ukraine	*40 781*	*28 930*
Of which other countries (mainly EU countries)	*213 701*	*347 839*

Market risk

The Group 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 Group's positions, and the expected maximum amount of potential losses, the Group uses internal reports and models for individual types of risk faced by the Group. The Group uses a system of limits, the aim of which is to ensure that the level of risks the Group is exposed to at any time does not exceed the level of risks the Group 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 Group may incur due to unfavourable developments in market rates and prices. To manage market risk, the Group uses a system of limits imposed on individual positions and portfolios.

As to the structure of trades, the Group primarily faces the following market risks:
- Currency risk and
- Interest rate risk.

Market risks to which the Group faces insignificant exposure (nominal value does not exceed 0.1% of the Group's balance):
- Equity price risk
- Commodity risk.

Currency risk

Currency risk represents the potential of loss resulting from unfavourable movements in foreign currency exchange rates. The Group 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 Group is monitored separately for each currency, as well as the group limit for specific currencies if monitoring is necessary, e.g. In case of market turbulences. Limits for these positions are set in line with the RBI Group standards. Data on the Group'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 Group also sets gamma and vega limits on an option position for each currency match subject to trading.

Positions from client option trades to currency matches, where no gamma and vega limits on trading has been specified by the Group, are closed at the market, so as to ensure that the Group has no open position for this currency match.

In addition, the Group has set three various stop-loss limits for the overall foreign exchange position.

Items in foreign currencies

The financial statements consist of following assets and liabilities denominated in foreign currencies:

	2018	2017
Assets	**207 423**	**179 403**
Of which: USD	*82 650*	*64 278*
Of which: CZK	*87 434*	*101 226*
Of which: other currencies (PLN, HUF, GBP and other)	*37 339*	*13 899*

Liabilities	**484 915**	**533 444**
Of which: USD	*305 785*	*331 342*
Of which: CZK	*92 257*	*92 123*
Of which: other currencies (PLN, HUF, GBP and other)	*86 873*	*109 979*

The Group's net foreign exchange (FX) position of assets, liabilities and equity as at 31 December 2018 and 31 December 2017 was as follows:

	Net FX position as at 31 December 2018	***Net FX position as at 31 December 2017***
USD	(223 135)	(267 064)
CZK	(4 823)	9 103
Other (GBP, CHF, PLN, HUF and other)	(49 534)	(96 080)
Total net FX balance sheet position	**(277 492)**	**(354 041)**
USD	220 359	268 839
CZK	4 984	(8 276)
Other (GBP, CHF, PLN, HUF and other)	49 966	95 953
Total net FX off-balance sheet position	**275 309**	**356 516**
Total Net FX position	**(2 183)**	**2 475**

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 Group 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. The Banking book interest rate risk is monitored and assessed on a weekly basis and at each month end.

To monitor interest rate risk, the Group 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), method of interest field sensitivity yield curve shift by defined number of basis points and stop-loss limit 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 Group'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 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.

The interest rate gap of financial assets and liabilities as at 31 December 2018:

	Up to 3 months included	From 3 months to 1 year included	From 1 to 5 years included	Over 5 years included	Unspecified	Total
Assets						
Cash, cash balances at central banks and other demand deposits	1 048 602	-	-	-	95 610	1 144 212
Financial assets held for trading	-	3	-	-	26 143	26 146
Financial assets at fair value through other comprehensive income	4 906	62 104	284 018	140 373	10 990	502 391
Financial assets at amortised cost	3 981 329	1 679 054	4 880 326	616 082	91 456	11 248 247
Hedging derivative financial assets	-	-	-	-	2 168	2 168
Other assets	-	-	-	-	98 655	98 655
Interest rate position for financial assets as at 31 December 2018	**5 034 837**	**1 741 161**	**5 164 344**	**756 455**	**325 022**	**13 021 819**
Liabilities						
Financial liabilities held for trading	-	-	-	-	28 226	28 226
Financial liabilities at amortised cost*	4 296 007	1 490 974	3 399 898	1 531 998	1 204 298	11 923 175
Derivative financial liabilities	-	-	-	-	256	256
Provisions	-	-	-	-	79 048	79 048
Other liabilities	-	-	-	-	28 471	28 471
Interest rate position for financial liabilities as at 31 December 2018	**4 296 007**	**1 490 974**	**3 399 898**	**1 531 998**	**1 340 299**	**12 059 176**
Net interest rate position as at 31 December 2018	**738 830**	**250 187**	**1 764 446**	**(775 543)**	**(1 015 277)**	**962 643**

**The Group uses its own model to categorize the non-term deposits according to interest rate sensitivity, whereas these deposits are categorized for up to 10 years.*

Interest rate gap of financial assets and liabilities as at 31 December 2017:

	Up to 3 months included	From 3 months to 1 year included	From 1 to 5 years included	Over 5 years included	Unspecified	Total
Assets						
Cash, cash balances at central banks and other demand deposits	1 191 741	-	-	-	121 828	1 313 569
Financial assets held for trading	3 405	7 769	18 227	11 329	-	40 730
Financial assets at fair value through profit or loss		13 249				13 249
Financial assets at fair value through other comprehensive income	1 706	41 033	104 388	20 297	9 703	177 127
Financial assets at amortised cost	3 979 817	1 639 511	4 344 922	626 860	146 256	10 737 366
Hedging derivative financial assets	309	546	183	663	-	1 701
Other assets	-	-	-	-	48 581	48 581
Interest rate position for financial assets as at 31 December 2017	**5 176 978**	**1 702 108**	**4 467 720**	**659 149**	**326 368**	**12 332 323**
Liabilities						
Financial liabilities held for trading	8 656	8 647	18 102	5 852	39 233	80 490
Financial liabilities at amortised cost	2 643 980	4 617 728	2 882 722	207 422	973 119	11 324 971
Hedging derivative financial liabilities	55	-	-	-	1 068	1 123
Provisions	-	-	-	-	74 271	74 271
Other liabilities	-	-	-	-	28 978	28 978
Interest rate position for financial liabilities as at 31 December 2017	**2 652 691**	**4 626 375**	**2 900 824**	**213 274**	**1 116 669**	**11 509 833**
Net interest rate position as at 31 December 2017	**2 524 287**	**(2 924 267)**	**1 566 896**	**445 875**	**(790 301)**	**822 490**

**The Group uses its own model to categorize the non-term deposits according to interest rate sensitivity, whereas these deposits are categorized for up to 10 years.*

Equity price risk

Equity price risk arises from the Group's exposure to changes in equity investment prices. Equity price risk is determined at the Group 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 Group's exposure to changes in commodity prices. Commodity risk is determined at the Group 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 Group'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 Group 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 Group's positions into baskets and examines the Group'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 Group.

The table below shows the Group's sensitivity to movements in exchange rates, assuming negative movements in exchange rates by 5% to the detriment of the Group.

Change in the present value of assets and liabilities of the Group following the movements in exchange rates of the selected currencies to the detriment of the Group as at 31 December 2018 (in thousands of EUR):

	Present value of exchange rate	Exchange rate in sensitivity scenario	Group's position in the respective currency	Group's loss in the respective scenario
USD	1.1450	1.0878	(2 770)	(139)
CZK	25.7240	27.0102	164	(8)
PLN	4.3014	4.0863	(160)	(8)
RON	4.6635	4.8967	156	(8)
CAD	1.5605	1.6385	154	(8)
Total			**(2 456)**	**(171)**

Change in the present value of assets and liabilities of the Group following the movements in exchange rates of the selected currencies to the detriment of the Group as at 31 December 2017 (in thousands of EUR):

	Present value of exchange rate	Exchange rate in sensitivity scenario	Group's position in the respective currency	Group's loss in the respective scenario
USD	1.1993	1.1393	(1 319)	(66)
CZK	25.5350	26.8118	821	(41)
NOK	9.8403	9.3483	(213)	(11)
GBP	0.8872	0.9316	185	(9)
RON	4.6585	4.8914	164	(8)
Total			**(362)**	**(135)**

The table below shows the Group's sensitivity to movements in the interest rate assuming negative movement of the yield curve to the detriment of the Group by 100 basis points.

Change in the present value of assets and liabilities of the Group following the change in the interest rate for the selected currencies as at 31 December 2018 (in thousands of EUR):

	Yield curve shift	Group's loss from yield curve shift
EUR	-100 BPV	(6 274)
USD	+100 BPV	(794)
Total		**(7 068)**

Change in the present value of assets and liabilities of the Group following the change in the interest rate for the selected currencies as at 31 December 2017 (in thousands of EUR):

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

As at 31 December 2018, the Group's exposure position in the Trading book to equity price risk is nil, as at 31 December 2017 it was also nil. The Group, therefore, does not recognise this exposure position to equity price risk.

As at 31 December 2018, the Group's net exposure position to commodities in the Trading book is insignificant; as at 31 December 2017, the Group's position was also insignificant. Therefore, the Group does not recognise this exposure position to commodity risk.

The Group in the sensitivity analysis scenario uses the negative development of exchange rates, yield curves movements, and decrease in share prices. In case of exactly-opposite movements, the Group 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 Group wishes to maintain its solvency, i.e. 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 Group's liquidity and, subsequently, makes decisions based on the current state of affairs.

The Group 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 interGroup and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Integrated Risk Management function monitors the Group'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 Group'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 Group 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 Group's management. Furthermore, the Group monitors the ratios determined by the NBS and the ratios and limits set by the Group, RBI.

Deposits from customers are the primary funding source for the Group. 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 2018:

	Up to 12 months	Over 12 months	Unspecified	Total
Cash, cash balances at central banks and other demand deposits	1 144 212	-	-	1 144 212
Financial assets held for trading	3	-	26 143	26 146
Financial assets at fair value through other comprehensive income	67 010	424 391	10 990	502 391
Financial assets at amortised cost	2 406 065	8 550 497	291 685	11 248 247
Hedging derivative financial assets	-	-	2 168	2 168
Investments in subsidiaries, joint ventures and associates	-	-	-	-
Property and equipment	-	-	58 930	58 930
Investment property	-	-	33 143	33 143
Intangible assets	-	-	48 592	48 592
Current tax asset	-	-	752	752
Deferred tax asset	-	-	32 661	32 661
Other assets	-	-	98 655	98 655
Total assets	**3 617 290**	**8 974 888**	**603 719**	**13 195 897**
Liabilities				
Financial liabilities held for trading	-	-	28 226	28 226
Financial liabilities at amortised cost[1)]	2 236 789	9 643 930	42 456	11 923 175
Hedging derivative financial liabilities	-	-	256	256
Provisions	-	-	79 048	79 048
Current tax liability	-	-	4 623	4 623
Deferred tax liability	-	-	194	194
Other liabilities	-	-	28 471	28 471
Total liabilities	**2 236 789**	**9 643 930**	**183 274**	**12 063 993**
Equity (excluding current year profit)	-	-	1 012 029	1 012 029
Consolidated profit after tax	-	-	119 875	119 875
Total equity and liabilities	**2 236 789**	**9 643 930**	**1 315 178**	**13 195 897**
Net balance sheet position	**1 380 501**	**(669 042)**	**(711 459)**	**-**
Net off-balance sheet position[2)]	**(2 907 414)**	**-**	**4 321 482**	**1 414 068**
Cumulative balance sheet and off-balance sheet position	**(1 526 913)**	**(669 042)**	**3 610 023**	**1 414 068**

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 underlying instrument is replaced, in particular from future loans and borrowings, guarantees and letters of credit, and delta option equivalents.
3) Positive/negative fair value of financial derivatives held for trading and hedging derivative assets /liabilities are classified as not specified under the National Bank of Slovakia Reporting on the current and estimated residual maturity of assets and liabilities.

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, cash balances at central banks and other demand deposits	1 313 569	-	-	1 313 569
Financial assets held for trading	11 173	29 557	-	40 730
Financial assets at fair value through other comprehensive income	13 249	-	-	13 249
Financial assets at fair value through profit or loss	42 740	124 685	9 702	177 127
Financial assets at amortised cost	2 717 961	7 708 533	310 872	10 737 366
Hedging derivative financial assets	855	846	-	1 701
Investments in subsidiaries, joint ventures and associates	-	-	-	-
Property and equipment	-	-	61 478	61 478
Investment property	-	-	34 701	34 701
Intangible assets	-	-	45 322	45 322
Current tax asset	-	-	686	686
Deferred tax asset	-	-	28 169	28 169
Other assets	1	-	48 580	48 581
Total assets	**4 099 548**	**7 863 621**	**539 510**	**12 502 679**
Liabilities				
Financial liabilities held for trading	17 303	22 886	40 301	80 490
Financial liabilities at amortised cost[1)]	4 080 076	7 198 004	46 891	11 324 971
Hedging derivative financial liabilities	55	1 068	-	1 123
Provisions	-	-	74 271	74 271
Current tax liability	-	-	172	172
Deferred tax liability	-	-	422	422
Other liabilities	-	-	28 978	28 978
Total liabilities	**4 097 434**	**7 221 958**	**191 035**	**11 510 427**
Equity (excluding current year profit)	-	-	867 910	867 910
Consolidated profit after tax	-	-	124 342	124 342
Total equity and liabilities	**4 097 434**	**7 221 958**	**1 183 287**	**12 502 679**
Net balance sheet position	**2 114**	**641 663**	**(643 777)**	**-**
Net off-balance sheet position[2)]	**(2 817 186)**	**(250)**	**(918 158)**	**(3 735 594)**
Cumulative balance sheet and off-balance sheet position	**(2 815 072)**	**(2 173 659)**	**(3 735 594)**	**(3 735 594)**

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 underlying 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, in the worst-case scenario, as at 31 December 2018 (in non-discounted amounts):

			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Financial liabilities held for trading	2 588	2 588	2 588	-	-	-
Financial liabilities at amortised cost	11 923 175	11 968 346	10 677 411	534 788	451 823	304 324
Of which Deposits	*11 334 629*	*11 359 571*	*10 407 726*	*477 682*	*310 592*	*163 571*
Of which Liabilities from debt securities	*585 239*	*605 468*	*266 378*	*57 106*	*141 231*	*140 753*
Of which Other financial liabilities	*3 307*	*3 307*	*3 307*	-	-	-
Provisions	79 048	79 048	79 048	-	-	-
Other liabilities	28 471	28 471	28 471	-	-	-
Hedging derivative financial liabilities:						
Negative fair value of financial derivatives held for trading	25 638	589 706	412 246	134 998	27 326	15 136
Derivative financial liabilities	256	1 619	179	183	1 257	-

The summary below represents an analysis of the earliest possible contractual maturity of contingent liabilities and other off-balance sheet items, in the worst-case scenario, as at 31 December 2018 (in non-discounted amounts):

			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	386 914	386 914	386 914	-	-	-
Contingent liabilities from letters of credit	2 803	2 803	2 803	-	-	-
From irrevocable loan commitments	1 447 379	1 447 379	1 447 379	-	-	-

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

			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Financial liabilities held for trading	40 301	40 301	40 301	-	-	-
Financial liabilities at amortised cost	11 324 971	11 608 927	9 567 038	674 625	898 098	469 166
Of which Deposits	*10 557 448*	*10 766 370*	*9 462 359*	*611 240*	*430 724*	*262 047*
Of which Liabilities from debt securities	*765 251*	*840 285*	*102 407*	*63 385*	*467 374*	*207 119*
Of which Other financial liabilities	*2 272*	*2 272*	*2 272*	-	-	-
Provisions	57 997	57 997	57 997	-	-	-
Other liabilities	45 252	45 252	45 252	-	-	-
Hedging derivative financial liabilities:						
Negative fair value of financial derivatives held for trading	40 189	784 935	535 844	196 959	33 064	19 068
Derivative financial liabilities	1 123	1 123	1 123	-	-	-

The summary below represents an analysis of the earliest possible contractual maturity of contingent liabilities and other off-balance sheet items, in the worst-case scenario, as at 31 December 2017 (in non-discounted amounts):

			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	413 574	413 574	413 574	-	-	-
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	-	-	-

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, i.e. 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 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 Group uses the „Standardised Approach" according to the requirements of BASEL II and the Banking Act. Under the Standardised Approach, the Group'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 Group 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 Group 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 Group culture.

The Group 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 Group 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 Group 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 Group has prepared and applies these stricter rules in capital adequacy and liquidity; the Group 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 Group International AG while reflecting the local specifics of the Group and the entire bank environment.

The Group’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 Group 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 Group 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 Groups, 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 Group continuously reassesses the performance of its rating models and subsequently ensures the required performance of the models.

The Group 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 Group performs a risk relevance and materiality assessment, a risk quantification and an assessment with respect to the Group'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 Group'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 Group 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 Group 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 Group actively uses the results of the stress testing in capital planning and capital management.

OTHER DISCLOSURES

40. Contingent liabilities and other off-balance sheet items

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

	2018	2017
Contingent liabilities:	**389 717**	**418 842**
From guarantees	386 914	413 575
From letters of credit	2 803	5 267
Commitments:	**2 904 481**	**2 753 805**
From irrevocable loan commitments:	1 447 379	1 367 278
Up to 1 year	*897 356*	*884 324*
More than 1 year	*550 023*	*482 954*
From revocable loan commitments:	1 457 102	1 386 527
Up to 1 year	*1 068 621*	*1 088 410*
More than 1 year	*388 481*	*298 117*
Total	**3 294 198**	**3 172 647**

Off-balance sheet commitments from guarantees represent obligations that the Group 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 Group 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 Group 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 Group issued the guarantee and taking into account the collateral obtained. As at 31 December 2018, the Group created reserves for these risks amounting to EUR 5 894 thousand (as at 31 December 2017: EUR 5 590 thousand), Note 28 *"Provisions"*.

An overview of the quality of contingent liabilities and other off-balance sheet items is stated in Note 39 *"Risk report"*.

Ligitations and claims

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. In the event of significant disputes the Group cooperates with external lawyers submitting the changes in dispute to the Board of Directors on a regular basis. In 2018, the Group was not subject to new significant dispute and some long-term disputes developed in favour of the Group. It is the policy of the Group not to disclose details of ongoing legal actions in cases where such disclosure might be prejudicial. This policy is in line with wording of IAS 37.92 Provisions.

The case of the most serious legal action revolves around agreed credit facilities and a contract breach allegedly committed by the Parent Company through failing to execute payment transfer orders and renew credit facilities, which ultimately allegedly led to the termination of the customer's business activities and an additional, related two lawsuits for damages and lost profit. In earlier of them the first and second instance court rejected the applied claim. However, this action is not finally closed, so an extraordinary appeal has been filed. In later of them, proceeding before the first instance court just begun. In the Group´s opinion, both lawsuits are speculative.

As at 31 December 2018, the Group examined the status of disputes, taking into account the amount of claims and IFRS requirements related to provision and contingent liabilities recognition.

If it is probable that the Group will be required to settle a claim and a reliable estimate of the amount can be made, the Group creates provisions. The total provision for claims is in the amount of EUR 49 105 thousand (31 December 2017: EUR 46 390 thousand), Note 28 *"Provisions"*. To determine the amount of provisions, the Group uses professional judgement and relies on advice from legal counsel, taking as well into account all the circumstances and all available factors, including the application of publicly available information on disputes in the Slovak Republic in the past. For important accounting estimates, see Note II.

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:

	2018	2017
Total non-cancellable payments for operating leases	**55 016**	**55 590**
Less than 1 year	10 240	10 481
1 year to 5 years	23 424	23 356
More than 5 years	21 352	21 753
Operating lease expense in other administrative costs	11 562	11 716

41. Related parties

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 intended to represent appropriate market rates.

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2018:

Related Parties*	RBI	RBI Group	Statutory bodies and Supervisory Board**	Other related parties	Total
Loans and advances to banks and customers	20 317	60 236	1 292	2 867	**84 712**
Receivables from financial derivative transactions	16 296	121	-	-	**16 417**
Other assets	133	219	-	-	**352**
Deposits from banks and customers	10 598	4 046	2 470	707	**17 821**
Liabilities from financial derivative transactions	21 711	-	-	-	**21 711**
Subordinated debt	135 697	-	-	-	**135 697**
Other liabilities	1 645	667	-	-	**2 312**
Guarantees issued	1 943	494	-	-	**2 437**
Commitments	37 000	4 926	175	1 740	**43 841**
Guarantees received	1 943	494	-	-	**2 437**

* *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 2017:

Related Parties*	RBI	RBI Group	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 revenues and expenses with related parties as at 31 December 2018:

Related Parties*	RBI	RBI Group	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and dividend income	10 713	1 396	10	57	**12 176**
Fee and commission income	737	534	-	-	**1 271**
Unrealised gain (loss) on financial derivative transactions	11 585	(2 782)	-	-	**8 803**
Operating revenues	1 098	711	-	-	**1 809**
Interest expense	(20 181)	(32)	(2)	(10)	**(20 225)**
Fee and commission expense	(816)	(6 350)	-	-	**(7 166)**
General administrative expenses	(7 001)	(2 809)	(5 478)**	-	**(15 288)**
Total	**(3 865)**	**(9 332)**	**(5 470)**	**47**	**(18 620)**

* *Groups of related parties under the IAS 24 definition*
** *Wages and bonuses to the Board of Directors' members, Supervisory board members and authorised signatories*

The following are revenues and expenses with related parties as at 31 December 2017:

Related Parties*	RBI	RBI Group	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and dividend income	2 023	158	10	58	**2 249**
Fee and commission 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 expense	(9 766)	-	(2)	(13)	**(9 781)**
Fee and commission expense	(650)	(6 158)	-	-	**(6 808)**
General 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*
** *Wages and bonuses to the Board of Directors' members, Supervisory board members and authorized signatories*

42. Average number of employees

The average number of Group's employees was as follows:

	2018	2017
Group employees	3 793	3 754
Of which: Members of the Board of Directors	*7*	*7*
Total	**3 793**	**3 754**

43. 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 Group's capital requirement is disclosed in Note 39 *"Risk report"*, part *"BASEL III"*.

During 2018 the Group complied with the level defined for the Group.

Internal capital represents such own sources of the Group's financing that are internally held and placed by the Group 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 internal capital. For 2018 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 Group 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:

	2018	2017
The original own funds (TIER 1)	**911 284**	**864 213**
Paid-up share capital	64 326	64 326
(-) Treasury shares	(188)	(746)
Share premium	297 345	297 134
(-) Share premium- treasury shares	(2 326)	(7 052)
Funds from profit and other capital reserves	15 767	15 746
Other specific items of original own funds	536 164	492 299
Other temporary adjustments to Tier 1 capital	196	2 506
The additional own funds (TIER 1) (AT1 equity)	**100 000**	**-**
(-)Items deductible from the original own funds	**(48 592)**	**(45 321)**
(-) Intangible assets	(36 373)	(33 102)
(-) Goodwill	(12 219)	(12 219)
Additional own funds (TIER 2)	142 973	235 000
Subordinated debts	135 000	235 000
IRB excess of provisions over expected losses eligible	7 973	-
(-)Items deductible from the original and additional own funds	**(12 851)**	**(24 611)**
(-) From the original own funds	(12 851)	(24 611)
Total own funds	**1 092 814**	**1 029 281**
Adequacy of own funds (%)	**17.69**	**17.74**
Own funds	**1 092 814**	**1 029 281**
Risk-weighted assets (RWA)	**6 178 431**	**5 802 696**
RWA from receivables recorded in the Banking book	5 400 723	4 987 749
RWA from positions recorded in the Trading book	56 348	70 883
RWA from operating risk – standardised approach	721 360	744 064

44. Events after the balance sheet date

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.

45. Approval of the Consolidated financial statements

The annual consolidated financial statements for the immediately-preceding reporting period (as at 31 December 2017) were signed and authorised for issue on 14 March 2018.

The financial statements were signed and authorised for issue on 6 March 2019 by the following bodies/persons:

a) Statutory body

Marcel Kaščák
Member of the Board of Directors

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

Profit for the Year 2018 and Dividend Payment

Distribution of the Profit for the Year 2018

(in EUR)	
Profit after tax for the year 2018	**109,643,363**
Distribution for Investment certificate AT1	5,755,489
Allocation to retained earnings	103,887,874

Distribution of the Retained Earnings

(in EUR)	
Retained earnings	**38,131,924**
Dividends –Ordinary shares	33,697,134
Dividends – Preferred shares	4,434,790

Dividend per ordinary share with the nominal value of EUR 800 is in the amount of EUR 474.
Dividend per ordinary share with the nominal value of EUR 4 000 is in the amount of EUR 2 370.
Dividend per preference share with the nominal value of EUR 4 is in the amount of EUR 2,38.

The payment of proceeds from the AT1 investment certificate will be carried out in accordance with the instrument's emission conditions.

The 2018 Annual report and The profit distribution draft were approved at the General meeting on April 25, 2019.

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