

**Privatbanka, a.s.**

**INDEPENDENT AUDITOR'S REPORT  
ON THE AUDIT OF THE FINANCIAL  
STATEMENTS AS AT 31 DECEMBER 2018**

**AND**

**REPORT ON OTHER LEGAL AND  
REGULATORY REQUIREMENTS**

# **Privatbanka, a.s.**

## **2018 ANNUAL REPORT**

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| Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union<br>For the year ended 31 December 2018<br>and Independent Auditor's Report |           |

## **INTRODUCTION**

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

## **1. IDENTIFICATION OF THE REPORTING ENTITY**

|                               |   |
|-------------------------------|---|
| <b>Business name:</b>         | Privatbanka, a.s.   |
| <b>Seat:</b>                  | Einsteinova 25, 851 01 Bratislava   |
| <b>Identification Number:</b> | 31634419  |
| <b>Date of incorporation:</b> | 9 August 1995   |
| <b>Founder:</b>               | Fond národného majetku Slovenskej republiky, Drieňova 27, 821 01 Bratislava, Slovak Republic,<br>Slovenská poisťovňa, a.s., Strakova 1, 815 74 Bratislava, Slovak Republic,<br>Slovenská sporiteľňa, a.s., Zelená 2, 816 07 Bratislava, Slovak Republic |
| <b>Share capital:</b>         | EUR 25 120 648.06   |
| <b>Contact person:</b>        | Ing. Eva Hirešová   |
| <b>Tel.:</b>                  | 02/3226 6111  |
| <b>Fax:</b>                   | 02/3226 6900  |
| <b>E-mail:</b>                | <a href="mailto:privatbanka@privatbanka.sk">privatbanka@privatbanka.sk</a>  |
| <b>Website:</b>               | <a href="http://www.privatbanka.sk">www.privatbanka.sk</a>  |

## **2. SCOPE OF BUSINESS**

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

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

- b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- II. Execution of a client's instructions on the client's account in relation to the following financial instruments:
- a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- III. Trading on own account in relation to the following financial instruments:
- a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- IV. Portfolio management in relation to the following financial instruments:
- a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- V. Investment consulting in relation to the following financial instruments:
- a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- VI. Underwriting and placement of financial instruments upon a firm commitment in relation to the following financial instruments:
- a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- VII. Placement of financial instruments without a firm commitment in relation to the following financial instruments:
- a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- VIII. Custody and management of financial instruments on a client's account, including custodian management and related services, in particular the management of cash and financial collaterals in relation to the following financial instruments:
- a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- IX. Granting of loans and borrowings to an investor to be able to trade one or several financial instruments if the lender or provider of the borrowing is involved in the transaction
- X. Trading of foreign exchange values if they are associated with the provision of investment services
- XI. Performance of investment surveys and financial analysis or other forms of general recommendation for trading in financial instruments

## XII. Services related to the underwriting of financial instruments

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

### **3. PUBLICATION OF THE ANNUAL REPORT**

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

### **4. CONSOLIDATED FINANCIAL STATEMENTS**

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

Pursuant to Article 22 (12) of Act 431/2002 Coll. on Accounting, as amended the Bank did not prepare consolidated financial statements for the year ended 31 December 2018, since the subsidiary Privatfin, s.r.o., with its registered seat at Einsteinova 25, 851 01 Bratislava, Company ID: 36 037 869, does not have a significant impact on the Bank's consolidation group. The judgment on the financial position, expenses, revenues and results of operations of the Bank's consolidation group has not been significantly affected by preparing only the Bank's separate financial statements.

### **5. AUDIT OF FINANCIAL STATEMENTS**

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

The Bank's financial statements as at 31 December 2018 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, were audited by Deloitte Audit s.r.o., with its registered seat at Digital Park II, Einsteinova 23, 851 01 Bratislava, Licence SKAu No. 014 on 20 March 2019.

### **6. REPORT ON FINANCIAL POSITION**

#### **a) INFORMATION ABOUT THE BANK'S DEVELOPMENT, PRESENT CONDITIONS OF THE BANK AND SIGNIFICANT RISKS AND UNCERTAINTIES THE BANK FACED IN THE 2018 PERIOD**

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

As at 31 December 2018, total assets amounted to EUR 722 907 thousand. Total assets increased by 10% compared to the previous year-end.

The Bank reported an after-tax profit in the amount of EUR 8 430 thousand. At the end of 2018, the operating profit amounted to EUR 12 341 thousand.

**Comparison of Financial Indicators**

| EUR'000                              | 31.12.2018 | 31.12.2017 | Change   | Change in % |
|--------------------------------------|------------|------------|----------|-------------|
| Total assets                         | 722 907    | 657 542    | 65 365   | 10%         |
| Cash and balances with central banks | 114 507    | 71 199     | 43 308   | 61%         |
| Loans and advances to banks          | 6 080      | 13 126     | (7 046)  | (54%)       |
| Loans and advances to customers      | 381 914    | 342 425    | 39 489   | 12%         |
| Securities                           | 216 779    | 227 242    | (10 463) | (5%)        |
| Due to banks                         | 71 921     | 91 596     | (19 675) | (21%)       |
| Deposits from customers              | 547 637    | 463 758    | 83 879   | 18%         |
| Debt securities issued               | 14 378     | 18 045     | (3 667)  | (20%)       |
| Share capital                        | 25 121     | 25 121     | -        | 0%          |
| Equity                               | 83 332     | 77 708     | 5 624    | 7%          |
| Regulatory capital                   | 74 453     | 67 917     | 6 536    | 10%         |
| Adequacy of regulatory capital       | 14,23%     | 13,38%     | 0.85%    |             |

Net interest income was the most significant source of the Bank's profit in 2018 amounting to EUR 13 463 thousand and when compared to the same period of the previous year, it was increased by EUR 1 905 thousand, ie an increase of 16%. During the year, market interest rates remained low, which resulted in a decrease in interest rates on the loan and securities portfolios. As regards liabilities, interest rates on primary sources also decreased.

Net fee and commission income significantly contributed to the Bank's profit and amounted to EUR 11 600 thousand. Net fee and commission income remained at a comparable level as in the previous year and increased by EUR 61 thousand y/y.

Net income from security trading and net income from foreign currency and derivative transactions substantially contributed to the Bank's total profit, which amounted to EUR 417 thousand at the year-end.

At the end of 2018, the amount of provided loans was EUR 381 914 thousand, an increase of 12% year-on-year. At the end of 2018, the value of the securities portfolio was EUR 216 779 thousand.

As regards liabilities, deposits from customers increased by 18% year-on-year and totalled EUR 547 637 thousand as at 31 December 2018.

At the end of 2018, operating expenses amounted to EUR 13 144 thousand, a year-on-year increase of 13%. Of operating expenses, general operating expenses amount to EUR 12 772 thousand and the depreciation and amortisation of tangible and intangible assets to EUR 372 thousand.

As at 31 December 2018, adequacy of regulatory capital amounted to 14.23% and increased by 0.85 percentage point in 2018.

The Bank has no impact on the environment. The Bank's activities in 2018 had no principal impact on employment in individual regions of the Slovak Republic.

The Bank is not aware of any risks or uncertainties that would have a significant impact on its activities in 2018.

Further details regarding the Bank's results for 2018 are disclosed in the financial statements and notes thereto.

**b) INFORMATION ABOUT EVENTS OF PARTICULAR IMPORTANCE THAT OCCURRED AFTER THE END OF THE REPORTING PERIOD AS AT 31 DECEMBER 2018**  
(Article 20 (1) (b) of Act No. 431/2002 Coll. on Accounting, as amended)

As at the Annual Report date, there were no significant events that occurred after the end of the reporting period as at 31 December 2018 and that would require a significant adjustment to the data or information disclosed in the financial statements as at 31 December 2018.

**c) INFORMATION ABOUT THE BANK'S ANTICIPATED ECONOMIC AND FINANCIAL POSITION IN 2019**  
(Article 77 (2) (d) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)  
(Article 20 (1) (c) of Act No. 431/2002 Coll. on Accounting, as amended)

In 2018, the Bank posted a profit/(loss) in line with the plan with respect to most indicators, and the post-tax profit significantly exceeded the plan.

In 2019, private banking and directly-related activities (primarily asset management and treasury) remain the principal area for the development of the Bank's activities. In addition to private banking, the Bank will continue to focus on corporate banking, particularly the provision of loans to corporate clients.

In private banking, the Bank's goal for 2019 is to continue to increase the volume of clients' assets managed by the Bank. Qualitatively, the aim of the Bank is to provide private clients with highly-individual and flexible services, especially as regards asset management and other related areas. Issuance of corporate promissory notes and corporate bonds to be arranged by the Bank primarily for shareholder group entities will continue to represent a major part of the product range. In addition to securities sold to clients, the Bank will focus also on the active management of securities in its portfolios. This is an important role, as securities constitute a significant portion of the Bank's assets.

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

In 2019, the aim of the Bank is to maintain or partially expand the product range for common clients, to which it provides services through a network of regional investment centres and branches. Funds from the general public represent a substantial share of the funds base of the Bank's balance sheet business. In 2019, the Bank plans to continue the sale of public issues of corporate bonds for retail clients. In 2019, the Bank plans no major changes in its regional network.

In aggregate terms, the Bank plans to report a profit/(loss) after tax of EUR 8.9 million and total assets of EUR 738 million at the end of 2019.

The Bank will have no impact on the environment. In 2019, its activities will not substantially impact employment in individual regions of the Slovak Republic.

The Bank is not aware of any risks or uncertainties that could have a significant impact on its activities in 2019.

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

In 2018, the Bank records no costs of research and development.

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

The Bank does not carry out the said transactions.

**f) INFORMATION ABOUT THE PROPOSED 2018 PROFIT DISTRIBUTION**  
(Article 20 (1) (f) of Act No. 431/2002 Coll. on Accounting, as amended)

| EUR '000   | 2018         |
|--|--------------|
| Allotment to retained earnings                           | 8 430        |
| <b>Profit for the current reporting period after tax</b> | <b>8 430</b> |

**g) INFORMATION ABOUT THE 2017 PROFIT DISTRIBUTION**  
(Article 77 (2) (c) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

| EUR '000   | 2017         |
|--|--------------|
| Allotment to retained earnings                           | 9 436        |
| <b>Profit for the current reporting period after tax</b> | <b>9 436</b> |

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

No special regulations apply to the Bank.

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

As at 31 December 2018, in the Czech Republic the Bank provided investment services, and acceptance and forwarding of instructions related to one or more financial instruments through a branch of the foreign bank, which was registered in the Business Register of the Czech Republic on 8 January 2018.

**j) SUMMARY OF RECEIVED BANK LOANS AND OTHER LOANS**

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

| EUR '000                   | 2018          |
|----------------------------|---------------|
| Loan received from the ECB | 55 916        |
| <b>Total due to banks</b>  | <b>55 916</b> |

As at 31 December 2018, loans received from the ECB comprise a loan of EUR 30 000 thousand due in June 2020 and a loan of EUR 26 410 thousand due in March 2021. These loans are secured by securities at a fair value of EUR 28 892 thousand, which are disclosed in the Statement of Financial Position as "Securities at fair value through other comprehensive income", and securities at an amortised cost of EUR 48 066 thousand, which are disclosed in the Statement of Financial Position as "Securities at amortised cost".

**k) SUMMARY OF ISSUED AND OUTSTANDING SECURITIES**

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

| ISIN         | Type  | Form       | Nature              | Number<br>(pcs) | Face value<br>( EUR, CM '000) | Description of Rights |
|--------------|-------|------------|---------------------|-----------------|-------------------------------|-----------------------|
| SK1110001619 | Share | Registered | Book-entry security | 756 874         | 0,03319 EUR                   | Section 6l)           |
| SK4120013103 | Bond  | Bearer     | Book-entry security | 3 473           | 1,00000 EUR                   | Section 6m)           |
| SK4120013269 | Bond  | Bearer     | Book-entry security | 0               | 1,00000 EUR                   | Section 6n)           |
| SK4120013277 | Bond  | Bearer     | Book-entry security | 2 018           | 1,00000 EUR                   | Section 6o)           |
| SK4120013996 | Bond  | Bearer     | Book-entry security | 1 870           | 1,00000 EUR                   | Section 6p)           |
| SK4120013319 | Bond  | Bearer     | Book-entry security | 7 200           | 25,00000 CZK                  | Section 6q)           |

**I) DESCRIPTION OF RIGHTS ATTACHED TO SHARES ISIN SK1110001619**

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

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

**m) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013103**

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

On 24 July 2017, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis as at 24 January, 24 April, 24 July and 24 October of the current period and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 24 July 2020. The above bonds are not issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

**n) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013269**

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

On 18 September 2017, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis as at 18 March, 18 June, 18 September and 18 December of the current period and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 18 September 2020. The above bonds are issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

**o) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013277**

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

On 18 September 2017, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 3 000 thousand. Yields on the bonds are paid on a quarterly basis as at 18 March, 18 June, 18 September and 18 December of the current period and are set at a fixed interest rate of 1.30% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 18 September 2020. The above bonds are issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

**p) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013996**

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

On 16 April 2018, the Bank issued bonds with a face value of EUR 1 000. The total issue amounted to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis as at 16 January, 16 April, 16 July, and 16 October of the current period and are set at a fixed interest rate of 2% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 16 October 2020. The above bonds are not issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds

are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

**q) DESCRIPTION OF RIGHTS ATTACHED TO BONDS ISIN SK4120013319**  
(Article 77 (2) (b3) of Act No. 566/2001 Coll. on Securities and Investment Services, as amended)

On 18 September 2017, the Bank issued bonds with a face value of CZK 25 000. The total issue amounted to CZK 180 000 thousand. Yields on the bonds are paid on a quarterly basis as at 18 March, 18 June, 18 September and 18 December of the current period and are set at a fixed interest rate of 0.75% p.a. of the bond's face value. The basis for the calculation of the yield is ACT/ACT. The bonds are payable on 18 September 2019. The above bonds are not issued based on a public offering and no request to accept them at a stock exchange in the Slovak Republic or abroad will be filed. No guarantees were assumed by third parties for the payment of the face value and bond yields. No pre-emption, convertible or other rights are attached to the bonds, except for the rights specified in the issue terms and conditions. The rights attached to the bonds shall become statute-barred after ten years from their maturity date. The bonds are transferrable to a new owner without restriction. The early payment of the face value of the bonds is not possible.

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

The Bank issued no convertible bonds.

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

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

As at 31 December 2018, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and nine regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. As at 31 December 2018, in the Czech Republic the Bank provided investment services, and acceptance and forwarding of instructions related to one or more financial instruments through a branch of the foreign bank, which was registered in the Business Register of the Czech Republic on 8 January 2018. In addition to the activities above, as at 31 December 2018, the Bank also provided other banking activities in the Czech Republic based on the right to the free cross-border activity in line with Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

**t) TURNOVER**

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

The Bank's turnover was EUR 31 211 thousand in 2018.

**u) NUMBER OF FULL-TIME EMPLOYEES AS AT THE REPORTING DATE**

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

The number of full-time employees was 187 as at 31 December 2018.

**v) PROFIT OR LOSS BEFORE TAX**

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

The Bank's profit before tax amounted to EUR 11 334 thousand as at 31 December 2018.

**w) INCOME TAX**

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

The Bank's income tax expenses amounted to EUR 2 904 thousand as at 31 December 2018.

**x) RECEIVED SUBSIDIES FROM PUBLIC FUNDS**

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

The Bank received no subsidies from public funds in 2018.

**y) RETURN ON ASSETS DETERMINED AS THE RATIO OF NET PROFIT AND TOTAL ASSETS**

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

The return on assets (ROA) amounted to 1.17% in 2018.

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

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

In line with legislative requirements, the Bank's objective as regards risk management is to ensure the adequacy of individual risk exposures in relation to the amount of the Bank's regulatory capital, diversification of risk for all risk factors identified and the maintenance of an acceptable liquidity position. In addition to meeting market regulator requirements, the Bank has developed an internal system of procedures, limits and reports which eliminates potential risks to which the Bank is exposed in its business activities. In terms of risk exposures, the Bank is conservative and it does not engage in speculative transactions.

The Bank has strict rules limiting exposures to the risk of exchange rate fluctuations. The Bank does not open significant capital exposures and does not trade with commodities or their derivatives. The only risk factor that the Bank hedged using derivatives is the Banking Book's interest rate risk. The interest rate risk exposure of this portfolio, as well as of the Trading Book, is monitored daily using interest rate sensitivity and it is reported regularly to the relevant authorities. The Bank used exclusively interest rate swaps as standard to hedge this risk exposure resulting from the different duration of assets and liabilities.

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

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

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

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

The Bank's liquidity position is monitored and reported to the Bank's top management on a regular basis. The Bank has defined qualitative and quantitative liquidity limits combined with the liquidity position development scenario and their use is regularly monitored and reported to middle and top management of the Bank.

# **Privatbanka, a.s.**

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

**Year Ended 31 December 2018  
and Independent Auditor's Report**

## **Contents**

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## Privatbanka, a.s.

### INDEPENDENT AUDITOR'S REPORT

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

#### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

##### Opinion

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

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

##### Basis for Opinion

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

##### Key Audit Matters

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

| Description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud   | Summary of the auditor's response to the risks   |
|---|--|
| <b>Provisions for Loans and Advances to Customers</b>   |  |
| <i>Refer to Note No. 6 of the financial statements</i>  |  |
| <p>The assessment of required provisions for loan receivables requires management to apply a significant level of judgement.</p> <p>To assess the amount of provisions for expected losses, the Bank applies statistical models with input parameters obtained from internal and external sources.</p> <p>In accordance with the requirements of IFRS 9 "Financial Instruments", the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loan receivables and the relevant debtors and subjective judgments of the Bank.</p> | <p>During our audit, we evaluated the effectiveness of key controls that Bank management has established over the provision, processing and monitoring of loans.</p> <p>We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provisions for the selected significant portfolios.</p> <p>We tested the design and operating effectiveness of key controls the Bank's management has implemented for the loan impairment assessment processes.</p> |

This is an English language translation of the original Slovak language document.

|  |  |
|--|--|
| <p>Impairment stage III includes impaired receivables regarding which any of the following events have occurred:</p> <ul style="list-style-type: none"> <li>• The debtor is in arrears with payments for more than 90 days;</li> <li>• The debtor was assigned an "E" or "F" rating.</li> </ul> <p>When determining the provision amount for this impairment stage, the Bank's management primarily considers the following factors:</p> <ol style="list-style-type: none"> <li>a) Identification of loss events for individual clients of the Bank;</li> <li>b) Collateral valuation; and</li> <li>c) Determination of expected future cash flows.</li> </ol> <p>Where no repayment difficulties have been identified for a particular receivable (impairment stage I), or a significant increase in the credit risk of the first or second degree has been identified (impairment stage II), the Bank creates a provision using a statistical model for a homogeneous group of loans.</p> <p>The statistical model used is based on deriving the probability of loan default and the estimated amount of the subsequent loss. Input data used for the model and the calculation logic and its comprehensiveness depend on the Bank's management judgment.</p> <p>The provisions for loan losses classified in impairment stage III amount to EUR 10.08 million and provisions for the remaining receivables amount to EUR 5.08 million of the total provisions of EUR 15.56 million recognised as at 31 December 2018.</p> <p>Given the significance of these estimates and significance of financial assets classified as "Loans and advances to customers", we consider the provisions to be the key audit matter.</p> | <p>For provisions determined on an individual loan basis classified in impairment stage III, the controls included controls over the client's assessment and loan approval, recording of the provided loan, documentation completeness, loan payout to the client, monitoring of loan repayment, regular review of collateral valuation, provision calculation and authorisation of provisioning by the Bank's management.</p> <p>We examined the appropriateness of provisioning methods on a sample of loans selected using statistical methods. During our audit, we reviewed loan documentation focussing on the recoverable amount of assets pledged in favour of the Bank, and the financial position and performance of debtors, repayment discipline and overall recoverability of loan receivables.</p> <p>We formed an independent view on the levels of provisions recorded while considering internal and external information. This comprised of an assessment of the work performed by the Bank's financial analysts and internal experts on the monitoring of collateral value and the determination of expected future cash flows from individual loans. We assessed the adequacy of the calculation of the estimated discounted cash flows and where we determined that other assumptions or inputs for the calculation of estimated future cash flows existed, we recalculated the provision amount taking into consideration such assumptions and compared it with the recorded provision to identify any potential errors.</p> <p>For receivables in stage I and stage II with regard to which the Bank has not identified any difficulties likely to prevent the full repayment of receivables, we focused on controls related to a regular review of client creditworthiness, timely identification of potential difficulties with debt repayment and correct classification of receivables to corresponding impairment stages.</p> <p>The overall conclusion was supported by an analysis performed at an overall portfolio level to identify anomalies in:</p> <ol style="list-style-type: none"> <li>a) Classification of loans to corresponding impairment stages; and</li> <li>b) The provision amount calculated by the Bank.</li> </ol> |
|--|--|

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

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on Information Disclosed in the Annual Report**

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

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

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

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

- Information disclosed in the annual report prepared for 2018 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

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

### **Appointment of the Auditor**

We were appointed as the statutory auditor by the Bank's statutory body based on our approval by the Bank's General Meeting held on 28 March 2018. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 11 years.

### **Consistency with the Additional Report to the Audit Committee**

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

### **Non-Audit Services**

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

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

Bratislava, 20 March 2019



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

On behalf of  
Deloitte Audit s.r.o.  
Licence SKAu No. 014

**Statement of Financial Position as at 31 December 2018**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

|  | Note | 2018<br>EUR '000 | 2017<br>EUR '000 |
|--|------|------------------|------------------|
| <b>Assets</b>  |      |                  |                  |
| Cash and balances with central banks   | 4.   | 114 507          | 71 199           |
| Loans and advances to banks  | 5.   | 6 080            | 13 126           |
| Loans and advances to customers  | 6.   | 381 914          | 342 425          |
| Securities at fair value through other comprehensive income                    | 8.   | 125 772          | 168 986          |
| Securities at amortised cost   | 9.   | 91 007           | 58 256           |
| Investments in subsidiaries  | 10.  | 7                | 7                |
| Tangible and intangible assets   | 11.  | 1 069            | 1 088            |
| Other assets   | 12.  | 2 551            | 2 455            |
| <b>Total assets</b>  |      | <b>722 907</b>   | <b>657 542</b>   |
| <b>Liabilities and equity</b>  |      |                  |                  |
| Due to banks   | 13.  | 71 921           | 91 596           |
| Deposits from customers  | 14.  | 547 637          | 463 758          |
| Debt securities issued   | 15.  | 14 378           | 18 045           |
| Current tax liability  | 16.  | 464              | 28               |
| Deferred tax liability   | 17.  | 16               | 610              |
| Provisions for liabilities   |      | 26               | -                |
| Other liabilities  | 18.  | 5 133            | 5 797            |
| <b>Total liabilities</b>   |      | <b>639 575</b>   | <b>579 834</b>   |
| <b>Equity</b>  |      |                  |                  |
| Share capital  | 19.  | 25 121           | 25 121           |
| Capital reserves and funds from profit   | 19.  | 5 024            | 5 024            |
| Accumulated other comprehensive income from securities, including deferred tax | 19.  | 50               | 2 271            |
| Retained earnings  |      | 53 137           | 45 292           |
| <b>Total equity</b>  |      | <b>83 332</b>    | <b>77 708</b>    |
| <b>Total liabilities and equity</b>  |      | <b>722 907</b>   | <b>657 542</b>   |

The notes on pages 12 to 84 form an integral part of these financial statements.

**Income Statement for the year ended 31 December 2018**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

|   | Note | 2018<br>EUR '000 | 2017<br>EUR '000 |
|---|------|------------------|------------------|
| Interest income and similar income  | 25.  | 18 282           | 17 203           |
| Interest expense and similar expense  | 26.  | (4 819)          | (5 645)          |
| <b>Net interest income</b>  |      | <b>13 463</b>    | <b>11 558</b>    |
| Fee and commission income   | 27.  | 12 408           | 12 151           |
| Fee and commission expense  | 28.  | (808)            | (612)            |
| <b>Net fee and commission income</b>  |      | <b>11 600</b>    | <b>11 539</b>    |
| Trading profit  | 29.  | 417              | 493              |
| Other income  |      | 5                | 1                |
| <b>Operating income</b>   |      | <b>25 485</b>    | <b>23 591</b>    |
| General operating expenses  | 30.  | (12 772)         | (11 229)         |
| Depreciation and amortisation of TA and IA  | 11.  | (372)            | (420)            |
| <b>Operating expense</b>  |      | <b>(13 144)</b>  | <b>(11 649)</b>  |
| <b>Operating profit</b>   |      | <b>12 341</b>    | <b>11 942</b>    |
| (Creation)/release of impairment losses,<br>write-off and assignment of receivables | 31.  | (931)            | (400)            |
| Profit/(loss) from modifications  |      | (82)             | -                |
| (Creation)/release of provisions for securities                                     |      | 32               | -                |
| (Creation)/release of provisions for liabilities                                    |      | (26)             | 331              |
| <b>Profit before taxes</b>  |      | <b>11 334</b>    | <b>11 873</b>    |
| Current tax   | 21.  | (2 908)          | (2 441)          |
| Deferred tax  | 21.  | 4                | 4                |
| <b>Net profit</b>   |      | <b>8 430</b>     | <b>9 436</b>     |

The notes on pages 12 to 84 form an integral part of these financial statements.

**Statement of Comprehensive Income for the year ended 31 December 2018**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

|  | Note | 2018<br>EUR '000 | 2017<br>EUR '000 |
|--|------|------------------|------------------|
| <b>Profit after tax from the Income Statement</b>                            |      | <b>8 430</b>     | <b>9 436</b>     |
| Remeasurement of securities at fair value through other comprehensive income |      | (2 811)          | (439)            |
| Deferred tax on securities at fair value through other comprehensive income  |      | 590              | 92               |
| Remeasurement of cash flow hedging derivative instruments                    |      | -                | 118              |
| Deferred tax on cash flow hedging derivative instruments                     |      | -                | (25)             |
| <b>Comprehensive income</b>  |      | <b>6 209</b>     | <b>9 182</b>     |

The notes on pages 12 to 84 form an integral part of these financial statements.

**Statement of Changes in Shareholder's Equity  
for the year ended 31 December 2018**  
Prepared in accordance with International Financial Reporting Standards,  
as adopted by the European Union

|  | Share<br>capital | Retained<br>earnings | Capital<br>reserves<br>and funds<br>from profit | Revaluation<br>reserves on<br>securities at fair<br>value through<br>other<br>comprehensive<br>income<br>(including<br>deferred tax) | Revaluation<br>reserves on the<br>translation of<br>hedging<br>derivative<br>instruments,<br>(including<br>deferred tax) | Total    |
|--|------------------|----------------------|---|--|--|----------|
|  | EUR '000         | EUR '000             | EUR '000  | EUR '000   | EUR '000   | EUR '000 |
| <b>At 31 December 2017</b>                       | 25 121           | 45 292               | 5 024   | 2 271  | -  | 77 708   |
| Effect of IFRS 9                                 | -                | (584)                | -   | -  | -  | (584)    |
| <b>At 1 January 2018 after<br/>restatement</b>   | 25 121           | 44 708               | 5 024   | 2 271  | -  | 77 124   |
| Initial provisions for assets<br>– FX difference | -                | (1)                  | -   | -  | -  | (1)      |
| 2018 comprehensive<br>income                     | -                | 8 430                | -   | (2 221)  | -  | 6 209    |
| <b>At 31 December 2018</b>                       | 25 121           | 53 137               | 5 024   | 50   | -  | 83 332   |

|                              | Share<br>capital | Retained<br>earnings | Capital<br>reserves<br>and funds<br>from profit | Revaluation<br>reserves on<br>securities at fair<br>value through<br>other<br>comprehensive<br>income<br>(including<br>deferred tax) | Revaluation<br>reserves on the<br>translation of<br>hedging<br>derivative<br>instruments,<br>(including<br>deferred tax) | Total    |
|------------------------------|------------------|----------------------|---|--|--|----------|
|                              | EUR '000         | EUR '000             | EUR '000  | EUR '000   | EUR '000   | EUR '000 |
| <b>At 1 January 2017</b>     | 25 121           | 35 856               | 5 024   | 2 618  | (93)   | 59 040   |
| 2017 comprehensive<br>income | -                | 9 436                | -   | (347)  | 93   | 9 182    |
| <b>At 31 December 2017</b>   | 25 121           | 45 292               | 5 024   | 2 271  | -  | 77 708   |

The notes on pages 12 to 84 form an integral part of these financial statements.

**Cash Flow Statement for the year ended 31 December 2018**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

|  | Note | 2018<br>EUR '000 | 2017<br>EUR '000 |
|--|------|------------------|------------------|
| <b>Cash flows from operating activities</b>  |      |                  |                  |
| Profit before changes in operating assets and liabilities                          | 32.  | 13 618           | 13 906           |
| (Increase)/decrease in minimum reserve deposits with the NBS                       |      | (43 630)         | (33 176)         |
| (Increase)/decrease in loans and advances to banks                                 |      | -                | 330              |
| (Increase)/decrease in loans and advances to customers                             |      | (40 876)         | (54 407)         |
| (Increase)/decrease in securities at fair value through other comprehensive income |      | 39 465           | 28 877           |
| (Increase)/decrease in other assets  |      | (96)             | 345              |
| Increase/(decrease) in amounts due to banks  |      | (19 168)         | (4 605)          |
| Increase/(decrease) in deposits from customers                                     |      | 83 462           | 24 006           |
| Increase/(decrease) in debt securities issued – promissory notes                   |      | -                | (99)             |
| Income tax paid  |      | (2 469)          | (2 294)          |
| Increase/(decrease) in other liabilities   |      | (805)            | (100)            |
| <b>Net cash flows from operating activities</b>                                    |      | <b>29 501</b>    | <b>(27 217)</b>  |
| <b>Cash flows from investing activities</b>  |      |                  |                  |
| (Increase)/decrease in securities at amortised cost                                |      | (32 843)         | 18 931           |
| Purchase of tangible and intangible assets   |      | (355)            | (331)            |
| Sale of tangible and intangible assets   |      | 2                | -                |
| <b>Net cash flows from investment activities</b>                                   |      | <b>(33 196)</b>  | <b>18 600</b>    |
| <b>Cash flow from financing activities</b>   |      |                  |                  |
| Increase upon issue of long-term debt securities - bonds                           |      | 5 550            | 16 676           |
| Decrease upon maturity and redemption of long-term debt securities - bonds         |      | (9 213)          | (5 305)          |
| <b>Net cash flows from financing activities</b>                                    |      | <b>(3 663)</b>   | <b>11 371</b>    |
| <b>Net increase in cash and cash equivalents</b>                                   |      | <b>(7 358)</b>   | <b>2 754</b>     |
| <b>Cash and cash equivalents at the beginning of the year</b>                      | 33.  | <b>15 190</b>    | <b>12 436</b>    |
| <b>Cash and cash equivalents at the end of the year</b>                            | 33.  | <b>7 832</b>     | <b>15 190</b>    |

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

The notes on pages 12 to 84 form an integral part of these financial statements.

## **1. GENERAL INFORMATION**

### **Incorporation**

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

### **Principal activities**

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

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

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

- III. Trading on own account in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- IV. Portfolio management in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- V. Investment consulting in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- VI. Underwriting and placement of financial instruments upon a firm commitment in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- VII. Placement of financial instruments without a firm commitment in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- VIII. Keeping in custody and management of financial instruments on the client's account, including custodian management and related services, in particular management of cash and financial collaterals in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- IX. Granting of loans and borrowings to an investor to be able to trade one or several financial instruments if the lender or provider of the borrowing is involved in the business
- X. Trading of foreign exchange values if they are associated with the provision of investment services
- XI. Performance of investment surveys and financial analysis or other forms of general recommendations for trading the financial instruments
- XII. Services related to the underwriting of these financial instruments
- 17. Provision of payment and clearing services
- 18. Issue and administration of electronic money

### Shareholders' structure

The shareholders' structure is as follows:

| %                                | 2018          | 2017          |
|----------------------------------|---------------|---------------|
| Penta Investments Ltd., Limassol | 100,00        | 100,00        |
| <b>Total</b>                     | <b>100,00</b> | <b>100,00</b> |

The immediate consolidating entity is Penta Investments Limited, with its registered office at 3rd Floor, Osprey House, 5-7 Old Street, St Helier, JE2 3RG, Channel Islands.

The ultimate parent company is Penta Investments Group Limited, with its registered office at 3rd Floor, Osprey House, 5-7 Old Street, St Helier, JE2 3RG, Channel Islands.

The consolidated financial statements are available at Penta Investments Limited.

### Investments in subsidiaries

As at 31 December 2018, the Bank had the following subsidiary:

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

Privatfin, s.r.o., with its registered office at Einsteinova 25, 851 01 Bratislava, Identification number: 36 037 869, is registered in the Commercial Register of the District Court, Bratislava I, section: Sro, No. 40865/B. The subsidiary does not perform activities in significant volumes. As at 31 December 2018, the subsidiary reported a profit of EUR 9 thousand (2017: a loss of EUR 2 thousand).

### Geographical network

As at 31 December 2018, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and nine regional investment centres for non-cash operations in Bratislava, Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. As at 31 December 2018, in the Czech Republic the Bank provided investment services, and acceptance and forwarding of instructions related to one or more financial instruments through a branch of the foreign bank, which was registered in the Business Register of the Czech Republic on 8 January 2018. In addition to the above activities, as at 31 December 2018, the Bank also provided other banking activities in the Czech Republic based on the right to free cross-border activity in line with Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

### Members of the Board of Directors

The members of the Bank's Board of Directors as at 31 December 2018 are as follows:

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

### Supervisory Board

The members of the Bank's Supervisory Board as at 31 December 2018 are as follows:

Elected by the General Meeting:

|                        |            |                                  |
|------------------------|------------|----------------------------------|
| 1. Mgr. Jozef Oravkin  | - Chairman | - Appointed on 29 April 2016     |
| 2. Ing. Marek Hvoždara | - Chairman | - Appointed on 27 September 2012 |

Elected by the employees:

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

## **2. ACCOUNTING POLICIES**

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

### **(2.1) Basis of presentation**

The annual separate financial statements of the Bank (hereinafter the “financial statements”) for 2018 and comparative data for 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The Bank does not prepare consolidated financial statements, in which Privatfin, s.r.o. (a subsidiary) would be included, because of its immaterial impact on the Bank’s financial statements.

### **Standards and interpretations effective in the current period**

The Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and are effective for reporting periods beginning on 1 January 2018. The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

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

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

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

The International Financial Reporting Standard “Financial Instruments” (“IFRS 9”) was applied by Privatbanka, a.s. for the first time on 1 January 2018. The standard covers three main areas: classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

#### ***Classification and Measurement***

All financial assets, except for equity securities and derivatives, are classified based on the Bank’s business model, and based on contractual cash flow characteristics of individual assets in compliance with the requirements of IFRS 9. Financial assets are classified in the following categories based on their measurement:

- Financial assets at fair value through profit or loss;
- Financial assets at fair value through other comprehensive income; and
- Financial assets at amortised cost.

Based on the analysis, the Bank concluded that after IFRS 9 became effective there were in principle no changes in the classification of financial assets in the above categories.

### *Impairment*

Under IFRS 9, the incurred loss principle was replaced by the expected loss principle in the impairment calculation model. The new model is applied to all loan receivables and financial assets, which are not measured at a fair value through profit or loss, including off-balance sheet liabilities.

Impairment recognised through a provision for impairment losses is based on expected losses arising from the probability of default of a financial asset in the following 12 months. If there has been a significant increase in the credit risk of the financial asset since its initial recognition, the provision is based on the expected losses over the entire maturity period of the financial asset. The Bank assesses whether there was a significant increase in credit risk based on the criteria defined in internal guidelines.

### Loans

The loans are assessed, measured and recognised by the Bank on a specific and portfolio basis. Loans are assessed on a specific basis, unless they are included in a group of loans – portfolio. The Bank has created five portfolios, which group loans with similar credit risk characteristics.

As regards provision calculation, the Bank classifies loans in accordance with IFRS 9 into 3 stages as follows:

Stage 1 – standard loans: upon initial recognition of a loan, and the Bank calculates provisions based on expected losses based on the probability of default in the following 12 months.

Stage 2 – risk-bearing loans: in the event of a significant increase in credit risk, the Bank calculates provisions based on expected losses during the full lifecycle of a loan.

Owing to the new principle of expected losses, the Bank's provisions for loans assessed on a specific basis classified in Stage 1 and Stage 2 increased by EUR 395 thousand as at 1 January 2018.

Stage 3 – defaulted loans: the Bank calculates provisions based on expected losses over the full lifecycle of a loan.

For assets classified as standard or risk-bearing loans (Stage 1 and Stage 2), interest income is recognised based on the gross carrying amount of assets. For defaulted assets (Stage 3), interest income is recognised based on the net carrying amount of assets, ie the carrying amount is increased by gross income and a provision for such a loan receivable is created.

Loans are only classified in Stage 3 if there is objective evidence that the customer will default on its liability to the Bank. This approach is similar to the approach under IAS 39 and, thus, the Bank did not record any significant changes to the amount of provisions calculated under IFRS 9 and IAS 39 for loans classified as Stage 3.

For portfolio assessed loans, the Bank calculates provisions based on the principle of expected loan losses for the lifecycle of the loan. The Bank did not record any significant differences in the amount of provisions for loans classified into loan portfolios upon its transition to IFRS 9 as of 1 January 2018.

### Securities

When calculating provisions for securities, the Bank applies the same approach as when calculating provisions for loans assessed on a specific basis, as described above.

Owing to the new principle of expected losses, the Bank's provisions for securities increased by EUR 189 thousand as at 1 January 2018.

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The effect of the IFRS 9 implementation on the Bank's equity totalled EUR 584 thousand as at 1 January 2018. The effect on the Bank's tax base for 2018 is EUR 123 thousand.

In general, comparable periods were not restated. Differences in the carrying amounts of financial assets and financial liabilities result from the application of IFRS 9 and are recognised in retained earnings as at 1 January 2018. Therefore, disclosures for 2017 do not reflect the requirements of IFRS 9 and are not comparable with disclosures for 2018 in accordance with IFRS 9.

#### Modified financial assets

Under IFRS 9, modification occurs when the contractual cash flows of a financial asset are renegotiated or otherwise modified (in particular, by adjusting the repayment schedule or extending the maturity of the loan or by changing the interest rate/margin) and such a renegotiation or modification does not result in the derecognition of the financial asset. A modification may occur at any time over the full lifecycle of a financial asset, ie from initial recognition until the repayment or sale of the financial asset. As regards Privatbanka, a.s., the receivables (financial assets) are usually modified upon their maturity.

The Bank differentiates between two types of modification:

- Unforced modification;
- Forced modification (restructuring).

As regards unforced modification of a financial asset, the customer has no financial difficulties and through such a modification the Bank does not grant any concession to the customer without which the customer would be unable to meet its obligation. The Bank applies unforced modification mainly due to commercial reasons.

In the case of forced modification, the customer has financial difficulties. The Bank grants a concession to the customer due to its financial difficulties. A concession means a modification to the repayment schedule or an extension of the loan's maturity or a decrease in the interest rate. In its internal guidelines, the Bank has defined characteristics that may indicate that the customer has financial difficulties.

The Bank calculates the impact of the modification of the contractual cash flows as the difference between the gross value of the financial asset prior to the modification and the present value of the modified cash flows discounted using the original effective interest rate or market interest rate.

If the calculated impact of the modification of the contractual cash flows does not exceed the materiality level set by the Bank, the Bank does not record and recognise the impact of the modification.

As at 31 December 2018, the Bank recognised the impact of the modification of financial assets in the amount of EUR 82 thousand recognised in the Bank's expenses.

- **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). Based on the Bank's assessment, the application of the above standard has no impact on the Bank.
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (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 applied for the first time);

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- **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);
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014 – 2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are applied for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The adoption of these new standards, amendments to the existing standards, and the interpretation has not led to any material changes in the Bank’s financial statements, except for IFRS 9 the application of which has a quantifiable impact on the Bank’s equity. The impact of IFRS 9 on the Bank’s financial statements is summarised in the tables below.

Summary of Financial Asset Measurement in Accordance with IAS 39 and IFRS 9:

| 1 January 2018<br>(EUR '000)   | IAS 39   |                    | IFRS 9   |                    |
|--|--|--------------------|--|--------------------|
|  | Measurement<br>Category                                | Carrying<br>Amount | Measurement<br>Category                                | Carrying<br>Amount |
| Cash and balances with central banks                                   | amortised cost   | 71,199             | amortised cost   | 71,199             |
| Loans and advances to banks, net of provisions for expected losses     | amortised cost   | 13,126             | amortised cost   | 13,126             |
| Loans and advances to customers, net of provisions for expected losses | amortised cost   | 342,425            | amortised cost   | 342,030            |
| Debt securities, net of provisions for expected losses                 | amortised cost   | 58,256             | amortised cost   | 58,249             |
| Financial assets at fair value   | fair value through<br>other<br>comprehensive<br>income | 168,986            | fair value through<br>other<br>comprehensive<br>income | 168,804            |

There were no changes between IAS 39 and IFRS 9 when analysing the classification of financial assets.

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Reconciliation of balances in the statement of financial position in accordance with IAS 39 and IFRS 9:

| 1 January 2018   | Carrying Amount               | Changes in the Carrying Amount Upon First Application of IFRS 9 |                        |  | Carrying Amount             |
|--|-------------------------------|---|------------------------|--|-----------------------------|
|  | Under IAS 39 as at 31.12.2017 | Reclassifi-<br>cation   | Revenue<br>Recognition | Provisions<br>for Assets<br>and<br>Provisions for<br>Liabilities | Under IFRS 9 as at 1.1.2018 |
| (EUR '000)   |                               |   |                        |  |                             |
| Cash and balances with central banks                                   | 71,199                        | -   | -                      | -  | 71,199                      |
| Loans and advances to banks, net of provisions for expected losses     | 13,126                        | -   | -                      | -  | 13,126                      |
| Loans and advances to customers, net of provisions for expected losses | 342,425                       | -   | -                      | (395)  | 342,030                     |
| Debt securities, net of provisions for expected losses                 | 58,256                        | -   | -                      | (7)  | 58,249                      |
| Financial assets at fair value through other comprehensive income      | 168,986                       | -   | -                      | (182)  | 168,804                     |
| Other assets   | 2,455                         | -   | -                      | -  | 2,455                       |
| <b>TOTAL</b>   | <b>656,447</b>                | <b>-</b>  | <b>-</b>               | <b>(584)</b>   | <b>655,863</b>              |

Reconciliation of provisions for assets and provisions for liabilities in accordance with IAS 39 and IFRS 9:

| 1 January 2018                       | Impairment                    | Changes Upon First Application of IFRS 9 |   | Impairment                  |
|--------------------------------------|-------------------------------|--|---|-----------------------------|
|                                      | Under IAS 39 as at 31.12.2017 | Revenue<br>Recognition                   | Provisions for<br>Assets and<br>Provisions for<br>Liabilities | Under IFRS 9 as at 1.1.2018 |
| (EUR '000)                           |                               |  |   |                             |
| Cash and balances with central banks | -                             | -  | -   | -                           |
| Loans and advances to banks          | -                             | -  | -   | -                           |
| Loans and advances to customers      | (14,242)                      | -  | (395)   | (14,637)                    |
| Securities                           | -                             | -  | (189)   | (189)                       |
| Other assets                         | (53)                          | -  | -   | (53)                        |

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

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

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

IFRS 16 “Leases” supersedes IAS 17 “Leases” and the related interpretations. The standard removes the current dual model of accounting by the lessee. Instead, it requires that companies recognise most leases in the balance sheet under a single model eliminating the distinction between an operating lease and a finance lease. In accordance with IFRS 16, a contract is, or contains, a lease if the contract transfers the right to control the use of an identified asset over a certain period of time in exchange for consideration. For such contracts, the new model requires the lessee to recognise the right of use of an asset and a lease liability. The right of use is amortised and the liability bears an interest.

The new standard introduces several exemptions for a lessee, which include:

- Leases with a lease term of 12 months or less with no purchase option;
- Leases for which the leased asset is of low value.

The application of the new standard substantially has no impact on the recognition by a lessor. The lessor will continue to distinguish between a finance lease and an operating lease.

After the application of IFRS 16, the Bank will measure lease liabilities at the present value of receivables from lease payments. Lease payments are discounted using the interest rate implicit in the lease.

Right-of-use assets are initially measured at cost that comprises:

- An initial estimate of lease liabilities;
- Any lease payments made at or before the commencement date of the lease, less any claim under lease incentives received;
- Initial costs directly incurred by the lessee due to entering into a lease contract;
- Estimate of costs to be incurred by the lessee due to an obligation to dismantle and remove the underlying asset or carry out refurbishment/restoration.

The IFRS 16 implementation requires the use of certain estimates and calculations. They include, inter alia:

- Determination of contracts to which IFRS 16 applies;
- Determination of the duration of such contracts including contracts for an indefinite period of time or contracts with an option to extend the term of duration;
- Determination of interest rates to be applied to discount future cash flows;
- Determination of depreciation/amortisation rates.

The Bank will not apply a retrospective approach.

The effect of the IFRS 16 implementation on the recognition of additional financial liabilities and related right-of-use assets as at 1 January 2019 is estimated at an approximate amount of EUR 1 599 thousand. The impact on equity is zero.

- **Amendments to IFRS 9 “Financial Instruments”** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);

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- **IFRIC 23 “Uncertainty over Income Tax Treatments”** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Bank has elected not to adopt this new standard, amendments to the existing standard and the interpretation in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to the existing standards will have no material impact on the Bank's financial statements in the period of initial application, except for IFRS 16.

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

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

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 “Business Combinations”** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** – Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 19 “Employee Benefits”** – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 – 2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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

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

Based on the Bank's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not have a significant impact on the financial statements if applied as at reporting date. The Bank continues to apply IAS 39.

The Bank has elected not to adopt these new standards and amendments to the existing standards in advance of their effective dates. Bank management anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the Bank's financial statements in the period of initial application.

### **(2.2) Statement of compliance**

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

Pursuant to Article 22 (12) of Act No. 431/2002 Coll. on Accounting as amended, the Bank does not prepare consolidated financial statements for the year ended 31 December 2018, since the subsidiary Privatfin, s.r.o. does not have a significant impact on Privatbanka's consolidated group. The judgment on the financial position, expenses, revenues and results of operations of Privatbanka's consolidated group has not been significantly affected by preparing only the Bank's separate financial statements.

On 28 March 2018, the Bank's General Meeting approved the Bank's financial statements prepared in accordance with IFRS as at 31 December 2017.

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

### **(2.3) Basis of preparation**

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

A branch operating in the Czech Republic is included in the financial statements. Assets and liabilities of the branch are translated to EUR using the exchange rate valid as at the reporting date. Income and costs of the branch abroad are translated to EUR using the exchange rate valid as at the transaction date. Exchange rate gains/losses arising from these transactions are recognised directly in equity.

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

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value. Other financial and non-financial assets and liabilities are measured at amortised cost or historical cost less provisions.

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

The Bank has a controlling interest in the subsidiary as stated in Note 10. In these financial statements, the subsidiary is recognised at cost, taking into account losses from impairment.

#### **(2.4) Significant accounting judgements and estimates**

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

Significant areas that require judgment and estimates:

- Provisions for liabilities are based on the management's judgments and represent the best estimate of the expenditures required to settle a liability of an uncertain timing or amount resulting from an obligation.
- The Bank continuously monitors the loan portfolio and performs an assessment of receivables from loan transactions on a specific or portfolio basis in order to identify client defaults and the related settlement of the client's liabilities to the Bank. Subsequently, the Bank quantifies (on a quarterly basis) the impact of default on recognised financial assets, while taking into account estimated income from received collateral. Given the current economic conditions, the final estimates may differ from the provisions recognised as at 31 December 2018. The Bank does not expect to realise benefits from tax non-deductible provisions in the future. Therefore, the Bank does not recognise a deferred income tax asset arising from tax non-deductible provisions.

#### **(2.5) Summary of significant accounting policies**

##### **(1) Foreign currency translation**

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

##### **(2) Cash and cash equivalents**

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

##### **(3) Financial instruments – recognition and measurement**

###### **(i) Date of initial recognition**

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

###### **(ii) Initial measurement of financial instruments**

The classification of individual financial instruments depends on the Bank's business model and the cash flow characteristics of a particular financial instrument. Each debt financial instrument must undergo an SPPI testing based on the known parameters of such an instrument at initial classification in the Bank's assets. At initial recognition, the financial instruments are measured at fair value, including the transaction costs.

**(iii) Financial investments at amortised cost**

Financial investments at amortised cost are financial investments that are held as part of the Bank's business model to collect contractual cash flows; the contractual terms of financial investments define the exact values and amounts of instalments that are solely payments of principal and interest on the principal amounts. After initial recognition, the financial investments are then measured at amortised cost using the effective interest rate method, net of the provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. Impairment losses on such investments are recognised under "(Creation)/release of provisions for securities" in the Income Statement.

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

After initial recognition, the loans and advances to banks and the loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. Impairment losses on such investments are recognised under "(Creation)/release of provisions for impairment losses, write-off and assignment of receivables" in the Income Statement.

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

Financial instruments at fair value through profit or loss consist of financial derivative instruments and securities at fair value through profit or loss. Securities at fair value through profit or loss comprise financial assets held for trading and assets that did not meet the SPPI test.

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

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

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

*(i) Fair Value Hedge*

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

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

*(ii) Cash Flow Hedge*

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

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

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

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

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

*Embedded Derivatives*

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

**(vi) Securities at fair value through other comprehensive income**

Debt securities at fair value through other comprehensive income are financial investments that are held as part of the Bank's business model to collect contractual cash flows as well as their sale. The contractual terms of financial investments determine the exact values and amounts of instalments that are solely payments of principal and interest on the principal amounts. This category also includes equity instruments not held for trading.

After initial recognition, the securities at fair value through other comprehensive income are measured at fair value. Unrealised gains and losses are recognised directly in equity under "Revaluation reserves on securities at fair value through other comprehensive income including deferred tax". When the financial asset is sold, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in "Trading profit". Where the Bank holds more than one investment in the same financial asset, they are deemed to be disposed of on an average price basis. Interest income on holding financial investments at fair value through other comprehensive income is recognised using the effective interest rate as interest income in the Income Statement under "Interest income and similar income". Dividends earned while holding financial investments are recognised in the Income Statement as "Trading profit", when the right of the payment has been established. Impairment losses on such investments are recognised in the Income Statement under "(Creation)/release of provisions for securities" and are derecognised from equity ("Revaluation reserves on securities at fair value through other comprehensive income including deferred tax").

**(vii) Deposits from customers, due to banks and debt securities issued**

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

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

**(4) Derecognition of financial assets and financial liabilities**

**(i) Financial assets**

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

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

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

**(ii) Financial liabilities**

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

**(5) Repurchase and reverse repurchase agreements**

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

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

### **(6) Determination of fair value**

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

Level 1: Quoted prices from active markets for identical assets or liabilities

Level 2: Inputs other than "Level 1" quoted prices, which can be obtained for assets or liabilities either directly (eg prices) or indirectly (derived from interest rates etc)

Level 3: Input data for assets or liabilities, which cannot be derived from market data

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

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

With respect to the definition of the fair value of financial instruments that are not revalued to fair value, the Bank applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market values. More-detailed information on the methods of calculation of fair values of financial instruments not revalued to fair value is provided in Note 42.

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

### **(7) Impairment of financial assets**

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The value of a financial asset or a group of financial assets is reduced if, and only if, the Bank identified a client default as a result of one or more events that occurred after the initial recognition of the financial asset and that event (or events) has an impact on the estimated future cash flows of the financial asset, or the group of financial assets that can be reliably estimated. Criteria identifying client default as regards the Bank may apply to situations where the borrower (or a group of borrowers) is in financial difficulty, is in default or delinquency as regards interest or principal payments, which are overdue by more than 90 days, if they enter bankruptcy, or other cases where observable data indicate that the client will probably fail to meet its obligations in the full amount towards the Bank.

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

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that will be generated from the realisation of the collateral less costs of sale.

For the collective recognition of impairment, financial assets are grouped using the Bank's internal credit classification system that considers similar credit risk characteristics, in particular type of financial asset, type of debtor, security method, and other relevant factors.

The selected types of loans to customers where no default was identified on an individual basis are classified into groups – portfolios with similar risk characteristics. Provisions created for financial asset portfolios are used to cover losses that have not been identified on an individual basis, however, based on objective historical experience, they are embedded in individual portfolios. Portfolio provisions are intended to reflect the risk of loss that has not yet been individually identified but, based on historical experience and the impact of current economic market conditions, it is necessary to disclose them in the statement of financial position.

The Bank has five portfolios created for the collective (portfolio) measurement of receivables with common characteristics. The Bank's loan portfolios comprise the portfolio of loans and current account overdrafts provided to the Bank's employees, the portfolio of current account overdrafts provided to private banking customers, the portfolio of loans provided to individuals as housing loans, the portfolio of loans provided to private banking customers as loans secured by the portfolio of the customers' securities managed by the Bank and the portfolio of loans provided to the Bank's customers included in the Bank's watch list (closer monitoring).

The Bank does not have a sufficiently-long time series for the calculation of an historical default rate for the loan portfolios. The Bank developed a model for the calculation of provisions for loan portfolios. The amount of such provisions is defined as a percentage of the total portfolio value and depends on the probability of default and loss given default. The input data for the model comprise regular monthly statements reported by the National Bank of Slovakia on the status of loans in the banking sector for the preceding periods and a loan portfolio report of the bank at the year-end. The incurred but not identified loss at the end of 2018 amounts to:

- 3.53% of the total amount of the loans included in the portfolio of loans and current account overdrafts provided to employees;
- 8.64% of the total amount of the loans included in the portfolio of collateralised current account overdrafts provided to private banking customers;
- 1.67% of the total amount of the loans included in the housing loan portfolio;
- 4.18% of the total amount of the loans included in the portfolio of collateralised loans provided to private banking customers; and
- 4.54% of the total amount of the loans included in the watch list loan portfolio.

The Bank monitors changes in economic conditions of the relevant market and regularly reassesses the amount of portfolio provisions. The Bank also tests the model quality by comparison with the realised losses from the loan portfolio for the previous year.

#### **(ii) Financial investments at amortised cost**

For investments measured at amortised cost, the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement.

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

#### **(iii) Financial investments at fair value through other comprehensive income**

For financial investments at fair value through other comprehensive income, the Bank assesses as at the reporting date whether there is objective evidence of impairment of the investment or a group of investments.

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

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

**(iv) Renegotiated loans**

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

**(8) Accrued interest income and expense**

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

**(9) Tangible and intangible assets**

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

|                          |                        |
|--------------------------|------------------------|
| Buildings and structures | 20 to 40 years, linear |
| Software                 | Up to 5 years, linear  |
| Other assets             | 4 to 12 years, linear  |

Land and assets under construction are not depreciated.

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

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

**(10) Impairment of tangible and intangible assets**

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

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

**(11) Guarantees issued**

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

### **(12) Provisions for liabilities**

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

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

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

### **(13) Recognition of income and expenses**

#### **(i) Interest expense and interest income**

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

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

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

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

#### **(ii) Fee and commission income and expenses**

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

#### **(iii) Income tax**

Income tax includes current tax and deferred tax.

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

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

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

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

#### **(14) Subsidiaries and other equity investments**

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

##### *Subsidiaries*

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

Subsidiaries are valued at cost less provisions for impairment.

##### *Other equity participations*

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

#### **(15) Transactions with securities for customers**

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

#### **(16) Regulatory requirements**

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

### 3. RECOGNITION OF SELECTED ASSETS BY GEOGRAPHICAL AREA

Classification by geographical area as at 31 December 2018:

| EUR '000            | Cash and balances<br>with central banks | Loans and<br>advances to<br>banks | Loans and<br>advances to<br>customers | Securities at fair<br>value through other<br>comprehensive<br>income | Securities at<br>amortised cost | Investments in<br>subsidiaries |
|---------------------|---|-----------------------------------|---------------------------------------|--|---------------------------------|--------------------------------|
| Cyprus              | -                                       | -                                 | 23 782                                | -  | -                               | -                              |
| Czech Republic      | 136                                     | 3 750                             | 78 120                                | 8 229  | 8 790                           | -                              |
| France              | -                                       | -                                 | 40                                    | -  | -                               | -                              |
| Netherlands         | -                                       | -                                 | -                                     | -  | 1 506                           | -                              |
| Ireland             | -                                       | -                                 | -                                     | 5 538  | -                               | -                              |
| Hungary             | -                                       | -                                 | 74                                    | -  | 10 093                          | -                              |
| Poland              | -                                       | 320                               | 53 938                                | 18 701   | 8 116                           | -                              |
| Austria             | -                                       | -                                 | -                                     | 10 041   | 2 493                           | -                              |
| Romania             | -                                       | 14                                | -                                     | -  | -                               | -                              |
| Seychelles          | -                                       | -                                 | 16                                    | -  | -                               | -                              |
| Slovak Republic     | 113 984                                 | 1 996                             | 241 503                               | 20 976   | 45 630                          | 7                              |
| Slovenia            | -                                       | -                                 | -                                     | 8 610  | 3 075                           | -                              |
| USA                 | 133                                     | -                                 | -                                     | 25 576   | -                               | -                              |
| Switzerland         | 218                                     | -                                 | -                                     | -  | -                               | -                              |
| Sweden              | -                                       | -                                 | -                                     | 5 391  | -                               | -                              |
| Italy               | -                                       | -                                 | -                                     | 17 586   | 11 330                          | -                              |
| United Kingdom      | 36                                      | -                                 | -                                     | 5 256  | -                               | -                              |
| <b>Total, gross</b> | <b>114 507</b>                          | <b>6 080</b>                      | <b>397 473</b>                        | <b>125 904</b>   | <b>91 033</b>                   | <b>7</b>                       |
| Provisions (Note 7) | -                                       | -                                 | (15 559)                              | (132)  | (26)                            | -                              |
| <b>Total, net</b>   | <b>114 507</b>                          | <b>6 080</b>                      | <b>381 914</b>                        | <b>125 772</b>   | <b>91 007</b>                   | <b>7</b>                       |

**Notes to the Financial Statements for the year ended 31 December 2018**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

Classification by geographical area as at 1 January 2018:

| EUR '000            | Cash and balances<br>with central banks | Loans and<br>advances to<br>banks | Loans and<br>advances to<br>customers | Securities at fair<br>value through other<br>comprehensive<br>income | Securities at<br>amortised cost | Investments in<br>subsidiaries |
|---------------------|---|-----------------------------------|---------------------------------------|--|---------------------------------|--------------------------------|
| Cyprus              | -                                       | -                                 | 19 339                                | -  | -                               | -                              |
| Czech Republic      | 266                                     | 9 497                             | 59 477                                | 8 383  | -                               | -                              |
| France              | -                                       | -                                 | 60                                    | 11 510   | -                               | -                              |
| Ireland             | -                                       | -                                 | -                                     | 8 678  | -                               | -                              |
| Lithuania           | -                                       | -                                 | -                                     | 10 486   | -                               | -                              |
| Hungary             | -                                       | -                                 | 80                                    | -  | 10 073                          | -                              |
| Germany             | -                                       | -                                 | -                                     | 15 183   | -                               | -                              |
| Poland              | -                                       | 2 879                             | 6 703                                 | 19 080   | 8 057                           | -                              |
| Austria             | -                                       | -                                 | -                                     | 15 238   | -                               | -                              |
| Romania             | -                                       | 48                                | -                                     | -  | -                               | -                              |
| Seychelles          | -                                       | -                                 | 78                                    | -  | -                               | -                              |
| Slovak Republic     | 70 642                                  | 702                               | 270 930                               | 23 493   | 18 346                          | 7                              |
| USA                 | 140                                     | -                                 | -                                     | 29 228   | -                               | -                              |
| Switzerland         | 106                                     | -                                 | -                                     | -  | -                               | -                              |
| Sweden              | -                                       | -                                 | -                                     | 8 492  | -                               | -                              |
| Italy               | -                                       | -                                 | -                                     | 13 904   | 21 780                          | -                              |
| United Kingdom      | 45                                      | -                                 | -                                     | 5 311  | -                               | -                              |
| <b>Total, gross</b> | <b>71 199</b>                           | <b>13 126</b>                     | <b>356 667</b>                        | <b>168 986</b>   | <b>58 256</b>                   | <b>7</b>                       |
| Provisions (Note 7) | -                                       | -                                 | (14 637)                              | (182)  | (7)                             | -                              |
| <b>Total net</b>    | <b>71 199</b>                           | <b>13 126</b>                     | <b>342 030</b>                        | <b>168 804</b>   | <b>58 249</b>                   | <b>7</b>                       |

**Notes to the Financial Statements for the year ended 31 December 2018**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

Classification by geographical area as at 31 December 2017:

| EUR '000            | Cash and balances<br>with central banks | Loans and<br>advances to<br>banks | Loans and<br>advances to<br>customers | Available-for-<br>sale securities | Held-to-maturity<br>securities | Investments in<br>subsidiaries |
|---------------------|---|-----------------------------------|---------------------------------------|-----------------------------------|--------------------------------|--------------------------------|
| Cyprus              | -                                       | -                                 | 19 339                                | -                                 | -                              | -                              |
| Czech Republic      | 266                                     | 9 497                             | 59 477                                | 8 383                             | -                              | -                              |
| France              | -                                       | -                                 | 60                                    | 11 510                            | -                              | -                              |
| Ireland             | -                                       | -                                 | -                                     | 8 678                             | -                              | -                              |
| Lithuania           | -                                       | -                                 | -                                     | 10 486                            | -                              | -                              |
| Hungary             | -                                       | -                                 | 80                                    | -                                 | 10 073                         | -                              |
| Germany             | -                                       | -                                 | -                                     | 15 183                            | -                              | -                              |
| Poland              | -                                       | 2 879                             | 6 703                                 | 19 080                            | 8 057                          | -                              |
| Austria             | -                                       | -                                 | -                                     | 15 238                            | -                              | -                              |
| Romania             | -                                       | 48                                | -                                     | -                                 | -                              | -                              |
| Seychelles          | -                                       | -                                 | 78                                    | -                                 | -                              | -                              |
| Slovak Republic     | 70 642                                  | 702                               | 270 930                               | 23 493                            | 18 346                         | 7                              |
| USA                 | 140                                     | -                                 | -                                     | 29 228                            | -                              | -                              |
| Switzerland         | 106                                     | -                                 | -                                     | -                                 | -                              | -                              |
| Sweden              | -                                       | -                                 | -                                     | 8 492                             | -                              | -                              |
| Italy               | -                                       | -                                 | -                                     | 13 904                            | 21 780                         | -                              |
| United Kingdom      | 45                                      | -                                 | -                                     | 5 311                             | -                              | -                              |
| <b>Total gross</b>  | <b>71 199</b>                           | <b>13 126</b>                     | <b>356 667</b>                        | <b>168 986</b>                    | <b>58 256</b>                  | <b>7</b>                       |
| Provisions (Note 7) | -                                       | -                                 | (14 242)                              | -                                 | -                              | -                              |
| <b>Total net</b>    | <b>71 199</b>                           | <b>13 126</b>                     | <b>342 425</b>                        | <b>168 986</b>                    | <b>58 256</b>                  | <b>7</b>                       |

#### 4. CASH AND BALANCES WITH CENTRAL BANKS

| EUR '000  | 2018           | 2017          |
|---|----------------|---------------|
| Cash on hand                                      | 1 752          | 2 064         |
| Minimum reserve deposits at NBS                   | 112 755        | 69 135        |
| <b>Total cash and balances with central banks</b> | <b>114 507</b> | <b>71 199</b> |

Receivables from central banks are not secured by any collateral.

The minimum reserve deposits are recognised as a deposit under the regulations of the National Bank of Slovakia. The amount of the reserves depends on the level of deposits accepted by the Bank. The Bank's ability to withdraw the reserve is restricted by statutory legislation; therefore, it is not included in "Cash and balances with central banks" for the purposes of cash flow statement preparation (see Note 33).

#### 5. LOANS AND ADVANCES TO BANKS

| EUR '000                                 | 2018         | 2017          |
|--|--------------|---------------|
| Current bank accounts                    | 5 929        | 5 717         |
| Term deposits in banks                   | -            | 7 327         |
| Other amounts due from banks             | 151          | 82            |
| <b>Total loans and advances to banks</b> | <b>6 080</b> | <b>13 126</b> |

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

#### 6. LOANS AND ADVANCES TO CUSTOMERS

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

| EUR '000  | 31.12.2018     | 1.1.2018       | 31.12.2017     |
|---|----------------|----------------|----------------|
| Loans and advances to                                   |                |                |                |
| entrepreneurs and corporate entities                    | <b>368 786</b> | <b>332 332</b> | <b>332 332</b> |
| Stage 1   | 234 877        | 182 224        |                |
| Stage 2   | 117 946        | 133 261        |                |
| Stage 3   | 15 963         | 16 847         |                |
| individuals   | <b>28 687</b>  | <b>24 335</b>  | <b>24 335</b>  |
| Stage 1   | 13 670         | 15 238         |                |
| Stage 2   | 13 333         | 8 904          |                |
| Stage 3   | 1 684          | 193            |                |
| <b>Total loans and advances to customers, gross</b>     | <b>397 473</b> | <b>356 667</b> | <b>356 667</b> |
| Provisions for loans and advances to customers (Note 7) | (15 559)       | (14 637)       | (14 242)       |
| <b>Total loans and advances to customers, net</b>       | <b>381 914</b> | <b>342 030</b> | <b>342 425</b> |

As at 31 December 2018, the 15 largest customers accounted for 43.4% of the gross loan portfolio, which amounted to EUR 172 541 thousand (2017: 43.2%, EUR 154 090 thousand).

Further details on credit risk are described in Note 40.

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

The table below details the breakdown of loans and advances to customers per sector as at 31 December 2018.

| EUR '000  | Stage 1        | Stage 2        | Stage 3       | Total           |
|---|----------------|----------------|---------------|-----------------|
| <b>Residents</b>  |                |                |               |                 |
| Financial institutions                                  | 2 096          | -              | -             | <b>2 096</b>    |
| Non-financial institutions                              | 124 737        | 73 009         | 14 922        | <b>212 668</b>  |
| Public administration                                   | -              | 1 224          | -             | <b>1 224</b>    |
| Non-profit organisations                                | 100            | 145            | -             | <b>245</b>      |
| Self-employed   | -              | 65             | -             | <b>65</b>       |
| Individuals   | 11 672         | 11 849         | 1 685         | <b>25 206</b>   |
| <b>Non-residents</b>                                    |                |                |               |                 |
| Financial institutions                                  | 37 271         | 13 861         | -             | <b>51 132</b>   |
| Non-profit organisations                                | 70 674         | 29 707         | 1 040         | <b>101 421</b>  |
| Self-employed   | -              | -              | -             | <b>-</b>        |
| Individuals   | 1 997          | 1 419          | -             | <b>3 416</b>    |
| <b>Total loans and advances to customers, gross</b>     | <b>248 547</b> | <b>131 279</b> | <b>17 647</b> | <b>397 473</b>  |
| Provisions for loans and advances to customers (Note 7) | (430)          | (5 050)        | (10 079)      | <b>(15 559)</b> |
| <b>Total loans and advances to customers, net</b>       | <b>248 117</b> | <b>126 229</b> | <b>7 568</b>  | <b>381 914</b>  |

The table below details the breakdown of loans and advances to customers per sector as at 1 January 2018.

| EUR '000  | Stage 1        | Stage 2        | Stage 3       | Total           |
|---|----------------|----------------|---------------|-----------------|
| <b>Residents</b>  |                |                |               |                 |
| Financial institutions                                  | 10 000         | 106            | -             | <b>10 106</b>   |
| Non-financial institutions                              | 104 608        | 118 554        | 15 800        | <b>238 962</b>  |
| Public administration                                   | -              | -              | -             | <b>-</b>        |
| Non-profit organisations                                | 235            | 10             | -             | <b>245</b>      |
| Self-employed   | 48             | 33             | -             | <b>81</b>       |
| Individuals   | 12 927         | 8 405          | 193           | <b>21 525</b>   |
| <b>Non-residents</b>                                    |                |                |               |                 |
| Financial institutions                                  | 39 489         | -              | -             | <b>39 489</b>   |
| Non-profit organisations                                | 27 811         | 14 587         | 1 047         | <b>43 445</b>   |
| Self-employed   | -              | 4              | -             | <b>4</b>        |
| Individuals   | 2 345          | 466            | -             | <b>2 811</b>    |
| <b>Total loans and advances to customers, gross</b>     | <b>197 462</b> | <b>142 165</b> | <b>17 040</b> | <b>356 667</b>  |
| Provisions for loans and advances to customers (Note 7) | (358)          | (5 671)        | (8 608)       | <b>(14 637)</b> |
| <b>Total loans and advances to customers, net</b>       | <b>197 104</b> | <b>136 494</b> | <b>8 432</b>  | <b>342 030</b>  |

**Notes to the Financial Statements for the year ended 31 December 2018**  
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The table below details the breakdown of loans and advances to customers per sector as at 31 December 2017.

| EUR '000  | 31.12.2017     |
|---|----------------|
| <b>Residents</b>  |                |
| Financial institutions                                  | 10 106         |
| Non-financial institutions                              | 238 962        |
| Public administration                                   | -              |
| Non-profit organisations                                | 245            |
| Self-employed   | 81             |
| Individuals   | 21 525         |
| <b>Non-residents</b>                                    |                |
| Financial institutions                                  | 39 489         |
| Non-profit organisations                                | 43 445         |
| Self-employed   | 4              |
| Individuals   | 2 811          |
| <b>Total loans and advances to customers, gross</b>     | <b>356 667</b> |
| Provisions for loans and advances to customers (Note 7) | (14 242)       |
| <b>Total loans and advances to customers, net</b>       | <b>342 425</b> |

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

The table below details the breakdown of loans and advances to customers per purpose as at 31 December 2018.

| EUR '000  | Stage 1        | Stage 2        | Stage 3       | Total          | Share in %    |
|---|----------------|----------------|---------------|----------------|---------------|
| <b>Short-term loans</b>                                 | <b>44 435</b>  | <b>40 541</b>  | <b>121</b>    | <b>85 097</b>  |               |
| Operating   | 9 113          | 13 707         | -             | 22 820         | 5,74          |
| Investment  | 33 075         | 15 577         | 121           | 48 773         | 12,27         |
| Project   | 2 247          | 11 257         | -             | 13 504         | 3,40          |
| <b>Long-term loans</b>                                  | <b>204 112</b> | <b>90 738</b>  | <b>17 526</b> | <b>312 376</b> |               |
| Operating   |                |                | 9 998         | 9 998          | 2,52          |
| Investment  | 169 051        | 40 079         | 4 184         | 213 314        | 53,67         |
| Project   | 35 061         | 50 659         | 3 344         | 89 064         | 22,40         |
| <b>Total loans and advances to customers, gross</b>     | <b>248 547</b> | <b>131 279</b> | <b>17 647</b> | <b>397 473</b> | <b>100,00</b> |
| Provisions for loans and advances to customers (Note 7) | (430)          | (5 050)        | (10 079)      | (15 559)       |               |
| <b>Total loans and advances to customers, net</b>       | <b>248 117</b> | <b>126 229</b> | <b>7 568</b>  | <b>381 914</b> |               |

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The table below details the breakdown of loans and advances to customers per purpose as at 1 January 2018.

| EUR '000  | Stage 1        | Stage 2        | Stage 3       | Total           | Share in %    |
|---|----------------|----------------|---------------|-----------------|---------------|
| <b>Short-term loans</b>                                 | <b>46 859</b>  | <b>48 861</b>  | <b>2 939</b>  | <b>98 659</b>   |               |
| Operating   | 20 809         | 10 502         | 425           | <b>31 736</b>   | 8,90          |
| Investment  | 21 596         | 31 703         | 717           | <b>54 016</b>   | 15,14         |
| Project   | 4 454          | 6 656          | 1 797         | <b>12 907</b>   | 3,62          |
| <b>Long-term loans</b>                                  | <b>150 603</b> | <b>93 304</b>  | <b>14 101</b> | <b>258 008</b>  |               |
| Operating   | 4 721          |                |               | <b>4 721</b>    | 1,32          |
| Investment  | 103 602        | 58 448         | 11 517        | <b>173 567</b>  | 48,67         |
| Project   | 42 280         | 34 856         | 2 584         | <b>79 720</b>   | 22,35         |
| <b>Total loans and advances to customers, gross</b>     | <b>197 462</b> | <b>142 165</b> | <b>17 040</b> | <b>356 667</b>  | <b>100,00</b> |
| Provisions for loans and advances to customers (Note 7) | (358)          | (5 671)        | (8 608)       | <b>(14 637)</b> |               |
| <b>Total loans and advances to customers, net</b>       | <b>197 104</b> | <b>136 494</b> | <b>8 432</b>  | <b>342 030</b>  |               |

The table below details the breakdown of loans and advances to customers per purpose as at 31 December 2017.

| EUR '000  | 31.12.2017     | Share in %    |
|---|----------------|---------------|
| <b>Short-term loans</b>                                 | <b>98 659</b>  |               |
| Operating   | 31 736         | 8,90          |
| Investment  | 54 016         | 15,14         |
| Project   | 12 907         | 3,62          |
| <b>Long-term loans</b>                                  | <b>258 008</b> |               |
| Operating   | 4 721          | 1,32          |
| Investment  | 173 567        | 48,67         |
| Project   | 79 720         | 22,35         |
| <b>Total loans and advances to customers, gross</b>     | <b>356 667</b> | <b>100,00</b> |
| Provisions for loans and advances to customers (Note 7) | (14 242)       |               |
| <b>Total loans and advances to customers, net</b>       | <b>342 425</b> |               |

**(d) Risk categorisation of loans to customers**

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2018. Exposure information includes undrawn loan commitments and issued guarantees. The estimate of the collateral's value is a recoverable portion.

| EUR '000                                 | Exposure       | Provisions                | Provisions coverage | Estimated value of collateral | Provisions and collateral coverage |
|--|----------------|---------------------------|---------------------|-------------------------------|------------------------------------|
| <b>Portfolio provisions</b>              | <b>112 862</b> | <b>5 025<sup>f</sup></b>  | <b>4,45%</b>        | <b>63 139</b>                 | <b>60,40%</b>                      |
| Individuals                              | 13 268         | 490 <sup>f</sup>          | 3,69%               | 5 439                         | 44,69%                             |
| Of which: Stage 1                        | -              | -                         | -                   | -                             | -                                  |
| Stage 2                                  | 13 268         | 490                       | 3,69%               | 5 439                         | 44,69%                             |
| Stage 3                                  | -              | -                         | -                   | -                             | -                                  |
| Entrepreneurs and corporate entities     | 99 594         | 4 535 <sup>f</sup>        | 4,55%               | 57 700                        | 62,49%                             |
| Of which: Stage 1                        | -              | -                         | -                   | -                             | -                                  |
| Stage 2                                  | 99 594         | 4 535                     | 4,55%               | 57 700                        | 62,49%                             |
| Stage 3                                  | -              | -                         | -                   | -                             | -                                  |
| <b>Individual provisions</b>             | <b>284 611</b> | <b>10 534<sup>f</sup></b> | <b>3,70%</b>        | <b>141 744</b>                | <b>53,50%</b>                      |
| Of which: Stage 1                        | 248 547        | 430                       | 0,17%               | 124 278                       | 50,17%                             |
| Stage 2                                  | 18 417         | 25                        | 0,14%               | 14 165                        | 77,05%                             |
| Stage 3                                  | 17 647         | 10 079                    | 57,12%              | 3 301                         | 75,82%                             |
| <b>Subtotal, balance-sheet items</b>     | <b>397 473</b> | <b>15 559<sup>f</sup></b> | <b>3,91%</b>        | <b>204 883</b>                | <b>55,46%</b>                      |
| Off-balance sheet-Retail Asset Class     | 1 715          |                           |                     |                               |                                    |
| Of which: Stage 1                        | -              |                           |                     |                               |                                    |
| Stage 2                                  | 1 715          |                           |                     |                               |                                    |
| Stage 3                                  | -              |                           |                     |                               |                                    |
| Off-balance sheet-Corporate Asset Class  | 24 103         |                           |                     |                               |                                    |
| Of which: Stage 1                        | 16 244         |                           |                     |                               |                                    |
| Stage 2                                  | 6 413          |                           |                     |                               |                                    |
| Stage 3                                  | 1 446          |                           |                     |                               |                                    |
| Bank guarantees                          | 7 160          |                           |                     |                               |                                    |
| Of which: Stage 1                        | 4 810          |                           |                     |                               |                                    |
| Stage 2                                  | 2 000          |                           |                     |                               |                                    |
| Stage 3                                  | 350            |                           |                     |                               |                                    |
| <b>Subtotal, off-balance sheet items</b> | <b>32 978</b>  |                           |                     |                               |                                    |
| <b>Total</b>                             | <b>430 451</b> | <b>15 559</b>             | <b>3,61%</b>        |                               |                                    |

In 2018, the interest income on impaired loans to customer amounted to EUR 729 thousand (2017: EUR 962 thousand).

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 1 January 2018. Exposure information includes undrawn loan commitments and issued guarantees. Exposure information includes undrawn loan commitments and issued guarantees.

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| EUR '000                                 | Exposure       | Provisions                 | Provisions coverage | Estimated value of collateral | Provisions and collateral coverage |
|--|----------------|----------------------------|---------------------|-------------------------------|------------------------------------|
| <b>Portfolio provisions</b>              | <b>138 311</b> | <b>5 634</b> <sup>†</sup>  | <b>4,07%</b>        | <b>87 719</b>                 | <b>67,50%</b>                      |
| Individuals                              | 8 871          | 248                        | 2,80%               | 5 448                         | 64,21%                             |
| Of which: Stage 1                        | -              | -                          | -                   | -                             | -                                  |
| Stage 2                                  | 8 871          | 248                        | 2,80%               | 5 448                         | 64,21%                             |
| Stage 3                                  | -              | -                          | -                   | -                             | -                                  |
| Entrepreneurs and corporate entities     | 129 440        | 5 386                      | 4,16%               | 82 271                        | 67,72%                             |
| Of which: Stage 1                        | -              | -                          | -                   | -                             | -                                  |
| Stage 2                                  | 129 440        | 5 386                      | 4,16%               | 82 271                        | 67,72%                             |
| Stage 3                                  | -              | -                          | -                   | -                             | -                                  |
| <b>Individual provisions</b>             | <b>218 356</b> | <b>9 003</b> <sup>†</sup>  | <b>4,12%</b>        | <b>97 973</b>                 | <b>48,99%</b>                      |
| Of which: Stage 1                        | 197 462        | 358                        | 0,18%               | 88 689                        | 45,10%                             |
| Stage 2                                  | 3 854          | 37                         | 0,97%               | 842                           | 22,80%                             |
| Stage 3                                  | 17 040         | 8 608                      | 50,51%              | 8 442                         | 100,06%                            |
| <b>Subtotal, balance-sheet items</b>     | <b>356 667</b> | <b>14 637</b> <sup>†</sup> | <b>4,10%</b>        | <b>185 692</b>                | <b>56,17%</b>                      |
| Off-balance sheet-Retail Asset Class     | 3 147          |                            |                     |                               |                                    |
| Of which: Stage 1                        | 1 573          |                            |                     |                               |                                    |
| Stage 2                                  | 1 574          |                            |                     |                               |                                    |
| Stage 3                                  | -              |                            |                     |                               |                                    |
| Off-balance sheet-Corporate Asset Class  | 26 218         |                            |                     |                               |                                    |
| Of which: Stage 1                        | 16 527         |                            |                     |                               |                                    |
| Stage 2                                  | 9 691          |                            |                     |                               |                                    |
| Stage 3                                  | -              |                            |                     |                               |                                    |
| Bank guarantees                          | 3 608          |                            |                     |                               |                                    |
| Of which: Stage 1                        | 3 258          |                            |                     |                               |                                    |
| Stage 2                                  | -              |                            |                     |                               |                                    |
| Stage 3                                  | 350            |                            |                     |                               |                                    |
| <b>Subtotal, off-balance sheet items</b> | <b>32 973</b>  |                            |                     |                               |                                    |
| <b>Total</b>                             | <b>389 640</b> | <b>14 637</b>              | <b>3,76%</b>        |                               |                                    |

**Notes to the Financial Statements for the year ended 31 December 2018**  
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The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2017. Exposure information includes undrawn loan commitments and issued guarantees.

| EUR '000                                 | Exposure       | Provisions    | Provisions coverage | Estimated value of collateral | Provisions and collateral coverage |
|--|----------------|---------------|---------------------|-------------------------------|------------------------------------|
| <b>Portfolio provisions</b>              | <b>138 311</b> | <b>5 634</b>  | <b>4,07%</b>        | <b>87 719</b>                 | <b>67,49%</b>                      |
| Individuals                              | 8 871          | 248           | 2,80%               | 5 448                         | 64,21%                             |
| Of which: defaulted                      | 101            | 3             | 2,97%               | -                             | 2,97%                              |
| Entrepreneurs and corporate entities     | 129 440        | 5 386         | 4,16%               | 82 271                        | 67,72%                             |
| Of which: defaulted                      | 760            | 32            | 4,21%               | 760                           | 104,21%                            |
| <b>Individual provisions</b>             | <b>218 356</b> | <b>8 608</b>  | <b>3,94%</b>        | <b>97 973</b>                 | <b>48,81%</b>                      |
| Non-impaired exposures                   | 201 316        | -             | -                   | 89 531                        | 44,47%                             |
| Impaired exposures                       | 17 040         | 8 608         | 50,52%              | 8 442                         | 100,06%                            |
| <b>Subtotal, balance-sheet items</b>     | <b>356 667</b> | <b>14 242</b> | <b>3,99%</b>        | <b>185 692</b>                | <b>56,06%</b>                      |
| Off-balance sheet-Retail Asset Class     | 3 147          | -             | -                   | -                             | -                                  |
| Off-balance sheet-Corporate Asset Class  | 29 826         | -             | -                   | -                             | -                                  |
| <b>Subtotal, off-balance sheet items</b> | <b>32 973</b>  | <b>-</b>      | <b>-</b>            | <b>-</b>                      | <b>-</b>                           |
| <b>Total</b>                             | <b>389 640</b> | <b>14 242</b> | <b>3,66%</b>        |                               |                                    |

## 7. PROVISIONS FOR IMPAIRMENT LOSSES

| EUR '000  | 1 Jan 2018      | (Creation)      | Release       | Use for assigned/<br>written-off<br>receivables | Exchange rate<br>gain/loss | 31 Dec 2018     |
|---|-----------------|-----------------|---------------|---|----------------------------|-----------------|
| Loans and advances to customers<br>(Note 6)                             | (14 637)        | (16 999)        | 15 963        | 105   | 9                          | (15 559)        |
| Securities at fair value through other comprehensive income<br>(Note 8) | (182)           | (28)            | 79            | -   | (1)                        | (132)           |
| Securities at amortised cost (Note 9)                                   | (7)             | (22)            | 3             | -   | -                          | (26)            |
| Other assets (Note 12)  | (53)            | (11)            | 19            | 19  | -                          | (26)            |
| <b>Total provisions</b>   | <b>(14 879)</b> | <b>(17 060)</b> | <b>16 064</b> | <b>124</b>                                      | <b>8</b>                   | <b>(15 743)</b> |

| EUR '000                                       | 1 Jan 2017 (Creation) |                 | Release       | Use for<br>assigned/<br>written-off<br>receivables | Exchange<br>rate<br>gain/loss | 31 Dec 2017     |
|--|-----------------------|-----------------|---------------|--|-------------------------------|-----------------|
| Loans and advances to<br>customers<br>(Note 6) | (14 230)              | (15 956)        | 15 397        | 605  | (58)                          | (14 242)        |
| Other assets (Note 12)                         | (99)                  | (3)             | 49            | -  | -                             | (53)            |
| <b>Total provisions</b>                        | <b>(14 329)</b>       | <b>(15 959)</b> | <b>15 446</b> | <b>605</b>   | <b>(58)</b>                   | <b>(14 295)</b> |

## 8. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Breakdown of securities at fair value through other comprehensive income per type of security and issuer's country as at 31 December 2018:

| EUR'000             | Government<br>bonds | Bank bonds    | Corporate<br>bonds | Trust units  | Total          |
|---------------------|---------------------|---------------|--------------------|--------------|----------------|
| Czech Republic      | 5 553               | -             | 2 676              | -            | 8 229          |
| Ireland             | -                   | -             | 2 601              | 2 937        | 5 538          |
| Poland              | 18 701              | -             | -                  | -            | 18 701         |
| Austria             | -                   | -             | 10 041             | -            | 10 041         |
| Slovak Republic     | 5 927               | 9 988         | 5 061              | -            | 20 976         |
| Slovenia            | 8 610               | -             | -                  | -            | 8 610          |
| USA                 | -                   | 25 576        | -                  | -            | 25 576         |
| Sweden              | -                   | -             | 5 391              | -            | 5 391          |
| Italy               | 14 478              | 3 108         | -                  | -            | 17 586         |
| United Kingdom      | -                   | 5 256         | -                  | -            | 5 256          |
| <b>Total, gross</b> | <b>53 269</b>       | <b>43 928</b> | <b>25 770</b>      | <b>2 937</b> | <b>125 904</b> |
| Provisions (Note 7) | -                   | (75)          | (55)               | (2)          | (132)          |
| <b>Total, net</b>   | <b>53 269</b>       | <b>43 853</b> | <b>25 715</b>      | <b>2 935</b> | <b>125 772</b> |

The total volume of securities measured through other comprehensive income is at Stage 1 in accordance with IFRS 9.

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**Prepared in accordance with International Financial Reporting Standards,**  
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Breakdown of securities at fair value through other comprehensive income per type of security and issuer's country as at 1 January 2018:

| EUR '000            | Government    |               | Corporate     |              | Trust units | Total          |
|---------------------|---------------|---------------|---------------|--------------|-------------|----------------|
|                     | bonds         | Bank bonds    | bonds         |              |             |                |
| Czech Republic      | 5 761         | -             | 2 622         | -            | -           | 8 383          |
| France              | -             | -             | 11 510        | -            | -           | 11 510         |
| Ireland             | -             | -             | 5 524         | 3 154        | -           | 8 678          |
| Lithuania           | 10 486        | -             | -             | -            | -           | 10 486         |
| Germany             | -             | 15 183        | -             | -            | -           | 15 183         |
| Poland              | 19 080        | -             | -             | -            | -           | 19 080         |
| Austria             | -             | 15 238        | -             | -            | -           | 15 238         |
| Slovak Republic     | -             | 4 951         | 18 542        | -            | -           | 23 493         |
| USA                 | -             | 29 228        | -             | -            | -           | 29 228         |
| Sweden              | -             | -             | 8 492         | -            | -           | 8 492          |
| Italy               | 10 688        | 3 216         | -             | -            | -           | 13 904         |
| United Kingdom      | -             | 5 311         | -             | -            | -           | 5 311          |
| <b>Total, gross</b> | <b>46 015</b> | <b>73 127</b> | <b>46 690</b> | <b>3 154</b> |             | <b>168 986</b> |
| Provisions (Note 7) | -             | (90)          | (87)          | (5)          |             | (182)          |
| <b>Total, net</b>   | <b>46 015</b> | <b>73 037</b> | <b>46 603</b> | <b>3 149</b> |             | <b>168 804</b> |

Breakdown of securities at fair value through other comprehensive income per type of security and issuer's country as at 31 December 2017:

| EUR '000        | Government    |               | Corporate     |              | Shares | Total          |
|-----------------|---------------|---------------|---------------|--------------|--------|----------------|
|                 | bonds         | Bank bonds    | bonds         | Trust units  |        |                |
| Czech Republic  | 5 761         | -             | 2 622         | -            | -      | 8 383          |
| France          | -             | -             | 11 510        | -            | -      | 11 510         |
| Ireland         | -             | -             | 5 524         | 3 154        | -      | 8 678          |
| Lithuania       | 10 486        | -             | -             | -            | -      | 10 486         |
| Germany         | -             | 15 183        | -             | -            | -      | 15 183         |
| Poland          | 19 080        | -             | -             | -            | -      | 19 080         |
| Austria         | -             | 15 238        | -             | -            | -      | 15 238         |
| Slovak Republic | -             | 4 951         | 18 542        | -            | -      | 23 493         |
| USA             | -             | 29 228        | -             | -            | -      | 29 228         |
| Sweden          | -             | -             | 8 492         | -            | -      | 8 492          |
| Italy           | 10 688        | 3 216         | -             | -            | -      | 13 904         |
| United Kingdom  | -             | 5 311         | -             | -            | -      | 5 311          |
| <b>Total</b>    | <b>46 015</b> | <b>73 127</b> | <b>46 690</b> | <b>3 154</b> | -      | <b>168 986</b> |

The method for determining the fair value of securities measured at fair value through other comprehensive income is described in Note 42.

In connection with the transfer of securities from the "Securities at fair value through other comprehensive income" portfolio to the "Securities at amortised cost" portfolio in 2011 as at 31 December 2018, the Bank continues to recognise in equity revaluation reserves from securities at fair value through other comprehensive income in the amount of EUR 14 thousand (loss), which will be amortised in the income statement until the maturity of these securities (2017: a loss of EUR 19 thousand). In 2018, a loss of EUR 5 thousand (2017: a loss of EUR 5 thousand) was amortised in the Income Statement line "Interest income and similar income".

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

| EUR'000                  | 2018          | 2017          |
|--------------------------|---------------|---------------|
| Bank bonds domestic      | 9 973         | -             |
| Bank bonds foreign       | 6 287         | 60 579        |
| Corporate bonds domestic | -             | 8 217         |
| Corporate bonds foreign  | 12 632        | 20 124        |
| <b>Total</b>             | <b>28 892</b> | <b>88 920</b> |

The National Bank of Slovakia is responsible for depositing, uploading and withdrawing individual collateral from the pooling account held with the National Bank of Slovakia.

If, over the period when the debt security is deposited on the pooling account, income on such a debt security is paid in favour of the National Bank of Slovakia, Privatbanka is entitled to a cash amount after making all mandatory deductions in accordance with the applicable legislation.

Securities in pooling are provided as collateral for refinancing transactions with the NBS and loans from the ECB (see Note 13).

## 9. SECURITIES AT AMORTISED COST

Breakdown of securities at amortised cost per type of security and issuer's country as at 31 December 2018:

| EUR'000             | Government    |               |                 | Total         |
|---------------------|---------------|---------------|-----------------|---------------|
|                     | bonds         | Bank bonds    | Corporate bonds |               |
| Czech Republic      | 8 790         | -             | -               | <b>8 790</b>  |
| Netherlands         | -             | 1 506         | -               | <b>1 506</b>  |
| Hungary             | -             | -             | 10 093          | <b>10 093</b> |
| Poland              | 8 116         | -             | -               | <b>8 116</b>  |
| Austria             | -             | 2 493         | -               | <b>2 493</b>  |
| Slovak Republic     | 33 855        | 11 775        | -               | <b>45 630</b> |
| Slovenia            | 3 075         | -             | -               | <b>3 075</b>  |
| Italy               | 11 330        | -             | -               | <b>11 330</b> |
| <b>Total, gross</b> | <b>65 166</b> | <b>15 774</b> | <b>10 093</b>   | <b>91 033</b> |
| Provisions (Note 7) | -             | (20)          | (6)             | <b>(26)</b>   |
| <b>Total, net</b>   | <b>65 166</b> | <b>15 754</b> | <b>10 087</b>   | <b>91 007</b> |

The total volume of securities at amortised cost is at Stage 1 in accordance with IFRS 9.

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Breakdown of securities at amortised cost per type of security and issuer's country as at 1 January 2018:

| EUR'000             | Government<br>bonds | Bank bonds | Corporate bonds | Total         |
|---------------------|---------------------|------------|-----------------|---------------|
| Hungary             | -                   | -          | 10 073          | 10 073        |
| Poland              | 8 057               | -          | -               | 8 057         |
| Slovak Republic     | 18 346              | -          | -               | 18 346        |
| Italy               | 21 780              | -          | -               | 21 780        |
| <b>Total, gross</b> | <b>48 183</b>       | -          | <b>10 073</b>   | <b>58 256</b> |
| Provisions (Note 7) | -                   | -          | (7)             | (7)           |
| <b>Total, net</b>   | <b>48 183</b>       | -          | <b>10 066</b>   | <b>58 249</b> |

Breakdown of securities at amortised cost per type of security and issuer's country as at 31 December 2017:

| EUR '000        | Government<br>bonds | Bank bonds | Corporate<br>bonds | Total         |
|-----------------|---------------------|------------|--------------------|---------------|
| Hungary         | -                   | -          | 10 073             | 10 073        |
| Poland          | 8 057               | -          | -                  | 8 057         |
| Slovak Republic | 18 346              | -          | -                  | 18 346        |
| Italy           | 21 780              | -          | -                  | 21 780        |
| <b>Total</b>    | <b>48 183</b>       | -          | <b>10 073</b>      | <b>58 256</b> |

As at 31 December 2018, the Bank's portfolio of securities at amortised cost included domestic government bonds at an amortised cost of EUR 2 041 thousand (2017: EUR 2 039 thousand) provided as collateral to a local bank.

The structure of securities provided as collateral for pooling to the National Bank of Slovakia and loans from the ECB (see Note 13) is as follows:

| EUR'000                   | 2018          | 2017          |
|---------------------------|---------------|---------------|
| Bank bonds domestic       | 11 760        | -             |
| Bank bonds foreign        | 3 994         | -             |
| Government bonds domestic | 15 688        | 13 359        |
| Government bonds foreign  | 6 537         | 975           |
| Corporate bonds foreign   | 10 087        | 10 074        |
| <b>Total</b>              | <b>48 066</b> | <b>24 408</b> |

## 10. INVESTMENTS IN SUBSIDIARIES

| Name                  | Registered office | Share in the<br>registered<br>capital<br>EUR '000 | Share in the<br>reserve fund<br>EUR '000 | Share in the<br>registered<br>capital<br>(%) | Carrying<br>amount<br>EUR '000 |
|-----------------------|-------------------|---|--|--|--------------------------------|
| <b>At 31 Dec 2018</b> |                   |   |  |  |                                |
| Privatfin, s.r.o.     | Bratislava        | 6,7   | 0,3                                      | 100  | 7                              |
| <b>At 31 Dec 2017</b> |                   |   |  |  |                                |
| Privatfin, s.r.o.     | Bratislava        | 6,7   | 0,3                                      | 100  | 7                              |

**11. TANGIBLE AND INTANGIBLE ASSETS**
**a) Changes in tangible and intangible assets as at 31 December 2018**

| EUR '000                        | Tangible assets |                                   |                |                                |                                      | Intangible assets |                      |                                  |  | Total          |
|---------------------------------|-----------------|-----------------------------------|----------------|--------------------------------|--------------------------------------|-------------------|----------------------|----------------------------------|--|----------------|
|                                 | Buildings       | Furniture, fittings and equipment | Motor vehicles | Acquisition of tangible assets | Prepayments made for tangible assets | Software          | Patents and licences | Acquisition of intangible assets | Prepayments made for intangible assets |                |
| <b>Cost</b>                     |                 |                                   |                |                                |                                      |                   |                      |                                  |  |                |
| At 1 Jan 2018                   | 640             | 3 232                             | 227            | 4                              | -                                    | 4 758             | 71                   | 16                               | -                                      | <b>8 948</b>   |
| Additions                       | 80              | 147                               | -              | 233                            | -                                    | 134               | 3                    | 123                              | -                                      | <b>720</b>     |
| Disposals                       | (4)             | (421)                             | (20)           | (227)                          | -                                    | (24)              | -                    | (136)                            | -                                      | <b>(832)</b>   |
| At 31 Dec 2018                  | 716             | 2 958                             | 207            | 10                             | -                                    | 4 868             | 74                   | 3                                | -                                      | <b>8 836</b>   |
| <b>Accumulated depreciation</b> |                 |                                   |                |                                |                                      |                   |                      |                                  |  |                |
| At 1 Jan 2018                   | (224)           | (2 939)                           | (206)          | -                              | -                                    | (4 420)           | (71)                 | -                                | -                                      | <b>(7 860)</b> |
| Depreciation and amortisation   | (34)            | (174)                             | (8)            | -                              | -                                    | (153)             | (3)                  | -                                | -                                      | <b>(372)</b>   |
| Disposals                       | 2               | 420                               | 20             | -                              | -                                    | 23                | -                    | -                                | -                                      | <b>465</b>     |
| At 31 Dec 2018                  | (256)           | (2 693)                           | (194)          | -                              | -                                    | (4 550)           | (74)                 | -                                | -                                      | <b>(7 767)</b> |
| <b>Net book value</b>           |                 |                                   |                |                                |                                      |                   |                      |                                  |  |                |
| At 31 Dec 2018                  | <b>460</b>      | <b>265</b>                        | <b>13</b>      | <b>10</b>                      | <b>-</b>                             | <b>318</b>        | <b>-</b>             | <b>3</b>                         | <b>-</b>                               | <b>1 069</b>   |

**b) Changes in tangible and intangible assets as at 31 December 2017**

| EUR '000                        | Tangible assets |                                   |                |                                |                                      | Intangible assets |                      |                                  |  | Total          |
|---------------------------------|-----------------|-----------------------------------|----------------|--------------------------------|--------------------------------------|-------------------|----------------------|----------------------------------|--|----------------|
|                                 | Buildings       | Furniture, fittings and equipment | Motor vehicles | Acquisition of tangible assets | Prepayments made for tangible assets | Software          | Patents and licences | Acquisition of intangible assets | Prepayments made for intangible assets |                |
| <b>Cost</b>                     |                 |                                   |                |                                |                                      |                   |                      |                                  |  |                |
| At 1 Jan 2017                   | 581             | 3 162                             | 227            | -                              | -                                    | 4 663             | 65                   | 2                                | -                                      | <b>8 700</b>   |
| Additions                       | 59              | 149                               | -              | 212                            | -                                    | 99                | 6                    | 111                              | -                                      | <b>636</b>     |
| Disposals                       | -               | (79)                              | -              | (208)                          | -                                    | (4)               | -                    | (97)                             | -                                      | <b>(388)</b>   |
| At 31 Dec 2017                  | 640             | 3 232                             | 227            | 4                              | -                                    | 4 758             | 71                   | 16                               | -                                      | <b>8 948</b>   |
| <b>Accumulated depreciation</b> |                 |                                   |                |                                |                                      |                   |                      |                                  |  |                |
| At 1 Jan 2017                   | (198)           | (2 808)                           | (193)          | -                              | -                                    | (4 259)           | (65)                 | -                                | -                                      | <b>(7 523)</b> |
| Depreciation and amortisation   | (26)            | (210)                             | (13)           | -                              | -                                    | (165)             | (6)                  | -                                | -                                      | <b>(420)</b>   |
| Disposals                       | -               | 79                                | -              | -                              | -                                    | 4                 | -                    | -                                | -                                      | <b>83</b>      |
| At 31 Dec 2017                  | (224)           | (2 939)                           | (206)          | -                              | -                                    | (4 420)           | (71)                 | -                                | -                                      | <b>(7 860)</b> |
| <b>Net book value</b>           |                 |                                   |                |                                |                                      |                   |                      |                                  |  |                |
| At 31 Dec 2017                  | <b>416</b>      | <b>293</b>                        | <b>21</b>      | <b>4</b>                       | <b>-</b>                             | <b>338</b>        | <b>-</b>             | <b>16</b>                        | <b>-</b>                               | <b>1 088</b>   |

**c) Insurance of assets**

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

**12. OTHER ASSETS**

| EUR '000   | 2018         | 2017         |
|--|--------------|--------------|
| Positive fair value of derivatives for trading (Note 24) | 54           | 100          |
| Other debtors  | 2 102        | 2 013        |
| Operating advance payments made                          | 240          | 225          |
| Inventory  | 16           | 15           |
| Deferred expenses  | 160          | 155          |
| Other receivables from customers                         | 1            | -            |
| Other  | 4            | -            |
| <b>Total other assets, gross</b>                         | <b>2 577</b> | <b>2 508</b> |
| Provisions for other debtors (Note 7)                    | (26)         | (53)         |
| <b>Total other assets, net</b>                           | <b>2 551</b> | <b>2 455</b> |

**13. DUE TO BANKS**

| EUR '000                     | 2018          | 2017          |
|------------------------------|---------------|---------------|
| Loan received from the ECB   | 55 916        | 72 588        |
| Term deposits of other banks | 16 005        | 19 007        |
| Other liabilities            | -             | 1             |
| <b>Total due to banks</b>    | <b>71 921</b> | <b>91 596</b> |

All payables due to banks are within maturity.

As at 31 December 2018, loans received from the ECB comprise a loan of EUR 30 000 thousand due in June 2020 and a loan of EUR 26 410 thousand due in March 2021. These loans are secured by securities at the fair value of EUR 28 892 thousand (31 December 2017: EUR 88 920 thousand), which are disclosed in the Statement of Financial Position as "Securities at fair value through other comprehensive income", and securities at amortised cost of EUR 48 066 thousand (31 December 2017: EUR 24 408 thousand), which are disclosed in the Statement of Financial Position as "Securities at amortised cost".

#### 14. DEPOSITS FROM CUSTOMERS

##### (a) Breakdown of deposits from customers per type

| EUR '000                             | 2018           | 2017           |
|--------------------------------------|----------------|----------------|
| Current accounts                     | 149 423        | 142 640        |
| Term deposits                        | 397 870        | 320 697        |
| Savings deposits                     | 204            | 215            |
| Other                                | 140            | 206            |
| <b>Total deposits from customers</b> | <b>547 637</b> | <b>463 758</b> |

As at 31 December 2018, the 15 largest clients accounted for 12.9% of the total deposits from customers, which represents the amount of EUR 70 543 thousand (2017: 11.2%, EUR 51 997 thousand).

A portion of the deposits from customers comprises payables to related parties. Their share of the total deposits from customers as at 31 December 2018 represented 5.3%, totalling EUR 29 097 thousand (2017: 5.5%, EUR 25 497 thousand). Additional information on exposures to related parties is described in Note 35.

All deposits from customers are within maturity.

##### (b) Breakdown of deposits from customers by sector

| EUR'000                              | 2018           | 2017           |
|--------------------------------------|----------------|----------------|
| <b>Residents</b>                     |                |                |
| Financial institutions               | 25 814         | 12 786         |
| Non-financial institutions           | 38 665         | 34 915         |
| Public administration                | 19 311         | 6 484          |
| Non-profit organisations             | 4 997          | 4 130          |
| Self-employed                        | 8 231          | 829            |
| Individuals                          | 363 297        | 354 800        |
| <b>Non-residents</b>                 |                |                |
| Financial institutions               | 4 638          | 5 373          |
| Non-financial institutions           | 22 629         | 27 846         |
| Non-profit organisations             | 169            | 128            |
| Self-employed                        | 3              | 10             |
| Individuals                          | 59 883         | 16 457         |
| <b>Total deposits from customers</b> | <b>547 637</b> | <b>463 758</b> |

**15. DEBT SECURITIES ISSUED**
**(a) Breakdown of debt securities issued according to type**

| EUR '000                            | 2018          | 2017          |
|-------------------------------------|---------------|---------------|
| Coupon bonds                        | 14 378        | 18 045        |
| <b>Total debt securities issued</b> | <b>14 378</b> | <b>18 045</b> |

All payables under the debt securities issued are within maturity.

**(b) Summary of bonds issued**

| EUR'000                             | Date of issue | Maturity of issue | Effective interest rate | Face value 2018 | Face value 2017 |
|-------------------------------------|---------------|-------------------|-------------------------|-----------------|-----------------|
| Bond 18 - 2.00% 20180521            | 05/2015       | 05/2018           | 2,00%                   | -               | 3 354           |
| Bond 19 - 1.30% 20200724            | 07/2017       | 07/2020           | 1,30%                   | 3 473           | 5 000           |
| Bond 20 - 1.30% 20200918            | 09/2017       | 09/2020           | 1,30%                   | -               | 1 656           |
| Bond 21 - 1.30% 20200918            | 09/2017       | 09/2020           | 1,30%                   | 2 018           | 963             |
| Bond 22 - 0.75% 20190918            | 09/2017       | 09/2019           | 0,75%                   | 6 998           | 7 049           |
| Bond 23 - 2.00% 20200416            | 04/2018       | 10/2020           | 2,00%                   | 1 870           | -               |
| <b>Total face value</b>             |               |                   |                         | <b>14 359</b>   | <b>18 022</b>   |
| Accrued interest                    |               |                   |                         | 19              | 23              |
| <b>Total debt securities issued</b> |               |                   |                         | <b>14 378</b>   | <b>18 045</b>   |

The issued bonds are bearer bonds and all bonds were issued as book-entry securities. Bonds, other than Privatbanka 18, Privatbanka 20 and Privatbanka 21 bonds, were not issued in a public offering. Bonds were not accepted at the listed securities market or any other stock market.

On 16 April 2018, the Bank issued Privatbanka 23 bonds (ISIN: SK4120013996) with a face value of EUR 1 thousand, and the total issue amounted to EUR 5 000 thousand. Yields on the bonds are paid on a quarterly basis and are set at a fixed interest rate of 2.00% p.a. of the bond's face value. The bonds are due on 16 October 2020. As at 31 December 2018, the Bank had sold 1 870 units of Privatbanka 23 bonds with a total face value of EUR 1 870 thousand. No request to accept the bonds on a stock exchange in the Slovak Republic or abroad will be filed for the above bonds.

On 21 May 2018, the Bank repaid the face value of 2 041 units of Privatbanka 18 bonds (ISIN: SK4120010679) totalling EUR 2 041 thousand.

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

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

| EUR '000                            | 2018          | 2017          |
|-------------------------------------|---------------|---------------|
| <b>Residents</b>                    |               |               |
| Non-financial institutions          | 1 619         | 3 563         |
| Public administration               | -             | 200           |
| Non-profit organisations            | 48            | 45            |
| Individuals                         | 5 632         | 7 123         |
| <b>Non-residents</b>                |               |               |
| Non-profit organisations            | 6 999         | 7 051         |
| Individuals                         | 80            | 63            |
| <b>Total debt securities issued</b> | <b>14 378</b> | <b>18 045</b> |

**16. CURRENT TAX LIABILITY**

| EUR'000         | 2018       | 2017      |
|-----------------|------------|-----------|
| Tax prepayments | (2 418)    | (2 413)   |
| Current tax     | 2 882      | 2 441     |
| <b>Total</b>    | <b>464</b> | <b>28</b> |

**17. DEFERRED TAX LIABILITY**

Deferred tax assets and liabilities are as follows:

| EUR'000                                 | Assets     |            | Liabilities |            | Net        |            |
|---|------------|------------|-------------|------------|------------|------------|
|   | 12/31/2018 | 12/31/2017 | 12/31/2018  | 12/31/2017 | 12/31/2018 | 12/31/2017 |
| Tangible and intangible assets          | -          | -          | 3           | 6          | 3          | 6          |
| Securities -<br>remeasurement in equity | -          | -          | 13          | 604        | 13         | 604        |
| <b>Total</b>                            | <b>-</b>   | <b>-</b>   | <b>16</b>   | <b>610</b> | <b>16</b>  | <b>610</b> |

The deferred tax assets and liabilities have been calculated using the corporate income tax rate of 21% (2017: 21%).

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

The Bank does not expect to realise benefits from tax non-deductible provisions for impairment losses in the future. Therefore, as at 31 December 2018 the Bank did not recognise a deferred income tax asset of EUR 3 306 thousand arising from tax non-deductible provisions for impairment losses (2017: 3 002 thousand EUR).

As at 31 December 2018, the Bank does not recognise a deferred tax asset relating to provisions for bonuses of the Bank's employees and management in the amount of EUR 302 thousand (2017: EUR 249 thousand) and for other provisions for liabilities in the amount of EUR 148 thousand (2017: EUR 128 thousand).

## 18. OTHER LIABILITIES

| EUR'000  | 2018         | 2017         |
|--|--------------|--------------|
| Negative fair value of derivatives for trading (Note 24)         | 97           | 5            |
| Negative fair value of derivatives to hedge fair value (Note 24) | -            | 71           |
| Various creditors  | 298          | 344          |
| Settlement with employees  | 328          | 321          |
| Social fund  | 19           | 19           |
| Payables to the state budget                                     | 1 192        | 1 178        |
| Payables to social and health insurance companies                | 216          | 209          |
| Deferred income  | 76           | 65           |
| Accrued expenses   | 2 417        | 2 072        |
| Other amounts due to customers                                   | 489          | 1 507        |
| Other  | 1            | 6            |
| <b>Total other liabilities</b>                                   | <b>5 133</b> | <b>5 797</b> |

Movements in the social fund:

| EUR '000               | 2018 |
|------------------------|------|
| Balance at 31 Dec 2017 | 19   |
| Creation               | 66   |
| Drawing                | (66) |
| Balance at 31 Dec 2018 | 19   |

## 19. SHARE CAPITAL, CAPITAL RESERVES FROM PROFIT AND REVALUATION RESERVES

### Share capital

| EUR '000  | 2018          | 2017          |
|---|---------------|---------------|
| Issued and fully paid share capital:  |               |               |
| 756 874 ordinary shares (ISIN SK1110001619 with a face value of EUR 33.19 each) | <b>25 121</b> | <b>25 121</b> |

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

The structure of the Bank's shareholders as at 31 December 2018 and 31 December 2017:

| Sharholder             | Registered office | No. of shares<br>(face value) | Share in the<br>registered capital (%) | Share in voting<br>rights (%) |
|------------------------|-------------------|-------------------------------|--|-------------------------------|
| Penta Investments Ltd. | Limassol          | 25 121                        | 100,00                                 | 100,00                        |
| <b>Total</b>           |                   | <b>25 121</b>                 | <b>100,00</b>                          | <b>100,00</b>                 |

### Legal reserve fund

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

### Accumulated other comprehensive income from securities, including deferred tax

Accumulated other comprehensive income from securities, including deferred tax represents unrealised revaluation of securities at fair value through other comprehensive income and securities reclassified to the "Securities at amortised cost" portfolio. The revaluation reserves are recognised net of deferred tax effect. Such revaluation reserves are not available for distribution to the shareholder.

## 20. PROPOSAL FOR DISTRIBUTION OF 2018 PROFIT

| EUR '000   | 2018         |
|--|--------------|
| Allotment to retained earnings                     | 8 430        |
| <b>Net profit for the current reporting period</b> | <b>8 430</b> |

**21. TAX REVENUE/(EXPENSE)**

| EUR '000                                  | 2018           | 2017           |
|---|----------------|----------------|
| Current income tax                        | (2 908)        | (2 441)        |
| Deferred tax due to temporary differences | 4              | 4              |
| <b>Total</b>                              | <b>(2 904)</b> | <b>(2 437)</b> |

**22. RECONCILIATION OF THEORETICAL AND RECORDED INCOME TAX**

|   | 2018               |                 | Impact on tax |
|---|--------------------|-----------------|---------------|
|   | Balance (EUR '000) | Applicable rate |               |
| Theoretical tax base  | 11 334             | 21%             | 2 380         |
| Permanent non-deductible differences  | 772                | 21%             | 162           |
| Permanent deductible differences  | -                  | 21%             | -             |
| Tax losses carried forward - previously unrecognised deferred tax asset   | -                  | 21%             | -             |
| Unrecognised deferred tax asset - other   | 302                | 21%             | 63            |
| Unrecognised deferred tax asset owing to temporary differences, utilisation of which is uncertain in the future | 1 416              | 21%             | 298           |
| Impact of a change of the tax rate  |                    |                 | -             |
| <b>Adjusted tax</b>   |                    |                 | <b>2 903</b>  |
| <b>Effective tax expense</b>  |                    |                 | <b>-</b>      |

|   | 2017               |                 | Impact on tax |
|---|--------------------|-----------------|---------------|
|   | Balance (EUR '000) | Applicable rate |               |
| Theoretical tax base  | 11 873             | 21%             | 2 493         |
| Permanent non-deductible differences  | 406                | 21%             | 85            |
| Permanent deductible differences  | -                  | 21%             | -             |
| Tax losses carried forward - previously unrecognised deferred tax asset   | -                  | 21%             | -             |
| Unrecognised deferred tax asset - other   | (453)              | 21%             | (95)          |
| Unrecognised deferred tax asset owing to temporary differences, utilisation of which is uncertain in the future | (92)               | 21%             | (19)          |
| Impact of a change of the tax rate  |                    |                 | (27)          |
| <b>Adjusted tax</b>   |                    |                 | <b>2 437</b>  |
| <b>Effective tax expense</b>  |                    |                 | <b>2 437</b>  |

**23. OFF-BALANCE SHEET ITEMS**

| EUR '000   | Off-balance sheet assets | 2018    | 2017    |
|--|--------------------------|---------|---------|
| 1. Receivables from spot transactions with currency instruments:           |                          | -       | 2 800   |
| 2. Receivables from futures, forwards and swaps with currency instruments: |                          | 14 401  | 8 624   |
| 3. Received collaterals:   |                          | 222 873 | 193 850 |
| a) Immovables  |                          | 128 743 | 106 021 |
| b) Cash  |                          | 15 292  | 11 183  |
| c) Securites   |                          | 25 933  | 37 109  |
| d) Other   |                          | 52 905  | 39 537  |

| EUR '000   | Off-balance sheet liabilities | 2018   | 2017    |
|--|-------------------------------|--------|---------|
| 1. Unused credit facilities                                      |                               | 25 818 | 29 365  |
| 2. Issued guarantees   |                               | 7 160  | 3 608   |
| 3. Liabilities from spot transactions with currency instruments: |                               | -      | 2 806   |
| 4. Liabilities from futures, forwards and swaps:                 |                               | 14 445 | 8 600   |
| a) With interest rate instruments                                |                               | -      | 71      |
| b) With currency instruments                                     |                               | 14 445 | 8 529   |
| 5. Securities provided as collateral                             |                               | 78 999 | 115 367 |

The whole amount of undrawn loan facilities and provided guarantees in 2018 and 2017 represents irrevocable commitments.

**24. FINANCIAL DERIVATIVES**

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

| 2018<br>EUR '000                   | Face value in off-balance sheet |               | Fair value |             | Net fair value |
|------------------------------------|---------------------------------|---------------|------------|-------------|----------------|
|                                    | Receivable                      | Payable       | Positive   | Negative    |                |
| Currency swaps for trading         | 14 272                          | 14 319        | 54         | (96)        | (42)           |
| Currency forwards for trading      | 132                             | 133           | -          | (1)         | (1)            |
| <b>Total financial derivatives</b> | <b>14 404</b>                   | <b>14 452</b> | <b>54</b>  | <b>(97)</b> | <b>(43)</b>    |

| 2017<br>EUR '000                        | Face value in off-balance sheet |               | Fair value |             | Net fair value |
|---|---------------------------------|---------------|------------|-------------|----------------|
|   | Receivable                      | Payable       | Positive   | Negative    |                |
| Currency swaps for trading              | 7 899                           | 7 804         | 100        | (4)         | 96             |
| Currency forwards for trading           | 725                             | 725           | -          | (1)         | (1)            |
| Interest rate swaps to hedge fair value | 7 000                           | 7 000         | -          | (71)        | (71)           |
| <b>Total financial derivatives</b>      | <b>15 624</b>                   | <b>15 529</b> | <b>100</b> | <b>(76)</b> | <b>24</b>      |

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The positive fair value of derivatives as at 31 December 2018 in the amount of EUR 54 thousand (2017: EUR 100 thousand) is recognised in "Other assets" (Note 12). The negative fair value of derivatives as at 31 December 2018 in the amount of EUR 97 thousand (2017: EUR 76 thousand) is recognised in "Other liabilities" (Note 18).

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2018 is as follows:

| EUR '000                      | Within 1 month | 1 to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total         |
|-------------------------------|----------------|---------------|--------------------|-------------------|--------------|---------------|
| Currency swaps for trading    | 13 385         | 712           | 175                | -                 | -            | 14 272        |
| Currency forwards for trading | 132            | -             | -                  | -                 | -            | 132           |
| <b>Total receivables</b>      | <b>13 517</b>  | <b>712</b>    | <b>175</b>         | -                 | -            | <b>14 404</b> |
| Currency swaps for trading    | 13 336         | 806           | 177                | -                 | -            | 14 319        |
| Currency forwards for trading | 133            | -             | -                  | -                 | -            | 133           |
| <b>Total payables</b>         | <b>13 469</b>  | <b>806</b>    | <b>177</b>         | -                 | -            | <b>14 452</b> |

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2017 is as follows:

| EUR '000                                | Within 1 month | 1 to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total         |
|---|----------------|---------------|--------------------|-------------------|--------------|---------------|
| Currency swaps for trading              | 7,231          | 489           | 179                | -                 | -            | 7,899         |
| Currency forwards for trading           | -              | -             | 725                | -                 | -            | 725           |
| Interest rate swaps to hedge fair value | -              | 7,000         | -                  | -                 | -            | 7,000         |
| <b>Total receivables</b>                | <b>7,231</b>   | <b>7,489</b>  | <b>904</b>         | -                 | -            | <b>15,624</b> |
| Currency swaps for trading              | 7,206          | 419           | 179                | -                 | -            | 7,804         |
| Currency forwards for trading           | -              | -             | 725                | -                 | -            | 725           |
| Interest rate swaps to hedge fair value | -              | 7,000         | -                  | -                 | -            | 7,000         |
| <b>Total payables</b>                   | <b>7,206</b>   | <b>7,419</b>  | <b>904</b>         | -                 | -            | <b>15,529</b> |

## 25. INTEREST INCOME AND SIMILAR INCOME

| EUR'000  | 2018          | 2017          |
|--|---------------|---------------|
| Interest income on loans and advances to banks and central banks and amounts due to banks and central bank | 615           | 24            |
| Interest income on customers' current accounts   | 582           | 467           |
| Interest income on loans to customers  | 13 670        | 12 590        |
| Interest income on securities at fair value through other comprehensive income                             | 2 035         | 2 723         |
| Interest income on securities at amortised cost  | 1 308         | 1 336         |
| Interest rate swaps  | 72            | 63            |
| <b>Total interest income and similar income</b>  | <b>18 282</b> | <b>17 203</b> |

**26. INTEREST EXPENSE AND SIMILAR EXPENSE**

| EUR '000  | 2018         | 2017         |
|---|--------------|--------------|
| Interest expense from amounts due to banks        | 337          | 277          |
| Interest expense from customers' current accounts | 239          | 246          |
| Interest expense from customers' term deposits    | 3,983        | 4,655        |
| Interest expense from customers' savings deposits | 5            | 6            |
| Interest expense from debt securities             | 184          | 251          |
| Interest expense from loans                       | -            | 16           |
| Interest rate swaps                               | 71           | 194          |
| <b>Total interest expense and similar expense</b> | <b>4,819</b> | <b>5,645</b> |

**27. FEE AND COMMISSION INCOME**

| EUR '000                               | 2018          | 2017          |
|--|---------------|---------------|
| For the following areas:               |               |               |
| Loans                                  | 208           | 225           |
| Payments                               | 81            | 67            |
| Itemised fees                          | 236           | 229           |
| Securities trading                     | 11 131        | 10 703        |
| Portfolio management                   | 708           | 879           |
| Other                                  | 44            | 48            |
| <b>Total fee and commission income</b> | <b>12 408</b> | <b>12 151</b> |

**28. FEE AND COMMISSION EXPENSE**

| EUR '000                                | 2018       | 2017       |
|---|------------|------------|
| For the following areas:                |            |            |
| Payments                                | 256        | 257        |
| Interbank transactions                  | 27         | 29         |
| Securities trading                      | 385        | 299        |
| Intermediation                          | 140        | 27         |
| <b>Total fee and commission expense</b> | <b>808</b> | <b>612</b> |

**29. TRADING PROFIT**

| EUR '000  | 2018       | 2017       |
|---|------------|------------|
| Realised profit/loss from transactions with debt securities (measured at fair value through other comprehensive income) | 186        | 209        |
| Profit/loss from shares and trust units (measured at fair value through other comprehensive income)                     | 108        | 88         |
| Profit/loss from derivative transactions  | (139)      | 203        |
| Profit/loss from FX transactions  | 262        | (7)        |
| <b>Total trading profit</b>   | <b>417</b> | <b>493</b> |

**30. GENERAL OPERATING EXPENSES**

| EUR '000  | 2018          | 2017          |
|---|---------------|---------------|
| Wages, salaries and social security payments                          | 7 782         | 6 959         |
| Other general operating expenses                                      | 4 990         | 4 270         |
| Of which: Costs of auditing financial statements                      | 87            | 67            |
| Assurance audit services other than the audit of financial statements | 29            | 21            |
| Other non-audit services  | 7             | 8             |
| Contributions to the Deposits Protection Fund                         | 37            | 35            |
| Special levy of financial institutions                                | 1 197         | 1 130         |
| Contribution to the Resolution Fund                                   | 41            | 38            |
| Rent  | 788           | 781           |
| Energy  | 162           | 178           |
| Advertising costs   | 167           | 140           |
| IT systems  | 372           | 352           |
| Training and education  | 50            | 43            |
| Car maintenance and fuel  | 50            | 45            |
| Membership fees   | 358           | 306           |
| Other services  | 1 079         | 979           |
| Other operating expenses  | 566           | 147           |
| <b>Total general operating expenses</b>                               | <b>12 772</b> | <b>11 229</b> |

The average number of employees in 4Q of 2018 was 194 (2017: 183). The number of employees as at 31 December 2018 was 192 (2017: 186). The number of members of management as at 31 December 2018 was 6 (2017: 6).

Non-audit services and related audit services include: audit of the Bank's prudential reports, preparation of the long-form auditor's report, a review of measures of the securities trader for the NBS, information system security review, verification of financial information on targeted long-term refinancing transactions, consulting services related to MIFID II and IFRS 9.

As of 1 January 2012, banks and branches of foreign banks in Slovakia are obliged to pay a special levy (the so-called bank tax) pursuant to Act No. 384/2011 Coll. on Special Levy of Selected Financial Institutions and on Amendment to and Supplementation of Certain Acts (hereinafter the "Special Levy Act"). The banks and branches of foreign banks are obliged to pay a special levy in four quarterly instalments in the amount of one fourth of the annual rate (current annual rate: 0.2% (2017: 0.2%)) of the amount of the Bank's liabilities defined in the Special Levy Act.

The banks' obligation to pay an annual contribution to the Deposit Protection Fund arises from the provision of Article 5 (1b) of Act of the National Council of the Slovak Republic No. 118/1996 Coll. on the Protection of Bank Deposits and on Amendment to and Supplementation of Certain Acts, as amended.

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

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

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

| EUR '000  | 2018         | 2017         |
|---|--------------|--------------|
| (Creation) of provisions for receivables (Note 7) | (17 010)     | (15 959)     |
| Release of provisions for receivables (Note 7)    | 16 106       | 16 051       |
| Written-off receivables, gross                    | (19)         | (31)         |
| Net book value of the assigned receivables        | (105)        | -            |
| Expense for/income from the assigned receivables  | 97           | (461)        |
| <b>Total</b>                                      | <b>(931)</b> | <b>(400)</b> |

**32. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES**

| EUR '000   | 2018          | 2017          |
|--|---------------|---------------|
| Profit before income taxes   | 11 334        | 11 873        |
| Adjustments for non-cash transactions:   |               |               |
| Interest income  | (18 282)      | (17 203)      |
| Interest expense   | 4 819         | 5 645         |
| Revaluation of derivatives measured at fair value through other comprehensive income | 139           | (202)         |
| Depreciation/amortisation of tangible and intangible assets                          | 372           | 420           |
| Provisions for receivables, write-off of and assignment of receivables               | 931           | 400           |
| (Profit)/loss from modifications   | 82            | -             |
| Provisions for securities  | (32)          | -             |
| Creation/(Release) of provisions for liabilities                                     | 26            | (331)         |
| <b>Total before interest received/(paid)</b>   | <b>(611)</b>  | <b>602</b>    |
| Interest received  | 19 142        | 19 149        |
| Interest paid  | (4 913)       | (5 845)       |
| <b>Profit before changes in operating assets and liabilities</b>                     | <b>13 618</b> | <b>13 906</b> |

**33. CASH AND CASH EQUIVALENTS**

| EUR '000  | 2018         | 2017          |
|---|--------------|---------------|
| Cash on hand (Note 4)                           | 1 752        | 2 064         |
| Loans and advances to banks due within 3 months | 6 080        | 13 126        |
| <b>Cash and cash equivalents</b>                | <b>7 832</b> | <b>15 190</b> |

**34. COMMITMENTS AND CONTINGENT LIABILITIES**
**(a) Legal disputes**

The Bank reviewed of legal proceedings pending against the Bank as at 31 December 2018 and 31 December 2017. The Bank recognised no provision for litigation as at 31 December 2018 and 31 December 2017.

**b) Commitments arising from issue of guarantees**

Commitments from guarantees include issued guarantees that represent an irrevocable commitment that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Based on the risk assessment as at 31 December 2018, the Bank recorded a provision to cover losses inherent in balances of undrawn loan commitments and guarantees, which are recognised in the off-balance sheet in the amount of EUR 26 thousand (2017: EUR 0).

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

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

### **35. RELATED PARTY TRANSACTIONS**

Related parties as defined by IAS 24 include:

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

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

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

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| EUR '000   | Balance at<br>31 Dec<br>2018 | Accruals and<br>deferrals at<br>31 Dec 2018 | Total  | Provisions<br>for assets at<br>31 Dec 2018 | Interest<br>expense/<br>Interest<br>income<br>2018 | Fee and<br>commission<br>income<br>2018 | Trading profit<br>/loss 2018 | General<br>operating<br>expenses<br>2018 | (Creation) /<br>release of<br>provisions for<br>assets 2018 | (Creation) /<br>release of<br>provisions for<br>liabilities<br>2018 |
|--|------------------------------|---|--------|--|--|---|------------------------------|--|---|---|
| <b>Receivables from the parent company</b>                     |                              |   |        |  |  |   |                              |  |   |   |
| Loans and advances to customers                                | -                            | -   | -      | -  | -  | -                                       | -                            | -  | -   | -   |
| Other assets   | 51                           | -   | 51     | -  | -  | 52                                      | -                            | -  | -   | -   |
| <b>Payables to the parent company</b>                          |                              |   |        |  |  |   |                              |  |   |   |
| Deposits from customers  | 260                          | -   | 260    | -  | -  | 1                                       | -                            | -  | -   | -   |
| Other liabilities  | -                            | -   | -      | -  | -  | -                                       | -                            | -  | -   | -   |
| <b>Receivables from the parent company's</b>                   |                              |   |        |  |  |   |                              |  |   |   |
| Loans and advances to banks                                    | 614                          | -   | 614    | -  | -  | -                                       | -                            | -  | -   | -   |
| Loans and advances to customers                                | 24 458                       | 190   | 24 648 | (51)                                       | 1 158  | 18                                      | -                            | -  | 401   | -   |
| Securities at fair value through other<br>comprehensive income | -                            | -   | -      | -  | -  | -                                       | -                            | -  | -   | -   |
| Other assets   | 888                          | -   | 888    | -  | -  | 8 942                                   | 734                          | -  | -   | -   |
| <b>Payables to the parent company's related<br/>parties</b>    |                              |   |        |  |  |   |                              |  |   |   |
| Due to banks   | -                            | -   | -      | -  | -  | -                                       | -                            | -  | -   | -   |
| Deposits from customers  | 27 894                       | 10  | 27 904 | -  | (23)   | 97                                      | -                            | -  | -   | -   |
| Debt securities issued   | 75                           | -   | 75     | -  | (1)  | -                                       | -                            | -  | -   | -   |
| Provisions for liabilities                                     | -                            | -   | -      | -  | -  | -                                       | -                            | -  | -   | -   |
| Other liabilities  | 41                           | -   | 41     | -  | -  | -                                       | (823)                        | (722)                                    | -   | -   |
| Unused credit facilities                                       | 124                          | -   | 124    | -  | -  | -                                       | -                            | -  | -   | -   |
| Bank guarantees  | 4 281                        | -   | 4 281  | -  | 17   | 19                                      | -                            | -  | -   | -   |
| Received collateral  | 25 829                       | -   | 25 829 | -  | -  | -                                       | -                            | -  | -   | -   |

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| EUR '000   | Balance at<br>31 Dec<br>2018 | Accruals and<br>deferrals at<br>31 Dec 2018 | Total | Provisions<br>for assets at<br>31 Dec 2018 | Interest<br>expense/<br>Interest<br>income<br>2018 | Fee and<br>commision<br>income<br>2018 | Trading profit<br>/loss 2018 | General<br>operating<br>expenses<br>2018 | (Creation) /<br>release of<br>provisions for<br>assets 2018 | (Creation) /<br>release of<br>provisions for<br>liabilities<br>2018 |
|--|------------------------------|---|-------|--|--|--|------------------------------|--|---|---|
| <b>Receivables from subsidiaries</b>                                 |                              |   |       |  |  |  |                              |  |   |   |
| Loans and advances to customers                                      | -                            | -   | -     | -  | 2  | -                                      | -                            | -  | 4   | -   |
| Investments in subsidiaries  | 7                            | -   | 7     | -  | -  | -                                      | -                            | -  | -   | -   |
| <b>Payables to subsidiaries</b>                                      |                              |   |       |  |  |  |                              |  |   |   |
| Deposits from customers  | 21                           | -   | 21    | -  | -  | 1                                      | -                            | -  | -   | -   |
| <b>Receivables from management members and their related parties</b> |                              |   |       |  |  |  |                              |  |   |   |
| Loans and advances to customers                                      | -                            | -   | -     | -  | -  | -                                      | -                            | -  | -   | -   |
| Other assets   | 5                            | -   | 5     | -  | -  | 7                                      | -                            | -  | -   | -   |
| <b>Payables to management members and their related parties</b>      |                              |   |       |  |  |  |                              |  |   |   |
| Deposits from customers  | 912                          | -   | 912   | -  | (2)  | 1                                      | -                            | -  | -   | -   |
| Debt securities issued   | -                            | -   | -     | -  | -  | -                                      | -                            | -  | -   | -   |
| Other liabilities  | 1 173                        | -   | 1 173 | -  | -  | -                                      | -                            | (851)                                    | -   | -   |
| Of which: wages and salaries plus insurance contributions            | -                            | -   | -     | -  | -  | -                                      | -                            | (851)                                    | -   | -   |
| Unused credit facilities   | 8                            | -   | 8     | -  | -  | -                                      | -                            | -  | -   | -   |
| Received collateral  | -                            | -   | -     | -  | -  | -                                      | -                            | -  | -   | -   |

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| EUR '000   | Balance at<br>31 Dec 2017 | Accruals and<br>deferrals at<br>31 Dec 2017 | Total  | Interest<br>expense/<br>Interest income<br>2017 | Fee and<br>commission<br>income<br>2017 | Trading profit<br>/loss<br>2017 | General<br>operating<br>expenses<br>2017 | (Creation) /<br>release of<br>provisions<br>2017 |
|--|---------------------------|---|--------|---|---|---------------------------------|--|--|
| <b>Receivables from the parent company</b>                   |                           |   |        |   |   |                                 |  |  |
| Loans and advances to customers                              | -                         | -   | -      | -   | -                                       | -                               | -  | -  |
| Other assets   | 5                         | -   | 5      | -   | 5                                       | -                               | -  | -  |
| <b>Payables to the parent company</b>                        |                           |   |        |   |   |                                 |  |  |
| Deposits from customers                                      | 25                        | -   | 25     | -   | 1                                       | -                               | -  | -  |
| Other liabilities  | -                         | -   | -      | -   | -                                       | -                               | -  | -  |
| <b>Receivables from the parent company's related parties</b> |                           |   |        |   |   |                                 |  |  |
| Loans and advances to banks                                  | 237                       | -   | 237    | -   | -                                       | -                               | -  | -  |
| Loans and advances to customers                              | 31 911                    | 117   | 32 028 | (452)   | 995                                     | 82                              | -  | (226)  |
| Available-for-sale securities                                | -                         | -   | -      | -   | -                                       | -                               | -  | -  |
| Other assets   | 982                       | -   | 982    | -   | 8 711                                   | 223                             | -  | -  |
| <b>Payables to the parent company's related parties</b>      |                           |   |        |   |   |                                 |  |  |
| Due to banks   | -                         | -   | -      | -   | -                                       | -                               | -  | -  |
| Deposits from customers                                      | 24 930                    | -   | 24 930 | (88)  | 253                                     | -                               | -  | -  |
| Debt securities issued                                       | 45                        | -   | 45     | -   | -                                       | -                               | -  | -  |
| Other liabilities  | 40                        | -   | 40     | -   | -                                       | (25)                            | (708)                                    | -  |
| Unused credit facilities                                     | 3 212                     | -   | 3 212  | -   | -                                       | -                               | -  | -  |
| Bank guarantees  | 537                       | -   | 537    | 8   | -                                       | -                               | -  | -  |
| Received collateral  | 30 152                    | -   | 30 152 | -   | -                                       | -                               | -  | -  |

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| EUR '000   | Balance at<br>31 Dec<br>2017 | Accruals and<br>deferrals at<br>31 Dec 2017 | Total | Provisions<br>as at 31 Dec<br>2017 | Interest expense/<br>Interest income<br>2017 | Fee and<br>commission<br>income<br>2017 | Trading profit<br>/loss<br>2017 | General<br>operating<br>expenses<br>2017 | (Creation) /<br>release of<br>provisions<br>2017 |
|--|------------------------------|---|-------|------------------------------------|--|---|---------------------------------|--|--|
| <b>Receivables from subsidiaries</b>                                 |                              |   |       |                                    |  |   |                                 |  |  |
| Loans and advances to customers                                      | 106                          | -   | 106   | (4)                                | 4  | 1                                       | -                               | -  | (4)  |
| Investments in subsidiaries  | 7                            | -   | 7     | -                                  | -  | -                                       | -                               | -  | -  |
| <b>Payables to subsidiaries</b>                                      |                              |   |       |                                    |  |   |                                 |  |  |
| Deposits from customers  | 11                           | -   | 11    | -                                  | -  | 1                                       | -                               | -  | -  |
| <b>Receivables from management members and their related parties</b> |                              |   |       |                                    |  |   |                                 |  |  |
| Loans and advances to customers                                      | 9                            | -   | 9     | -                                  | -  | -                                       | -                               | -  | -  |
| Other assets   | 4                            | -   | 4     | -                                  | -  | 7                                       | -                               | -  | -  |
| <b>Payables to management members and their related parties</b>      |                              |   |       |                                    |  |   |                                 |  |  |
| Deposits from customers  | 531                          | -   | 531   | -                                  | (4)  | 1                                       | -                               | -  | -  |
| Debt securities issued   | -                            | -   | -     | -                                  | -  | -                                       | -                               | -  | -  |
| Other liabilities  | 1 067                        | -   | 1 067 | -                                  | -  | -                                       | -                               | (774)                                    | -  |
| Of which: wages and salaries plus insurance contributions            | -                            | -   | -     | -                                  | -  | -                                       | -                               | (774)                                    | -  |
| Unused credit facilities   | 8                            | -   | 8     | -                                  | -  | -                                       | -                               | -  | -  |
| Received collateral  | -                            | -   | -     | -                                  | -  | -                                       | -                               | -  | -  |

Wages and salaries and social insurance expenses with respect to the statutory representatives and members of the Supervisory Board were in the amount of EUR 851 thousand as at 31 December 2018 (2017: EUR 774 thousand). Members of the Bank's bodies in 2018 and 2017 did not receive any non-cash remuneration.

### **36. FINANCIAL INSTRUMENTS – MARKET RISK**

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

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

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

#### **(a) Interest rate risk**

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

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

As the Bank has significant positions in fixed-interest bonds in its Banking Book, the Bank may decided to partially hedge certain positions. Hedging instruments comprise, for instance, interest-rate swaps through which the Bank may maintain the total interest rate position of the Banking Book at an acceptable level and eliminates profit/(loss) volatility. The Bank currently does not use such hedging instruments.

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The average effective interest rates of assets and liabilities as at 31 December 2018 and the periods in which these rates are remeasured are as follows:

| EUR '000  | Effective interest rate | Up to 1 month  | 1 - 3 months   | 3 months to 1 year | 1 year to 5 years | Over 5 years  | Unspecified   | Total          |
|---|-------------------------|----------------|----------------|--------------------|-------------------|---------------|---------------|----------------|
| Cash and balances with central banks                        | 0,00%                   | 112 755        | -              | -                  | -                 | -             | 1 752         | 114 507        |
| Loans and advances to banks                                 | 0,00%                   | 6 080          | -              | -                  | -                 | -             | -             | 6 080          |
| Loans and advances to customers                             | 3,54%                   | 100 239        | 178 435        | 62 203             | 36 656            | -             | 4 381         | 381 914        |
| Securities at fair value through other comprehensive income | 1,00%                   | 18 220         | 7 159          | 5 817              | 82 633            | 9 008         | 2 935         | 125 772        |
| Securities at amortised cost                                | 1,54%                   | 1              | 427            | 16 168             | 50 546            | 23 865        | -             | 91 007         |
| Investments in subsidiaries                                 | -                       | -              | -              | -                  | -                 | -             | 7             | 7              |
| <b>Total assets</b>   |                         | <b>237 295</b> | <b>186 021</b> | <b>84 188</b>      | <b>169 835</b>    | <b>32 873</b> | <b>9 075</b>  | <b>719 287</b> |
| Due to banks  | -0,31%                  | 6 000          | 10 005         | -                  | 55 916            | -             | -             | 71 921         |
| Deposits from customers                                     | 0,84%                   | 113 978        | 30 615         | 154 695            | 248 349           | -             | -             | 547 637        |
| Debt securities issued                                      | 1,12%                   | 16             | 3              | 6 998              | 7 361             | -             | -             | 14 378         |
| <b>Total liabilities</b>                                    |                         | <b>119 994</b> | <b>40 623</b>  | <b>161 693</b>     | <b>311 626</b>    | <b>-</b>      | <b>-</b>      | <b>633 936</b> |
| <b>Difference</b>   |                         | <b>117 301</b> | <b>145 398</b> | <b>(77 505)</b>    | <b>(141 791)</b>  | <b>32 873</b> | <b>9 075</b>  | <b>85 351</b>  |
| <b>Cumulative difference</b>                                |                         | <b>117 301</b> | <b>262 699</b> | <b>185 194</b>     | <b>43 403</b>     | <b>76 276</b> | <b>85 351</b> |                |

The average effective interest rates of assets and liabilities as at 31 December 2017 and the periods in which these rates are remeasured are as follows:

| EUR '000                             | Effective interest rate | Up to 1 month  | 1 - 3 months   | 3 months to 1 year | 1 year to 5 years | Over 5 years  | Unspecified   | Total          |
|--------------------------------------|-------------------------|----------------|----------------|--------------------|-------------------|---------------|---------------|----------------|
| Cash and balances with central banks | 0,00%                   | 69 136         | -              | -                  | -                 | -             | 2 063         | 71 199         |
| Loans and advances to banks          | 0,26%                   | 13 126         | -              | -                  | -                 | -             | -             | 13 126         |
| Loans and advances to customers      | 3,49%                   | 105 434        | 67 383         | 99 483             | 73 854            | 139           | (3 868)       | 342 425        |
| Available-for-sale securities        | 1,56%                   | 20 269         | 16 226         | 9 237              | 120 100           | -             | 3 154         | 168 986        |
| Held-to-maturity securities          | 2,20%                   | -              | 407            | 15 623             | 14 156            | 28 070        | -             | 58 256         |
| Investments in subsidiaries          | -                       | -              | -              | -                  | -                 | -             | 7             | 7              |
| <b>Total assets</b>                  |                         | <b>207 965</b> | <b>84 016</b>  | <b>124 343</b>     | <b>208 110</b>    | <b>28 209</b> | <b>1 356</b>  | <b>653 999</b> |
| Due to banks                         | 0,00%                   | 9 001          | 10 006         | 16 179             | 56 410            | -             | -             | 91 596         |
| Deposits from customers              | 0,91%                   | 110 569        | 28 919         | 118 916            | 205 222           | -             | 132           | 463 758        |
| Debt securities issued               | 1,29%                   | 12             | 3              | 3 362              | 14 668            | -             | -             | 18 045         |
| <b>Total liabilities</b>             |                         | <b>119 582</b> | <b>38 928</b>  | <b>138 457</b>     | <b>276 300</b>    | <b>-</b>      | <b>132</b>    | <b>573 399</b> |
| <b>Difference</b>                    |                         | <b>88 383</b>  | <b>45 088</b>  | <b>(14 114)</b>    | <b>(68 190)</b>   | <b>28 209</b> | <b>1 224</b>  | <b>80 600</b>  |
| <b>Cumulative difference</b>         |                         | <b>88 383</b>  | <b>133 471</b> | <b>119 357</b>     | <b>51 167</b>     | <b>79 376</b> | <b>80 600</b> |                |

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

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

| EUR '000                  | Impact on net profit | Impact on equity |
|---------------------------|----------------------|------------------|
| <b>2018</b>               |                      |                  |
| + 0,5% for all currencies | -                    | (1 403)          |
| - 0,5% for all currencies | -                    | 1 433            |
| <b>2017</b>               |                      |                  |
| + 0,5% for all currencies | -                    | (1 771)          |
| - 0,5% for all currencies | -                    | 1 810            |

**(b) Currency risk**

Currency risk is the risk of a change in the value of the Bank's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Bank manages currency risk by determining and daily monitoring of maximum limits of open positions of the banking book for individual currencies. A potential excessive open currency position of the Banking Book is immediately repurchased through an internal operation in the Trading Book. The currency risk of the trading book is limited by maximum exposure using the VaR model. The tables below show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured open currency positions as at year-end 2018 and 2017.

As at 31 December 2018, the Bank reported the following structure of financial assets and liabilities in individual currencies:

| EUR '000  | EUR            | CZK            | USD          | Other FX     | Total          |
|---|----------------|----------------|--------------|--------------|----------------|
| Cash and balances with central banks                        | 113 984        | 136            | 133          | 254          | <b>114 507</b> |
| Loans and advances to banks                                 | 309            | 3 750          | 476          | 1 545        | <b>6 080</b>   |
| Loans and advances to customers                             | 369 083        | 12 831         | -            | -            | <b>381 914</b> |
| Securities at fair value through other comprehensive income | 117 742        | -              | 8 030        | -            | <b>125 772</b> |
| Securities at amortised cost                                | 82 216         | 8 791          | -            | -            | <b>91 007</b>  |
| Investments in subsidiaries                                 | 7              | -              | -            | -            | <b>7</b>       |
| <b>Total assets</b>   | <b>683 341</b> | <b>25 508</b>  | <b>8 639</b> | <b>1 799</b> | <b>719 287</b> |
| Due to banks  | 71 921         | -              | -            | -            | <b>71 921</b>  |
| Deposits from customers                                     | 514 330        | 26 795         | 4 900        | 1 612        | <b>547 637</b> |
| Debt securities issued                                      | 7 379          | 6 999          | -            | -            | <b>14 378</b>  |
| <b>Total liabilities</b>                                    | <b>593 630</b> | <b>33 794</b>  | <b>4 900</b> | <b>1 612</b> | <b>633 936</b> |
| <b>Net FX position</b>                                      | <b>89 711</b>  | <b>(8 286)</b> | <b>3 739</b> | <b>187</b>   | <b>85 351</b>  |

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As at 31 December 2017, the Bank reported the following structure of financial assets and liabilities in individual currencies:

| EUR '000                             | EUR            | CZK           | USD          | Other FX       | Total          |
|--------------------------------------|----------------|---------------|--------------|----------------|----------------|
| Cash and balances with central banks | 70 643         | 266           | 140          | 150            | 71 199         |
| Loans and advances to banks          | 324            | 9 497         | 106          | 3 199          | 13 126         |
| Loans and advances to customers      | 328 189        | 14 236        | -            | -              | 342 425        |
| Available-for-sale securities        | 160 962        | -             | 8 024        | -              | 168 986        |
| Held-to-maturity securities          | 58 256         | -             | -            | -              | 58 256         |
| Investments in subsidiaries          | 7              | -             | -            | -              | 7              |
| <b>Total assets</b>                  | <b>618 381</b> | <b>23 999</b> | <b>8 270</b> | <b>3 349</b>   | <b>653 999</b> |
| Due to banks                         | 91 595         | 1             | -            | -              | 91 596         |
| Deposits from customers              | 431 484        | 16 334        | 4 922        | 11 018         | 463 758        |
| Debt securities issued               | 10 993         | 7 052         | -            | -              | 18 045         |
| <b>Total liabilities</b>             | <b>534 072</b> | <b>23 387</b> | <b>4 922</b> | <b>11 018</b>  | <b>573 399</b> |
| <b>Net FX position</b>               | <b>84 309</b>  | <b>612</b>    | <b>3 348</b> | <b>(7 669)</b> | <b>80 600</b>  |

The table below is a summary of the currencies in which the Bank has more significant open positions as at 31 December 2018 and 31 December 2017. The sensitivity analysis calculates the effect of possible changes in the exchange rate against the selected currencies on the Income Statement. A positive amount reflects a net potential gain and a negative amount reflects net potential loss on the Income Statement.

| EUR '000    | Change in exchange rate | Impact on net profit |
|-------------|-------------------------|----------------------|
| <b>2018</b> |                         |                      |
| CHF         | +11,37%                 | (1)                  |
| GBP         | +14,68%                 | (3)                  |
| USD         | +17,18%                 | 2                    |
| CZK         | +6,82%                  | 90                   |
| <b>2017</b> |                         |                      |
| CHF         | +10,71%                 | -                    |
| GBP         | +17,85%                 | 1                    |
| USD         | +16,53%                 | 45                   |
| CZK         | +7,29%                  | 36                   |

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

### 37. MANAGEMENT OF CAPITAL

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

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

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

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

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

The amount of regulatory capital as at 31 December 2018 and 31 December 2017 is as follows:

| EUR '000   | 2018          | 2017          |
|--|---------------|---------------|
| <b>Tier 1 capital</b>                                  | <b>74 453</b> | <b>67 917</b> |
| Paid up share capital                                  | 25 121        | 25 121        |
| Reserve fund and other funds created from profit       | 5 024         | 5 024         |
| Retained earnings from previous years                  | 44 706        | 35 855        |
| Accumulated other comprehensive accounting profit/loss | 50            | 2 271         |
| (-) Intangible assets                                  | (322)         | (354)         |
| Temporary adjustments of capital                       | (126)         | -             |
| <b>Tier 2 capital</b>                                  | <b>-</b>      | <b>-</b>      |
| Subordinated debt                                      | -             | -             |
| <b>Regulatory capital</b>                              | <b>74 453</b> | <b>67 917</b> |

The indicators of the Bank's capital adequacy as at 31 December 2018 and 31 December 2017 are provided in the table below:

| EUR '000   | 2018           | 2017           |
|--|----------------|----------------|
| <b>Adequacy of regulatory capital (%)</b>        | <b>14,23%</b>  | <b>13,38%</b>  |
| <b>Regulatory capital</b>                        | <b>74 453</b>  | <b>67 917</b>  |
| <b>Total amount of risk exposures</b>            | <b>523 088</b> | <b>507 612</b> |
| RVE - credit risk and counterparty's credit risk | 474 549        | 463 978        |
| RE - position risk                               | 2 882          | 1 798          |
| RE - foreign exchange risk                       | 1 549          | -              |
| RE - adjustment of the receivable measurement    | -              | 1              |
| RE - operational risk                            | 44 108         | 41 835         |

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The National Bank of Slovakia, as the supervising authority, requires that the Bank maintain the proportion of the regulatory capital to total risk-weighted exposure of at least 8%. As at 31 December 2018, a cushion to maintain capital in the amount of 2.5% is effective, and the Bank also applies an anti-cyclical cushion to selected exposures.

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

### 38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2018:

| EUR '000  | From 3          |                            |                     |                           |                 | Unspecified   | Total          |
|---|-----------------|----------------------------|---------------------|---------------------------|-----------------|---------------|----------------|
|   | Up to 7 days    | From 7 days<br>to 3 months | months<br>to 1 year | From 1 year<br>to 5 years | Over<br>5 years |               |                |
| Cash and balances with central banks                        | 114 507         | -                          | -                   | -                         | -               | -             | 114 507        |
| Loans and advances to banks                                 | 6 080           | -                          | -                   | -                         | -               | -             | 6 080          |
| Loans and advances to customers                             | -               | 43 054                     | 133 447             | 193 746                   | 7 285           | 4 382         | 381 914        |
| Securities at fair value through other comprehensive income | -               | 8 523                      | 5 817               | 95 242                    | 13 255          | 2 935         | 125 772        |
| Securities at amortised cost                                | -               | 428                        | 14 165              | 52 549                    | 23 865          | -             | 91 007         |
| Investments in subsidiaries                                 | -               | -                          | -                   | -                         | -               | 7             | 7              |
| Tangible and intangible assets                              | -               | -                          | -                   | -                         | -               | 1 069         | 1 069          |
| Other assets  | 636             | 1 224                      | -                   | -                         | -               | 691           | 2 551          |
| <b>Total assets</b>   | <b>121 223</b>  | <b>53 229</b>              | <b>153 429</b>      | <b>341 537</b>            | <b>44 405</b>   | <b>9 084</b>  | <b>722 907</b> |
| Due to banks  | 6 000           | 10 005                     | -                   | 55 916                    | -               | -             | 71 921         |
| Deposits from customers                                     | 159 711         | 49 166                     | 152 553             | 186 086                   | 121             | -             | 547 637        |
| Debt securities issued                                      | -               | 19                         | 6 998               | 7 361                     | -               | -             | 14 378         |
| Current tax liability                                       | -               | 464                        | -                   | -                         | -               | -             | 464            |
| Deferred tax liability                                      | -               | -                          | -                   | -                         | -               | 16            | 16             |
| Provisions for liabilities                                  | -               | -                          | -                   | -                         | -               | 26            | 26             |
| Other liabilities   | 1 083           | 908                        | -                   | -                         | -               | 3 142         | 5 133          |
| <b>Total liabilities</b>                                    | <b>166 794</b>  | <b>60 562</b>              | <b>159 551</b>      | <b>249 363</b>            | <b>121</b>      | <b>3 184</b>  | <b>639 575</b> |
| <b>Difference</b>   | <b>(45 571)</b> | <b>(7 333)</b>             | <b>(6 122)</b>      | <b>92 174</b>             | <b>44 284</b>   | <b>5 900</b>  | <b>83 332</b>  |
| <b>Cumulative difference</b>                                | <b>(45 571)</b> | <b>(52 904)</b>            | <b>(59 026)</b>     | <b>33 148</b>             | <b>77 432</b>   | <b>83 332</b> |                |

The bulk of deposits from customers payable within seven days in the amount of EUR 159 711 thousand include deposits payable on demand, which are unlikely to be paid to customers within the defined interval.

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The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2017:

| EUR '000                             | Up to 7 days    | From 7 days to 3 months | From 3 months   |                        | Over 5 years  | Unspecified    | Total          |
|--------------------------------------|-----------------|-------------------------|-----------------|------------------------|---------------|----------------|----------------|
|                                      |                 |                         | to 1 year       | From 1 year to 5 years |               |                |                |
| Cash and balances with central banks | 71 199          | -                       | -               | -                      | -             | -              | <b>71 199</b>  |
| Loans and advances to banks          | 13 126          | -                       | -               | -                      | -             | -              | <b>13 126</b>  |
| Loans and advances to customers      | 3 420           | 10 413                  | 134 949         | 177 897                | 19 615        | (3 869)        | <b>342 425</b> |
| Available-for-sale securities        | -               | 10 916                  | 19 261          | 135 655                | -             | 3 154          | <b>168 986</b> |
| Held-to-maturity securities          | -               | 408                     | 10 561          | 19 212                 | 28 075        | -              | <b>58 256</b>  |
| Investments in subsidiaries          | -               | -                       | -               | -                      | -             | 7              | <b>7</b>       |
| Tangible and intangible assets       | -               | -                       | -               | -                      | -             | 1 088          | <b>1 088</b>   |
| Other assets                         | 541             | 1 286                   | -               | -                      | -             | 628            | <b>2 455</b>   |
| <b>Total assets</b>                  | <b>88 286</b>   | <b>23 023</b>           | <b>164 771</b>  | <b>332 764</b>         | <b>47 690</b> | <b>1 008</b>   | <b>657 542</b> |
| Due to banks                         | 9 001           | 10 007                  | 16 178          | 56 410                 | -             | -              | <b>91 596</b>  |
| Deposits from customers              | 157 106         | 47 340                  | 116 702         | 142 223                | 252           | 135            | <b>463 758</b> |
| Debt securities issued               | -               | 15                      | 3 362           | 14 668                 | -             | -              | <b>18 045</b>  |
| Current tax liability                | -               | 28                      | -               | -                      | -             | -              | <b>28</b>      |
| Deferred tax liability               | -               | -                       | -               | -                      | -             | 610            | <b>610</b>     |
| Other liabilities                    | 2 169           | 1 105                   | -               | -                      | -             | 2 523          | <b>5 797</b>   |
| <b>Total liabilities</b>             | <b>168 276</b>  | <b>58 495</b>           | <b>136 242</b>  | <b>213 301</b>         | <b>252</b>    | <b>3 268</b>   | <b>579 834</b> |
| <b>Difference</b>                    | <b>(79 990)</b> | <b>(35 472)</b>         | <b>28 529</b>   | <b>119 463</b>         | <b>47 438</b> | <b>(2 260)</b> | <b>77 708</b>  |
| <b>Cummulative difference</b>        | <b>(79 990)</b> | <b>(115 462)</b>        | <b>(86 933)</b> | <b>32 530</b>          | <b>79 968</b> | <b>77 708</b>  |                |

The bulk of deposits from customers payable within seven days in the amount of EUR 157 106 thousand include deposits payable on demand, which are unlikely to be paid to customers within the defined interval.

### 39. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

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

There have been no events since the end of the preceding reporting period that would have a material impact on the liquidity risk arising from financial instruments.

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2018:

| EUR '000                 | On demand      | Less than 3 months |                | 1 to 5 years   | Over 5 years | Not specified | Total          |
|--------------------------|----------------|--------------------|----------------|----------------|--------------|---------------|----------------|
|                          |                | months             | 3 to 12 months |                |              |               |                |
| Due to banks             | -              | 16 007             | -              | 55 503         | -            | -             | <b>71 510</b>  |
| Deposits from customers  | 148 512        | 59 851             | 155 917        | 188 893        | -            | -             | <b>553 173</b> |
| Debt securities issued   | -              | 61                 | 7 166          | 13 522         | -            | -             | <b>20 749</b>  |
| <b>Total liabilities</b> | <b>148 512</b> | <b>75 919</b>      | <b>163 083</b> | <b>257 918</b> | <b>-</b>     | <b>-</b>      | <b>645 432</b> |

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2017:

| EUR '000                 | On demand      | Less than 3 months | 3 to 12 months | 1 to 5 years   | Over 5 years | Not specified | Total          |
|--------------------------|----------------|--------------------|----------------|----------------|--------------|---------------|----------------|
| Due to banks             | -              | 19 008             | 16 376         | 56 410         | -            | -             | 91 794         |
| Deposits from customers  | 141 928        | 60 855             | 121 806        | 145 527        | 37           | -             | 470 153        |
| Debt securities issued   | -              | 38                 | 8 553          | 15 031         | -            | -             | 23 622         |
| <b>Total liabilities</b> | <b>141 928</b> | <b>79 901</b>      | <b>146 735</b> | <b>216 968</b> | <b>37</b>    | <b>-</b>      | <b>585 569</b> |

#### 40. FINANCIAL INSTRUMENTS – CREDIT RISK

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

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

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

Factors leading to the creation of provisions for defaulted financial assets in 2018:

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

#### Provisioning

According to the classification of financial assets, the Bank creates provisions for:

- Financial assets assessed on an individual basis (the "specific provision");
- Financial assets assessed on a portfolio basis (the "portfolio provision").

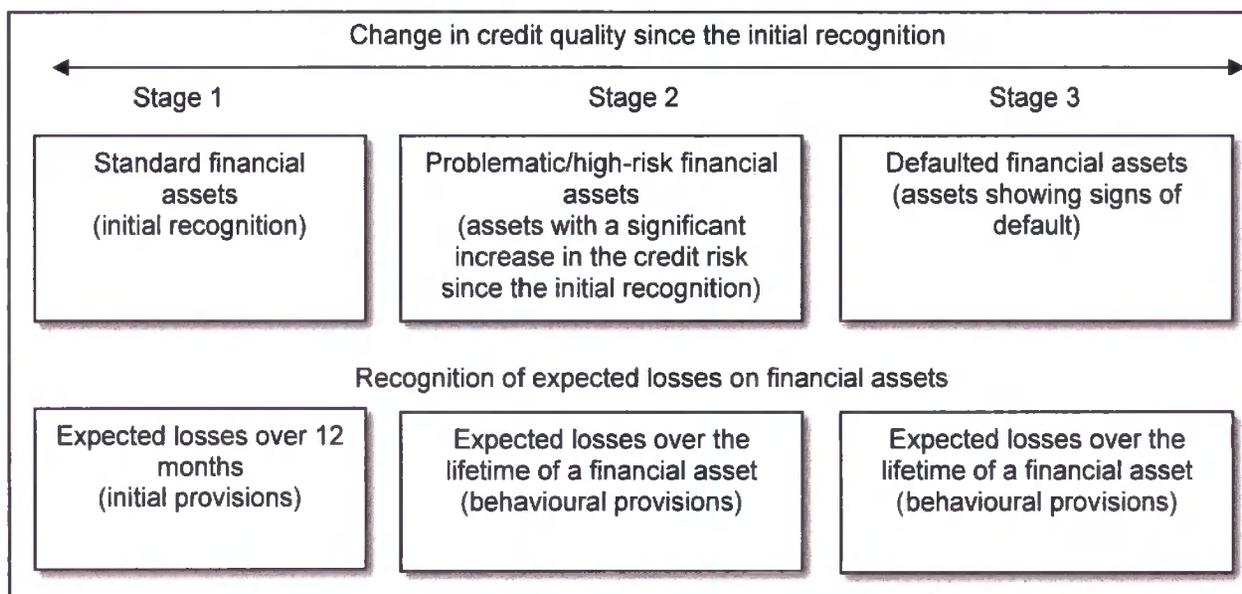
The Bank creates two types of provisions from the time perspective:

- Initial provisions; and
- Behavioural provisions.

The Bank creates initial provisions for each standard individually-assessed financial asset upon its initial measurement. A standard financial asset is any financial asset of the Bank for which customer (debtor) default was not identified.

The Bank creates behavioural provisions for individually-assessed financial assets where the Bank identifies a significant change in the credit risk of a financial asset or customer default. The Bank creates and reassesses behavioural provisions over the lifetime of a financial asset.

The provisioning model for individually-assessed financial assets has three stages, as illustrated below:



The Bank uses the expected loss given default (LGD) and the probability of default (PD) to calculate specific provisions for customers not in default (Stage 1 and 2). This calculation uses a PD from data obtained from the Bloomberg system and an LGD from data obtained from the Bank's loan portfolio. The final amount of the portfolio provision is the product of PD and LGD.

In the event of customer default (Stage 3), the Bank determines the amount of the behavioural provision based on the comparison of the carrying amount of a financial asset and its recoverable amount, ie the sum of estimated cash flows from the customer's economic activities and the estimated cash flows from the financial asset's collateral discounted using the effective interest rate. The positive difference arising from the two amounts is the provision amount, ie the impairment of the financial asset.

For the assets classified as standard or high-risk (Stage 1 and 2), interest income is recognised based on the gross carrying amount of the assets. For defaulted assets (Stage 3), interest income is recognised based on the net carrying amount of assets, ie the carrying amount is increased by the gross gain with the subsequent creation of a provision for this interest receivable.

In line with IFRS rules, the Bank creates portfolios of financial assets that have common characteristics, and for which there is a possibility of their impairment if objective circumstances arise in the relevant market. Portfolios of the Bank's financial assets comprise the portfolio of loans and current account overdrafts provided to the Bank's employees, the portfolio of current account overdrafts provided to private banking customers, the portfolio of loans provided to individuals as housing loans, the portfolio of loans provided to private banking customers as loans secured by the portfolio of customers' securities in the Bank's management and the portfolio of loans provided to the Bank's customers included in the Bank's watch list (closer monitoring).

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

The Bank's calculation of the amount of portfolio provisions is the same as the calculation of specific provisions for customers not in default. However, this calculation uses a PD obtained from the National Bank of Slovakia's statistics and an LGD from data obtained from the Bank's loan portfolio.

The Bank monitors changes in economic conditions in the relevant market and regularly reassesses the amount of portfolio provisions. The Bank also tests the model quality by comparison with the realised losses from the loan portfolio for the previous year.

For other assets (except loans and securities) overdue by more than 30 days, the Bank automatically creates a provision at 100% of the carrying amount of the Bank's receivable.

#### **Creation of provisions for liabilities**

The Bank creates provisions for off-balance sheet liabilities and calculates their amounts in a manner similar to provisions for assets.

#### **Credit exposure, collaterals**

| EUR '000   | 2018           | 2017           |
|--|----------------|----------------|
| <b>Total credit exposure</b>                       | <b>397 473</b> | <b>356 667</b> |
| Value of received collaterals accepted by the Bank | 329 676        | 288 505        |
| of which: immovables                               | 177 919        | 152 213        |
| cash   | 11 462         | 10 657         |
| securities   | 44 154         | 60 975         |
| other  | 96 141         | 64 660         |
| Secured portion of credit exposure                 | 204 884        | 185 692        |
| Unsecured portion of credit exposure               | 192 589        | 170 975        |

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

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

The most frequently-used collateral types:

- Project funding: real estate, current and future receivables arising from sale arrangements and other contracts on the sale, or lease of real estate, securities, personal guarantees;
- Operational funding: trade receivables, inventories;
- Investment funding: clients' movable and immovable assets;
- Securities, personal guarantees.
- Loans provided to individuals: immovable assets, securities, personal guarantees.

### Assumptions in estimates of collateral realisable value

The value of collateral is determined as follows:

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

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

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

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

### Credit quality of assets not recognised as default

Overview of the quality of financial assets resulting from credit transactions that are recognised as neither past due nor default (ie in Stage 3):

| Customers - 2018 | Receivables (EUR '000) |                | Share (%)      |                |
|------------------|------------------------|----------------|----------------|----------------|
|                  | Stage 1                | Stage 2        | Total          |                |
| Rating A1 - A3   | 9 444                  | 0              | 9 444          | 2,49%          |
| Rating B1 - B3   | 131 643                | 23 509         | 155 152        | 40,85%         |
| Rating C1 - C3   | 78 224                 | 44 556         | 122 780        | 32,33%         |
| Rating D1 - D3   | 15 567                 | 49 939         | 65 506         | 17,25%         |
| Retail           | 13 669                 | 13 276         | 26 945         | 7,09%          |
| <b>Total</b>     | <b>248 547</b>         | <b>131 279</b> | <b>379 826</b> | <b>100,00%</b> |

| Customers - trade rating - 2017 | Receivables (EUR '000) | Share (%)     |
|---------------------------------|------------------------|---------------|
| Rating A1 - A3                  | 15 163                 | 4,48          |
| Rating B1 - B3                  | 85 414                 | 25,21         |
| Rating C1 - C3                  | 112 676                | 33,26         |
| Rating D1 - D3                  | 101 384                | 29,93         |
| Retail                          | 24 121                 | 7,12          |
| <b>Total</b>                    | <b>338 758</b>         | <b>100,00</b> |

Based on the balances as at 31 December 2018 and 31 December 2017, there are no clients with accredited external ratings in the Bank's loan portfolio.

**Notes to the Financial Statements for the year ended 31 December 2018**  
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**as adopted by the European Union**

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as defaulted as at 31 December 2018:

| Securities at fair value through other comprehensive income | EUR '000       | Share (%)     |
|---|----------------|---------------|
| A1  | 5 553          | 4,42          |
| A2  | 24 629         | 19,58         |
| A3  | 23 178         | 18,43         |
| Aa2   | 4 984          | 3,96          |
| Aaa   | 4 989          | 3,97          |
| Baa1  | 24 688         | 19,63         |
| Baa2  | 5 252          | 4,18          |
| Baa3  | 14 478         | 11,51         |
| No rating   | 18 021         | 14            |
| <b>Total</b>  | <b>125 772</b> | <b>100,00</b> |

| Securities measured at amortised cost | EUR '000      | Share (%)     |
|---------------------------------------|---------------|---------------|
| A2                                    | 41 972        | 46,12         |
| A3                                    | 2 491         | 2,74          |
| Aa2                                   | 6 519         | 7,16          |
| Aa3                                   | 1 503         | 1,65          |
| Aaa                                   | 5 241         | 5,76          |
| Baa1                                  | 3 076         | 3,38          |
| Baa3                                  | 21 416        | 23,53         |
| No rating                             | 8 789         | 9,66          |
| <b>Total</b>                          | <b>91 007</b> | <b>100,00</b> |

All securities in the Bank's portfolios are in Stage 1 in accordance with IFRS 9.

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as defaulted as at 31 December 2017:

| Securities at fair value through other comprehensive income | EUR '000       | Share (%)     |
|---|----------------|---------------|
| A1  | 5 761          | 3,41          |
| A2  | 24 605         | 14,56         |
| A3  | 41 554         | 24,59         |
| Aa2   | 4 951          | 2,93          |
| Baa1  | 19 891         | 11,77         |
| Baa2  | 25 871         | 15,31         |
| Baa3  | 3 095          | 1,83          |
| No rating   | 43 258         | 25,60         |
| <b>Total</b>  | <b>168 986</b> | <b>100,00</b> |

Out of the securities with no rating by Moody's Investors Service, securities with a fair value of EUR 8 217 thousand and EUR 11 510 thousand have an A- rating and BBB+ rating with Standard & Poor's, respectively.

| Held-to-maturity securities | (EUR '000)    | Share (%)     |
|-----------------------------|---------------|---------------|
| A2                          | 26 403        | 45,32         |
| Baa2                        | 21 780        | 37,39         |
| Baa3                        | 10 073        | 17,29         |
| <b>Total</b>                | <b>58 256</b> | <b>100,00</b> |

**Method of determining transaction ratings of clients**

The Bank determines an internal rating of corporate customers on the basis of their financial or project, and non-financial and behavioural analyses.

The financial analysis is based on an assessment of individual items of clients' assets, liabilities, expenses and revenues, realisation of assets and equity, and the subsequent calculation of basic financial ratios (indebtedness, liquidity, profitability, activity and cash flow).

Project analysis is aimed at evaluating measurable parameters of a client's business plan (eg share of own funds, contractual arrangement regarding project exit, investment horizon term).

Non-financial analysis is based on an individual assessment of non-financial aspects (qualitative indicators), ie external and internal impacts affecting the client's business activities, and an assessment of the macro and micro environment in which the client operates.

The behavioural analysis of a client includes the identification of adverse events that may result in an impairment of the client's and Bank's assets (eg legal dispute, receivable restructuring, client default – non-compliance with contractual obligations).

Based on the sum of points assigned from the above analyses, clients are assigned a rating. The rating system consists of 14 rating classes, where A1 is the best and F the worst rating.

| Rating | Number of Points |                 |
|--------|------------------|-----------------|
| A1     | 36 – 34          | Low risk        |
| A2     | 33 – 32          |                 |
| A3     | 31 – 29          |                 |
| B1     | 28 – 27          | Medium risk     |
| B2     | 26 – 24          |                 |
| B3     | 23 – 22          |                 |
| C1     | 21 – 19          | Acceptable risk |
| C2     | 18 – 17          |                 |
| C3     | 16 – 14          |                 |
| D1     | 13 – 12          | High risk       |
| D2     | 11 – 9           |                 |
| D3     | 8 – 7            |                 |
| E      | 6 - 4            | Default         |
| F      | 3 – 0            |                 |

The Bank continuously monitors the credit quality of its clients and updates the rating class of each client annually.

### **Ageing structure of financial assets overdue, recognised as unimpaired**

As at 31 December 2018, the Bank recognised overdue loan receivables classified as unimpaired in the total amount of EUR 3 675 thousand, of which principal amounted to EUR 3 330 thousand (of which principal overdue by more than 30 days amounted to EUR 3 124 thousand), and interest and charges in the amount of EUR 345 thousand (of which interest and charges overdue by more than 30 days amounted to EUR 70 thousand).

As at 31 December 2017, the Bank recognised overdue loan receivables classified as unimpaired in a total amount of EUR 2 588 thousand, of which principal amounted to EUR 2 461 thousand (of which principal overdue by more than 30 days amounted to EUR 1 555 thousand), and interest and charges in the amount of EUR 127 thousand (of which interest and charges overdue by more than 30 days amounted to EUR 31 thousand).

### **Restructured assets**

Under the Bank's internal guidelines, a restructured receivable and/or debt financial asset means an asset if the Bank has provided the client with a relief as the client has, or will have, difficulties in meeting its financial obligations (financial difficulties). A relief is a change in the repayment schedule (temporary decrease of one or more payments, or postponement of one or more payments or a part thereof), or an extension of the receivable's maturity.

In 2018, the Bank extended the overall maturity and adjusted repayment schedules of receivables from loan transactions in the total amount of EUR 13 285 thousand, of which short-term loans amounted to EUR 2 706 thousand and long-term loans to EUR 10 579 thousand.

In 2017, the Bank extended the overall maturity and adjusted repayment schedules of receivables from loan transactions in the total amount of EUR 14 419 thousand, of which short-term loans amounted to EUR 800 thousand and long-term loans to EUR 13 619 thousand.

The reasons mainly included the failure to implement a business plan, or exit from a project on the anticipated date, exit of a major tenant, or owing to pending legal proceedings the debtor was unable to sell assets, the proceeds of which had been designated to repay the Bank's loan receivables. In all instances the Bank treated its position so that in the future the Bank is not exposed to higher risks than as at the moment of closing the deal.

As at 31 December 2018, the Bank recorded restructured assets in the amount of EUR 14 260 thousand, for which provisions amounting to EUR 2 412 thousand have been created.

### **Major credit risk exposures**

#### **(a) Concentrations to national economy sectors**

| EUR '000                                  | 2018           |                |               |                | 2017           |
|---|----------------|----------------|---------------|----------------|----------------|
|   | Stage 1        | Stage 2        | Stage 3       | Total          |                |
| Non-banking financial services            | 15 803         | 11 450         | 160           | 27 413         | 52 983         |
| Manufacturing                             | 26 820         | 5 656          | 1 161         | 33 637         | 33 702         |
| Construction                              | 574            | -8             | 9 884         | 10 450         | 7 368          |
| Agriculture and forestry                  | 2 389          | 303            | 409           | 3 101          | 3 952          |
| Commercial real estate - cash flow based  | 32 226         | 12 177         | 1 656         | 46 059         | 33 727         |
| Commercial real estate - collateral based | 30 696         | 48 411         | 1 946         | 81 053         | 73 589         |
| Commerce and services                     | 106 201        | 36 649         | 194           | 143 044        | 85 497         |
| Other                                     | 10 404         | 145            | 558           | 11 107         | 25 790         |
| Individuals                               | 13 669         | 13 268         | 1 685         | 28 622         | 24 336         |
| Healthcare services                       | 9 766          | 3 221          | 0             | 12 987         | 15 723         |
| <b>Total</b>                              | <b>248 550</b> | <b>131 271</b> | <b>17 652</b> | <b>397 473</b> | <b>356 667</b> |

(b) Concentrations to significant groups of related clients

The Bank continuously monitors exposures to the groups of related clients to comply with regulatory limits. The maximum exposure to a debtor or an economically-connected group of clients as defined by regulations is capped at EUR 18 613 thousand owing to the amount of the Bank's capital as at 31 December 2018 (2017: EUR 16 979 thousand).

**Maximum credit exposure**

| EUR '000  | 31.12.2018     | 1.1.2018       | 31.12.2017     |
|---|----------------|----------------|----------------|
| Cash and balances with central banks                        | 114 507        | 71 199         | 71 199         |
| Loans and advances to banks                                 | 6 080          | 13 126         | 13 126         |
| Loans and advances to customers                             | 381 914        | 342 030        | 342 425        |
| Securities at fair value through other comprehensive income | 125 772        | 168 804        | 168 986        |
| Securities measured at amortised cost                       | 91 007         | 58 249         | 58 256         |
| Investments in subsidiaries                                 | 7              | 7              | 7              |
| Other assets  | 2 551          | 2 455          | 2 455          |
| <b>Total</b>  | <b>721 838</b> | <b>655 870</b> | <b>656 454</b> |
| Unused credit facilities                                    | 25 818         | 29 365         | 29 365         |
| Issued guarantees   | 7 160          | 3 608          | 3 608          |
| <b>Total</b>  | <b>32 978</b>  | <b>32 973</b>  | <b>32 973</b>  |
| <b>Total credit risk exposure</b>                           | <b>754 816</b> | <b>688 843</b> | <b>689 427</b> |

**41. OPERATIONAL, LEGAL AND OTHER RISKS**

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

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

## 42. FAIR VALUES

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

| EUR '000  | Carrying amount |                       | Carrying amount |                       | Carrying amount |                       |
|---|-----------------|-----------------------|-----------------|-----------------------|-----------------|-----------------------|
|   | 31.12.2018      | Fair value 31.12.2018 | 01.01.2018      | Fair value 01.01.2018 | 31.12.2017      | Fair value 31.12.2017 |
| <b>Financial assets</b>                                     |                 |                       |                 |                       |                 |                       |
| Cash and balances with central banks                        | 114 507         | 114 507               | 71 199          | 71 199                | 71 199          | 71 199                |
| Loans and advances to banks                                 | 6 080           | 6 080                 | 13 126          | 13 127                | 13 126          | 13 127                |
| Loans and advances to customers                             | 381 914         | 383 875               | 342 030         | 341 941               | 342 425         | 342 336               |
| Securities at fair value through other comprehensive income | 125 772         | 125 772               | 168 804         | 168 804               | 168 986         | 168 986               |
| Securities measured at amortised cost                       | 91 007          | 94 845                | 58 249          | 63 118                | 58 256          | 63 125                |
| Investments in subsidiaries                                 | 7               | 7                     | 7               | 7                     | 7               | 7                     |
| <b>Financial liabilities</b>                                |                 |                       |                 |                       |                 |                       |
| Due to banks  | 71 921          | 72 086                | 91 596          | 91 649                | 91 596          | 91 649                |
| Deposits from customers                                     | 547 637         | 547 996               | 463 758         | 464 015               | 463 758         | 464 015               |
| Debt securities issued                                      | 14 378          | 14 367                | 18 045          | 17 989                | 18 045          | 17 989                |

The method used to determine the fair values of selected financial assets as at 31 December 2018:

| EUR '000  | Market price | Own model with reference to market prices | Own model without reference to market prices | Total          |
|---|--------------|---|--|----------------|
|   | Level 1      | Level 2                                   | Level 3                                      |                |
| Loans and advances to customers                             | -            | -   | 383 875                                      | <b>383 875</b> |
| Securities at fair value through other comprehensive income | 97 606       | 23 111                                    | 5 055  | <b>125 772</b> |
| Securities measured at amortised cost                       | 83 161       | 11 684                                    | -  | <b>94 845</b>  |
| Investments in subsidiaries                                 | -            | -   | 7  | <b>7</b>       |

**Notes to the Financial Statements for the year ended 31 December 2018  
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as adopted by the European Union**

The method used to determine the fair values of selected financial assets as at 1 December 2018:

| EUR '000   | Market price | Own model with                           | Own model  | Total   |
|--|--------------|--|--|---------|
|  | Level 1      | reference to<br>market prices<br>Level 2 | without reference<br>to market prices<br>Level 3 |         |
| Loans and advances to customers                                | -            | -  | 341 941  | 341 941 |
| Securities at fair value through other<br>comprehensive income | 158 765      | 10 039                                   | -  | 168 804 |
| Securities measured at amortised cost                          | 63 118       | -  | -  | 63 118  |
| Investments in subsidiaries                                    | -            | -  | 7  | 7       |

The method used to determine the fair values of selected financial assets as at 31 December 2017:

| EUR '000   | Market price | Own model with                           | Own model  | Total   |
|--|--------------|--|--|---------|
|  | Level 1      | reference to<br>market prices<br>Level 2 | without reference<br>to market prices<br>Level 3 |         |
| Loans and advances to customers                                | -            | -  | 342 336  | 342 336 |
| Securities at fair value through other<br>comprehensive income | 158 934      | 10 052                                   | -  | 168 986 |
| Securities measured at amortised cost                          | 63 125       | -  | -  | 63 125  |
| Investments in subsidiaries                                    | -            | -  | 7  | 7       |

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

**Cash and balances with central banks**

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

**Loans and advances to banks**

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

**Loans and advances to customers**

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

**Securities at fair value through other comprehensive income**

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

**Securities at amortised cost**

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

**Investments in subsidiaries**

Net value of assets approximates fair value.

**Due to banks**

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

**Deposits from customers**

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

**Debt securities issued**

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

**43. SIGNIFICANT SUBSEQUENT EVENTS**

As at the date of preparation of the financial statements, there have been no significant events that would require a material adjustment to the amounts or disclosures in the financial statements as at 31 December 2018.

**44. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were signed and authorised by the Board of Directors on 21 March 2019.



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



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