Prima banka Slovensko, a.s.

Separate Financial Statements
For the Year Ended 31 December 2017

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union
and Independent Auditor's Report

Prima Banka

Contents

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Prima banka Slovensko, a.s.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Prima Banka Slovensko a.s. (the "Bank"), which comprise the statement of financial position as at 31 December 2017, 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 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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
Loan loss provisions for loans and advances to customers	
Refer to Note 5.3 to the financial statements The assessment of loan loss provisions for loans and advances to customers requires management to make significant level of judgement including the quantum of known loan impairments and the identification and measurement of incurred but not specifically identified losses. The Bank uses one of two methods to assess the amount of loan loss provisions required:	We tested the design and operating effectiveness of key controls management has established over the impairment evaluation processes. For loan loss provisions determined on an individual loan basis this included controls over the compilation and review of the credit watch list, regular client creditworthiness review processes, approval of expert's collateral valuation and management review and approval of the impairment evaluation results.

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

For large, individually significant loans, impairment is assessed on an individual basis. The amount of specific provisions assessed on an individual basis reflects assumptions used by Bank management in evaluating the following critical areas: a) Identification of impairment events for various credit clients; b) Valuation of collateral; and c) Determination of expected future cash flows. Collective assessment is made on a portfolio modelled basis where loans are homogenous in nature. Portfolio and group specific provisions are calculated using statistical models based on available historical data which are used to derive probabilities of default and loss given default as well as emergence periods between the impairment event occurrence and the recognition of an individual or collective impairment. The inputs to these models are subject to management judgement. Additional model overlays are applied where observed statistical data are seen as not representative of the current levels of risk and current economic conditions. Specific loan loss provisions determined on an individual and group basis represent EUR 169 mil. and portfolio provisions represent EUR 35 mil. of the total recorded allowances of EUR 204 mil. as at 31 December 2017.	On a sample of large loans we evaluated appropriateness of provisioning methodologies and their application. We formed an independent view on the levels of provisions required by examining available external and internal information. This work involved assessing the work performed by experts used by the Bank to value the collateral or to assess the estimates of future cash flows. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to assess whether there was any indication of error or management bias. The overall conclusion was overlaid by an analysis performed at the whole portfolio level aimed at identifying unusual or irregular developments. For collective loan loss provisions we focused on controls over the impairment processes, review and approval process that management have in place for the outputs of impairment models. We assessed the appropriateness of methodology used for material portfolios by reference to the accounting standards and market practices. The appropriateness of management judgements was considered by our credit risk specialists through benchmarking the assumptions against economic data and industry practices.
Merger of Sberbank Slovensko, a.s. with Prima banka Slovensko, a.s. as at 1 August 2017	
Refer to Note 1 to the financial statements Sberbank Slovensko, a.s. was dissolved without liquidation as at 1 August 2017 and Prima banka Slovensko, a.s. became its legal successor. Upon the merger, the Bank assumed the assets, liabilities and equity of Sberbank Slovensko, a.s., which was wound-up. An assessment of this major transaction required Bank management to consider all aspects of the acquisition recognition in line with the requirements of International Financial Reporting Standards as adopted by the European Union ("EU"). Equity assumed by the Bank upon the merger as at 1 August 2017 amounted to EUR 141 million.	We assessed the appropriateness of the methodology used for the recognition of the merger of the banks based on accounting standards and market accounting practices. In connection with the merger and migration of client data between the information systems of the banks: - We assessed the internal controls of the successor bank related to the migration of client and business data; - We performed a conformity review on a selected sample in respect of key parameters of the migrated assets and liabilities portfolio; - We performed an analysis of client complaints received by the Bank in 2017 and statements of in-house and external lawyers of the Bank regarding pending legal actions and litigations of the Bank.

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.

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

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

- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

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

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

Appointment of the Auditor

We were appointed as the statutory auditor by the Bank's General Meeting on 20 April 2017. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 9 years.

Consistency with the Additional Report to the Audit Committee

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

Non-Audit Services

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

In addition to statutory audit services, we provided to the Bank and its controlled undertakings the following services which were not disclosed in the annual report or financial statements:

- A review of the Bank's financial information for a 7-month period ending on 31 July 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- Preparation of a long-form report on the audit of the Bank for the National Bank of Slovakia;
- Performance of procedures related to prudential returns prepared on an individual basis; and
- Performance of IT environment-related procedures to identify and test key controls as part of the overall IT environment.

Bratislava, 8 March 2018

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

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

I. FINANCIAL STATEMENTS

Separate Statement of Financial Position

	Note	31.12.2017	31.12.2016
Cash		101 054	77 051
Balances with central banks	1	204 839	51 766
Due from banks	2	82 590	52 210
Loans and advances to customers	3	2 791 455	1 639 723
Financial assets at fair value through profit or loss	4	2 695	2 828
Available-for-sale financial assets	5	1 914	11 397
Held-to-maturity financial assets	6	329 134	287 068
Positive fair value of derivatives	7	35	17
Non-current tangible assets	8	21 270	12 087
Non-current intangible assets	9	1 162	612
Deferred tax asset	10	9 671	7 179
Other assets	11	6 873	5 276
Assets held for sale	12	0	2 512
Assets total		**3 552 692**	**2 149 726**
Liabilities and equity			
Loans and deposits received from central banks	13	0	25 000
Due to banks	14	30 367	10 114
Customer deposits	15	3 079 660	1 858 349
Debt securities	16	119 522	53 565
Negative fair value of derivatives	17	1 807	2 022
Current tax liability	18	3	3
Other liabilities	19	817	23 463
Provisions and reserves	20	16 814	9 066
Subordinated debt	21	0	22 575
Liabilities total		**3 248 990**	**2 004 157**
Equity (except profit for the current year)	22	288 758	135 116
Profit/loss for the current year after tax		14 944	10 453
Equity total		**303 702**	**145 569**
Liabilities and equity total		**3 552 692**	**2 149 726**

The notes on pages 8 to 52 are an integral part of these separate financial statements. The separate financial statements were signed and approved for issue on 28 February 2018:

Jan Rollo
Chairman of Management Board
and General Director, mp

Renáta Andries
Member of Management Board
and Director of Financial Division, mp

Separate Statement of Comprehensive Income

	Note	31.12.2017	31.12.2016
Net interest margin	23	56 325	48 545
Dividend income		6	0
Net fee and commission income	24	18 296	14 743
Net trading income (expense)	25	574	137
Net income (expense) on investments	26	(520)	2 167
Other net income (expense)	27	277	121
Specific contributions of selected financial institutions	28	(5 831)	(4 928)
Net income from banking activities		**69 127**	**60 785**
Personnel expenses		(21 533)	(17 873)
Depreciation and provisions for assets		(2 823)	(3 032)
Purchased output and services and other expenses		(23 136)	(21 249)
General and administrative expenses	**29**	**(47 492)**	**(42 154)**
Net operating income		**21 635**	**18 631**
Net allocation to reserves and provisions for receivables		(5 010)	5 321
Write-off of receivables		(4 169)	(12 984)
Net allocation to provisions and reserves	**30**	**(9 179)**	**(7 663)**
Profit before tax		**12 456**	**10 968**
Current income tax expense		(3)	(3)
Deferred income tax benefit		2 491	(512)
Total tax	**0**	**2 488**	**(515)**
Net earnings	**31**	**14 944**	**10 453**
Net earnings per share (face value of € 399) in €		37.354	37.518
Net earnings per share (face value of € 67) in €		6.273	6.300
Net earnings share (face value of € 5) in €		0.468	0.470
Net earnings per share (face value of € 1) in €		0.094	0.094

Other Comprehensive Income and Loss

	Note	31.12.2017	31.12.2016
Revaluation of available-for-sale financial assets		2 207	(1 467)
Reclassification of profit on available-for-sale financial assets upon their sale		0	2 225
Revaluation of cash flow hedge		713	227
Actuarial gains (losses)		74	0
Total	**22**	**2 994**	**985**
Comprehensive income total		**17 938**	**11 438**

Separate Statement of Cash Flows

	31.12.2017	31.12.2016
Cash flows from operating activities		
Profit before tax	12 457	10 968
Adjustment:		
Depreciation and amortisation	2 823	3 032
Profit from the sale non-current tangible and intangible assets	(318)	106
Loss from revaluation of financial assets at fair value through profit and loss	4	(17)
Profit/(loss) from revaluation of derivatives	(1 207)	227
Proceeds from shares and equity interests	(6)	0
Profit of revaluation available-for-sale financial assets	683	272
Interest expense	17 414	19 524
Interest income	(73 741)	(68 069)
Provisions and reserves for losses, net	1 438	(2 794)
Net loss on written off receivables	4 165	12 984
Net profit from assigned receivables	5	7
Other non-cash transactions	(154 045)	(147)
Net cash flows from operating activities before changes in operating assets and liabilities	**(190 328)**	**(23 907)**
Changes in operating assets		
Due to the NBS	(106 552)	(51 767)
Interbank loans and advances	283 697	74 529
Loans and advances to customers	(197 542)	(158 359)
Financial assets at fair value revaluated through profit and loss	129	129
Financial assets available for sale	10 994	(11 496)
Other assets	(1 254)	(560)
Subordinated debt	0	0
Asset held for sale	2 512	454
Changes in operating liabilities		
Loans received from the central banks	(25 000)	(25 000)
Due to other banks	17 966	10 111
Customer deposits	102 136	176 322
Other liabilities	113 265	(21 294)
Interest paid	(20 969)	(19 035)
Interest received	74 811	70 059
Tax on income paid	0	(3)
Net cash flows from operating activities	**63 865**	**20 183**
Cash flows from investment activities		
Purchase of non-current tangible and intangible assets	(2 224)	(2 777)
Proceeds from the sale of non-current tangible and intangible assets	(807)	675
Held-to-maturity financial assets	33 194	12 350
Net profit from assigned receivables	0	(7)
Proceeds from shares and equity interests	6	2 098
Net cash flows from investment activities	**30 169**	**12 339**

Separate Statement of Cash Flows – continued

	31.12.2017	31.12.2016
Cash flows from financial activities		
Issued debt securities	0	(41 000)
Net cash flows from financing activities	**0**	**(41 000)**
Net cash inflows/(outflows)	94 034	(8 478)
Cash and cash equivalents the beginning of year (Note 33)	77 868	86 346
Cash and cash equivalents at the end of year (Note 33)	171 902	77 868

Separate Statement of Changes in Equity

	Share capital	Share premium funds	Legal reserve fund	Other capital funds	Revaluation reserves	Profit/Loss for previous years	Profit/Loss for current year	Equity total
Balance at 1.1.2016	**111 163**	**11**	**51**	**46 000**	**(6 516)**	**(21 590)**	**5 012**	**134 131**
Distribution/settlement of profit/(loss) for 2015			501			4 511	(5 012)	0
Profit/(loss) for 2016							10 453	10 453
Reclassification of profit on available-for-sale financial assets upon their sale					(1 467)			(1 467)
Profit from revaluation of available-for-sale financial assets					2 225			2 225
Revaluation of cash flow hedge					227			227
Balance at 31.12.2016	**111 163**	**11**	**552**	**46 000**	**(5 531)**	**(17 079)**	**10 453**	**145 569**
Balance at 1.1.2017	**111 163**	**11**	**552**	**46 000**	**(5 531)**	**(17 079)**	**10 453**	**145 569**
Distribution/settlement of profit/(loss) for 2016			1 046			9 407	(10 453)	0
Profit/(loss) for 2017							14 944	14 944
Profit on revaluation of available-for-sale financial assets					2 207			2 207
Revaluation of cash flow hedge					713			713
Actuarial gains					74			74
Issue of shares*	115 610							115 610
Share premium*		71 179						71 179
Legal reserve fund*			1 145	8 078				9 223
Transfer of profit/(loss)*						(55 817)		(55 817)
Balance at 31.12.2017	**226 773**	**71 190**	**2 743**	**54 078**	**(2 537)**	**(63 489)**	**14 944**	**303 702**

*The items: issue of shares, share premium, legal reserve fund and transfer of the profit/(loss) include movements related to the merger of Sberbank Slovensko, a.s. with Prima banka Slovensko, a.s. as at 1 August 2017, and are described in more detail in the Notes to the financial statements, page 8.

II. Notes to the financial statements

1. General Information about Prima banka

Basic Information

Prima banka Slovensko, a. s., (hereinafter "Prima banka" or the "Bank") is a joint-stock company whose registered seat is at Hodžova 11, Žilina. The Bank was established on 14 May 1992 and incorporated with the Commercial Register on 1 January 1993. The Bank has a general banking licence, issued by the National Bank of Slovakia (hereinafter "NBS"). The identification number of the Bank is 31 575 951 and its tax identification number is 202 037 2541.

Prima banka does not have a branch abroad and is not an unlimited guarantor in any other business entity.

According to a plan presented to the shareholders, the Bank merged with Sberbank Slovensko, a.s. After the approval by the shareholders and the General Meeting and after obtaining the approval by the National Bank of Slovakia, Sberbank Slovensko, a.s. was dissolved without liquidation as at 31 July 2017 and Prima banka became its legal successor.

When merging the values of balance sheet items of Sberbank Slovensko, a.s., the Bank considered Sberbank carrying amounts in line with International Financial Reporting Standards. The values were as follows (in thousands of €):

	Carrying amount
Carrying amount of assumed assets (after taken into account accumulated depreciation and provisions)	1 369 267
Carrying amount of assumed liabilities	1 227 901
Equity,*	141 366
Of which: share capital	65 743

*More information on the changes in equity in connection with the merger of Prima banka with Sberbank Slovensko, a.s. is described in Note 22.

Statutory and Management Bodies

Board of Directors

Chairman: Iain Child
Vice-Chairman: Marián Slivovič
Members: Pierre Vérot – termination of the office on 24 April 2017
Evžen Ollari

Management Board

Chairman: Jan Rollo
Members: Henrieta Gahérová
Renáta Andries

Proxy

Igor Tušl

In line with the entry in the Commercial Register dated 12 July 2013, a member of the Management Board acts together with a proxy, and the proxy attaches their signature with a comment specifying the procura.

Scope of Activities

Prima banka is a universal bank offering a wide range of banking and financial services, which operates only in the Slovak Republic. Its core activities include deposit taking, loan provision, domestic and cross-border money transfers, provision of investment services, investment activities, and supplementary services under Act No. 566/2001 Coll. on Securities and Investment Services, etc. The valid list of all the Bank activities is disclosed in the Commercial Register.
Prima banka does not carry out any research and development activities.

Shareholder Structure of Prima banka

	Stake in Share Capital in %	
	31.12.2017	31.12.2016
PENTA INVESTMENTS LIMITED, Cyprus	99.31	98.79
Shareholders under 1%	0.69	1.21
Total	**100.00**	**100.00**

The direct parent company is PENTA INVESTMENTS LIMITED, Agias Fylaxeos & Polygnostou, 212 C&I CENTER, 2nd floor, P.C. 3082 Limassol, Cyprus, registered in the Companies Register, maintained by the Ministry of Industry, Trade and Tourism, Company Registrar and Bankruptcy Administrator Department, Nicosia, registration number: HE158996.

The ultimate parent company that prepares the consolidated financial statements is Penta Investments Limited seated at 47 The Esplanade, JE1 OBD, St Helier, Jersey, registration number: 109645.

The consolidated financial statements are available at Penta Investments Limited Jersey.

Share Capital and its Structure

Prima banka may only issue registered shares issued in book-entry form. Their transfer is made in accordance with the Securities Act in the Central Securities Depository, which maintains the list of shareholders. The transferability of shares is unlimited. The Bank's ordinary shares, excluding shares ISIN: SK1110017037, ISIN: SK1110017508 and SK1110019579, are publicly traded at the Bratislava Stock Exchange.

The structure of ordinary shares as at 31 December 2017 and 31 December 2016 remained unchanged and is presented in the following overview:

Type	ISIN	Kind	Form*	Number	Face value
Ordinary shares	SK1110001270	Registered	Book-entered	100 200 pcs	€ 399
Ordinary shares	SK1100013671	Registered	Book-entered	100 200 pcs	€ 67
Ordinary shares	SK1110014927	Registered	Book-entered	701 400 pcs	€ 5
Ordinary shares	SK1110015676	Registered	Book-entered	14 705 882 pcs	€ 1
Ordinary shares	SK1110017037	Registered	Book-entered	24 000 000 pcs	€ 1
Ordinary shares	SK1110017508	Registered	Book-entered	22 257 415 pcs	€ 1
Ordinary shares	SK1110019579	Registered	Book-entered	115 609 441 pcs	€ 1

*all shares are book-entered in the Central Securities Depository of the Slovak Republic

Information on capital increase and issue of new shares:

In connection with the merger with Sberbank Slovensko, a.s. on August 1, 2017, the extraordinary general meeting held on May 24, 2017 it was decided to increase the capital by an amount of 115,609,441,- €, by issuing new shares with a nominal value of 1,- € per 1 pc and will be issued in count of 115,609,441,- € units as equity shares in the book-entered form of name shares. These shares were distributed to the shareholders of Sberbank Slovensko, a.s. to replace their shares.

Number of Employees

	31.12.2017
Average number of employees, of which:	**1 009**
Average number of managers	6

As at 31 December 2017, Prima banka had 959 employees (31 December 2016: 700) and offered its services at 127 branches (31 December 2016: 110 branches).

2. Basis for the Preparation of Financial Statements

The key accounting principles applied for the preparation of these financial statements are outlined in the text below:

Purpose of Preparation
The purpose of preparing these separate financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll. as amended. Prima banka prepares its separate financial statements under special regulations - Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Financial Reporting Standards (hereinafter "IFRS"). The financial statements are intended for general use and information, and are not intended for a specific user or the consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

The Bank's separate financial statements for the previous reporting period (as at 31 December 2016) were approved and authorised for issue on 24 February 2017 and subsequently approved on 20 April 2017 by the General Meeting.

Basis of Presentation
The separate financial statements of the Bank (the "financial statements") for the year ended 31 December 2017 and comparative data for the year ended 31 December 2016 have been prepared in accordance with IFRS as adopted by the European Union (the "EU") in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Commission Regulation (EC) 1126/2008 of 3 November 2008 was issued to integrate all standards and interpretations issued by the International Accounting Standards Board (hereinafter "IASB") and the IFRIC that have been fully adopted for use in the Community as at 15 October 2008, except for IAS 39 relating to the recognition and measurement of financial instruments in a single document. Commission Regulation (EC) 1126/2008 of 3 November 2008 replaces Commission Regulation (EC) 1725/2003 of 29 September 2003.

IFRS, as adopted by the EU, do not currently differ from IFRS as issued by the IASB, except for certain requirements for portfolio hedge accounting under IAS 39, which has not been approved by the EU. Prima banka has determined that portfolio hedge accounting under IAS 39 would have had no impact on its financial statements had it been approved by the EU at the balance sheet date.

The First application of new amendments to existing standards applicable to the current reporting period
Prima banka adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB as adopted for use in the EU that are relevant to its operations and are effective for reporting periods beginning on 1 January 2017. The following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 12 "Income Tax" – Recognition of deferred tax receivables from unrealized losses; adopted by the EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 7 "Statement of Cash Flows" – Improvements in the disclosures – adopted by the EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017).

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

Standards and amendments to existing standards issued by the IASB and approved by the EU, which have not yet entered into force

- **IFRS 9 *"Financial Instruments"*** (effective for annual periods beginning on or after 1 January 2018); The standard is intended to improve the financial recognition of financial instruments by responding to concerns which occurred in this respect during the financial crisis. The standard introduce a more future-oriented model as regards the recognition of expected losses on financial assets.

Adopting IFRS 9 results in the following changes to International Accounting Standards (IAS): IAS 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37 a IAS 39, International Financing Reporting Standards (IFRS): IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7 and IFRS 13, interpretations issued by the International Financial Reporting Committee (IFRIC): IFRIC 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19 and interpretation of the Standing Interpretations Committee: SIC 27 to ensure consistency with IAS.

To ensure conformity with EU legislation, the regulation did not introduce any subsequent change to IAS 39 concerning fair value hedge accounting. IFRS 9 rescinds IFRIC 9.

- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2018) – the standard aims to improve the financial reporting of revenues and the global comparability of revenue data in the financial statements.

  Adopting IFRS 15 results in the following changes to IFRS 1, 3 and 4, IAS 1, 2, 12, 16, 32, 34, 36, 37, 38, 39 and 40 and the interpretations issued by the International Financial Reporting Committee (IFRIC): 12, interpretation issued by the Standing Interpretation Committee (SIC) 27 and SIC 32 to ensure consistency with International Accounting Standards.

  The adoption of IFRS 15 results in the termination of the effectiveness of IAS 11 and 18, IFRIC 13, IFRIC 15 and IFRIC 18, and SIC 31.

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "The Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" and 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" applies for the first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 "Revenue from Contracts with Customers" - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

The Bank has elected not to adopt these standards, revisions, and interpretations in advance of their effective dates.

The Bank assesses impacts of the application of these standards (primarily IFRS 9) and their impact on the financial statements is not reliably estimated.

The Bank has implemented the requirements for the classification of financial instruments in accordance with IFRS 9. Due to the application of the new standard, there is no change in the classification of existing financial instruments.

New standards and amendments to existing standards issued by the IASB, which the EU has not yet approved

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on after 1 January 2021),

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or deposit between an Investor and its Affiliated Company or Joint Venture and other additions (the effective date was deferred indefinitely, until the actual equity method of equity research is completed),
- **Amendments to IAS 28 "Investment in Associated and Joint Venture"** – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 40 "Investments Property"** – Transfer of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRS (cycle 2014 – 2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 a IAS 28), primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 shall be applied for annual periods beginning on or after 1 January 2017, and amendments to IFRS 1 and IAS 28 shall be applied for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRS (cycle 2015 – 2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 a IAS 23), primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 22 "Transactions in Foreign Currency and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

Basis for the Preparation of Financial Statements

The financial statements were prepared using the accrual basis of accounting, ie the effects of transactions and other events are recognised by the Bank when they occur. Transactions and events are reported in the financial statements for the periods to which they relate.The financial statements have been prepared under the assumption that the Bank will continue its operations as a going concern in the foreseeable future. The financial statements are prepared under the historical cost convention; certain financial instruments were revalued to fair value.

The reporting currency used in these financial statements is the euro ("€"). Value figures are presented in thousands unless stipulated otherwise. Value figures in brackets represent negative values.

If necessary, comparative data was reclassified to ensure the comparability of presented data.

Segment Reporting

Due to the fact that the internal management of business activities of the Bank is not divided into operating segments with a specific approach, the Bank does not publish information on segments according to *IFRS 8 Operating segments*.

Taking over of Sberbank Slovakia, a.s.

Sberbank Slovakia, a.s. was dissolved without liquidation on July 31, 2017 and Prima banka Slovensko, a.s., became the successor company. This fact has influence on the financial indicators presented in the financial statements and Notes to these financial statements as at December 31, 2017 - The Balance Sheet includes total assets and liabilities of both companies, items in the Profit and Loss Statement include only transactions performed after 1 August 2017. Therefore, comparative data are not fully comparable to the same period of the previous year.

3. Significant Accounting Procedures

a) Transaction Date

The transaction date with respect to the purchase and sale of financial assets and liabilities such as term deposits, securities, and derivatives is the date when the deal is arranged. On such a date it is recognised in the off-balance sheet accounts. On the settlement date, the entry on the off-balance sheet accounts is reversed and recognised on the balance sheet accounts.

b) Transactions in a Foreign Currency

Transactions made in a foreign currency are translated to euros using the reference exchange rate determined and announced by the European Central Bank (ECB) on the date preceding the transaction date. Assets and liabilities denominated in a foreign currency are translated to euros as at the reporting date using the exchange rate valid as at the reporting date. Exchange rate gains/(losses) from all foreign exchange transactions are included in the statement of comprehensive income item *"Net trading income"*.

c) Cash and Balances with Central Banks

Cash and balances with central banks comprise cash held, and cash balances with the National Bank of Slovakia, including the compulsory minimum reserve with the National Bank of Slovakia (NBS). The compulsory minimum reserve with the National Bank of Slovakia is a required deposit with restricted drawing to be held by all commercial banks licensed in the Slovak Republic.

d) Cash and Cash Equivalents in the Statement of Cash Flows

Cash and cash equivalents consist of cash on hand, asset balances on correspondent banks' accounts and cash deposits with the NBS, which are considered to be liquid, ie their maturity is up to three months. This category does include the minimum compulsory reserves held with the NBS, whose use (drawing) is restricted, however, they can be used if liquidity is required.

e) Sale and Repurchase Agreements (Repo Transactions)

A repo transaction is the provision of a loan secured by a security transfer. Securities sold under selling and repurchasing contracts are recognised in the Statement of Financial Position as assets under *"Financial assets at fair value through profit or loss"* or "*Financial assets held to maturity"*. Depending on the nature of the liability, a payment received from a counterparty is recognised under *"Due to banks"* or *"Customer deposits"*.

Securities purchased under agreements to purchase and resell ("reverse repo transactions") are recognised in the statement of financial position in the account *"Due from banks"* or *"Loans and advances to customers"* as appropriate. Received collateral, which is a security, is recognised in the off-balance sheet accounts from the settlement date until the maturity date of the deal. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

f) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank classifies financial instruments in four categories, in accordance with the Bank's intent upon the acquisition of the instruments and pursuant to the Bank's investment strategy, as follows:

- Loans and other receivables
- Financial assets or financial liabilities at fair value through profit or loss
    a. Held-for-trading financial assets or financial liabilities
    b. Financial assets or financial liabilities designated at fair value through profit or loss
- Held-to-maturity financial assets
- Available-for-sale financial assets

g) Loans and Other Receivables

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

Upon signing a loan agreement, a confirmation on the opening of a credit facility is recognised in the off-balance sheet accounts on the trade date. When the financial funds are drawn by the debtor, the loan is transferred to the statement of financial position. During the performance of their activities, the Bank records contingent liabilities with inherent credit risk. The Bank accounts for these contingent liabilities in off-balance sheet accounts, and records a provision for such liabilities that reflects the level of risk of issued guarantees, letters of credit, and unused credit limits as at the balance sheet date.

Recognition of Provisions for Impairment Losses on Loans
Prima banka classifies all receivables from customers as either individually significant or insignificant. Provisions for significant loan items granted to customers are recognised on an individual basis. A decision on the recording of a provision is subject to an assessment as to whether the stated item fulfils any of the conditions that demonstrate potential impairment of a receivable. These conditions mainly include: delayed payment, information that distraint proceedings are being held against the debtor, the debtor is in bankruptcy or liquidation, when identified fraud is associated with the receivable, when the receivable has been restructured owing to the debtor having insufficient funds to repay the receivable under the original payment schedule, or when monitoring of the customer's financial position leads the Bank to conclude that the customer will be unable to repay receivables in the full amount.

Provisions are recorded to cover estimated losses from loans and receivables for which objective evidence of impairment exists. The provision for possible loan losses is calculated to reduce the carrying amount of loans to customers to their recoverable value representing expected future cash flows discounted to the present value using the original effective interest rate valid at inception or the fair value of the related collateral. Provisions for losses from loans to customers are charged to "*Net allocation to provisions for receivables*" in the statement of comprehensive income. If there is no reason to record a provision or the amount of provisions is not adequate, excessive provisions are released using the same line of the statement of comprehensive income.

Provisions are recorded based on the quantification of the incurred loss that is determined as the difference between the carrying amount of a loan receivable and the present value of estimated cash flows discounted using the original effective interest rate of the loan net of the collateral value. For restructured loans, the effective interest rate valid before the terms and conditions were changed is applied.

For loan receivables that do not meet the conditions for specific provisioning and are not recognised at fair value, the Bank records collective portfolio provisions on a portfolio basis when using risk parameters for the relevant group of loans. Portfolio provisions cover losses that have not yet been identified on an individual basis but, based on historical experience, are inherent in individual portfolios as at the reporting date.

The calculation of collective portfolio provisions is based on the amounts receivable as disclosed on the balance sheet as receivables from customers and the amounts of off-balance sheet receivables from clients excluding defaulted exposures. The probability rates of default on receivables, a potential loss resulting from the default of a receivable, and the exposed amount are used to calculate expected losses. They are based on the analysis and back-testing of the historical data of the Bank with regard to each portfolio.

Write-off of Receivables
The existence of unrecoverable receivables is connected with business risk, which is to a various degree inherent in all banking activities. If a particular receivable meets the conditions for a write-off, Prima banka writes off the receivable directly into expenses in the statement of comprehensive income under *"Net profit/(loss) on write-off of receivables"* and recognised impairment provisions are reversed. Receivables for which the right of collection did not expire continue to be recognised in off-balance sheet accounts. The Committee for Non-Performing Loans decides which write-off method will be applied with respect to a particular receivable. When a written-off receivable is collected, income is recognised in the statement of comprehensive income under *"Net profit/(loss) on write-off of receivables"*.

h) Transactions with Securities

Securities held by Prima banka are categorised in portfolios according to the intent upon their acquisition. All securities acquired for Prima banka's portfolio are recognised at cost on the financial settlement date.

Financial Assets at Fair Value Through Profit or Loss

This portfolio includes financial instruments normally traded on a listed market, which are used to manage position risks, mainly liquidity and currency risk exposures to harmonise the positions of the Banking and Trading Books. The original purpose of the acquisition was to make an investment in the Prima banka portfolio.

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

The Bank records unrealised gains and losses from the revaluation of these assets to their fair values in the statement of comprehensive income line *"Net trading income"*. Interest income from securities at fair value through statement of comprehensive income is accrued on a daily basis and recorded in the statement of comprehensive income line *"Interest and similar income"*.

Available-For-Sale Financial Assets

Available-for-sale financial assets ("AFS portfolio") include securities sold by Prima banka under standard market terms and conditions or to manage risks of the Banking Book. The AFS portfolio also includes the Bank's investments in privately-held companies with a share of less than 20% in the share capital and voting rights, for which no market exists or participation in which is compulsory (SWIFT Belgium. VISA Inc., USA).

Dividend income from available-for-sale financial assets is reported as *"Dividend income"* in the statement of comprehensive income. Profit or loss from the sale of available-for-sale financial assets is recognised in the statement of comprehensive income as *"Net trading income/(expense)"*. Changes in the fair value of available-for-sale financial assets are credited or debited to revaluation reserves in equity.

Held-to-Maturity Financial Assets

This portfolio includes non-derivative financial assets with fixed or floating payments and a fixed maturity that the Bank intends and is able to hold to maturity. Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method less impairment. Interest income and discounts and premiums on held-to-maturity securities are accrued on a daily basis and recognised as *"Interest and similar income"* in the statement of comprehensive income.

Derecognition of Financial Instruments

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

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

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

Offsetting Financial Instruments

The Bank only offsets financial assets and financial liabilities if this results from a contractual arrangement and the Bank's intention is to settle an asset and a liability on a net basis, and/or concurrently. Financial instruments subject to offsetting are presented in the statement of financial position in a net amount.

i) Financial Derivatives

Prima banka's financial derivatives include currency and interest rate swaps and forwards. They are held to hedge risk. In the statement of financial position, they are recognised at fair value under "*Positive fair value of derivatives"* or *"Negative fair value of derivatives"*. An underlying derivative financial instrument is recognised in off-balance sheet accounts on the transaction date. It is derecognised from the off-balance sheet accounts on the date the respective derivative is closed.

Changes in the fair value of derivatives are recognised on the balance sheet accounts to ensure that the positive fair values of derivatives are shown as an asset and negative fair values of derivatives are shown as

a liability with a corresponding entry in revenues and expenses recognised in the statement of comprehensive income under *"Net trading income/(expense)"*.

The revaluation of swaps and other derivatives in the Banking Book and the hedging instruments takes place once a month based on their discounted cash flows using the market curves.

j) Hedging

Prima banka is hedged against volatility risk in the fair values ("Fair Value Hedge") of recognised assets, which relates to the risk of interest rate volatility and may affect the Bank's expenses or revenues. Hedged items include are long-term loans with a structured interest rate. The gain or loss from the fair value measurement of a hedging instrument is recognised in revenues or expenses. The gain or loss on a hedged item attributable to the hedged risk is recognised in profit or loss and the impact of changes in fair values of hedging instruments and hedged items on the P/L is insignificant.

k) Fair Value of Financial Instruments

The fair value of financial instruments corresponds to the quoted market price as at the reporting date, without a reduction for transaction costs.

Fair values of financial instruments not quoted in active markets are determined using valuation techniques such as the theoretical price derived from the yield 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. If practicable, 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.

When the discounted cash flows method is used, estimated future cash flows are based on the most accurate management estimates and the discount rate represents the market rate for instruments with similar conditions and maturity. When valuation models are used, input values are based on market values valid as at the reporting date.

Fair values of derivative instruments that are not traded on a stock exchange are derived from the estimated values the Bank would obtain under standard business conditions at the termination of the contract as at the reporting date after considering the market conditions and the creditworthiness of the relevant counterparty.

l) Non-Current Tangible and Intangible Assets

Non-current tangible and intangible assets are stated at historical cost less accumulated depreciation/amortisation together with accumulated impairment losses. Prima banka applies a linear method to depreciate or amortise non-current tangible and intangible assets based on the estimated useful life. Depreciation/amortisation starts in the month in which the assets were placed into service.

Low-value non-current tangible assets with a cost of up to € 1 700 and low-value non-current intangible assets with a cost of up to € 2 400 and a useful life of over one year are expensed in the year they are placed into service.

Land and works of art are not depreciated.

For accounting depreciation/amortisation of assets Prima banka uses the following depreciation/amortisation periods:

	Depreciation/Amortisation Period in Years
Computers, office tools, cars, etc.	4 - 6
Software	up to 10
Inventory	4 -6
Office and banking equipment	4 -12
Buildings and structures	40*

*The buildings owned by the Bank are depreciated over 40 years, restoration work is carried out in the rented buildings according to the term of the lease.

m) Impairment of Tangible and Intangible Assets

At each balance sheet date, Prima banka reviews the carrying amounts of its non-current tangible and intangible assets to determine whether there is any indication that the assets have suffered an impairment

loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. If any of the amounts above exceeds the carrying amount, there is no need to estimate the other amount. If the estimated recoverable amount of an asset is lower.

than its carrying amount, the carrying amount of the asset is reduced to equal the recoverable amount. The impairment loss is recognised directly through the statement of comprehensive income under *"Depreciation"*.

n) Assets Held for Sale

Assets held for sale are non-current assets held to sale for which the carrying amount will be realized through a sale transaction, rather than by using them. These are assets held for sale in their present condition and a sale is considered highly probable. Assets classified as non-current assets held for sale are reported at the lower of cost less accumulated depreciation and provisions or at fair value less costs related to sale.

o) Income Tax

Current income tax is calculated on the tax base reported in accordance with Slovak tax legislation. The tax basis differs from accounting profit/(loss) recognized in the statement of comprehensive income, as it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The current tax liability is calculated using the tax rates valid as of the reporting date.

Deferred income tax is reported, using the balance sheet method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rate enacted for future periods was used to determine deferred income tax, ie 21%.

A deferred tax liability related to taxable temporary differences represents tax to be paid in future taxation periods. A deferred tax asset is related to deductible temporary differences, the possibility to carry forward the tax loss, and the possibility to transfer unused tax deductions and other tax claims to future periods. Deferred tax liabilities are recognised generally for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax is recognised in the income statement except for cases where the deferred tax relates to items not recognised as income or expenses but are charged and recognised in equity. In such cases, the related deferred tax is debited or credited to equity.

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

The Bank recognises due corporate income tax and deferred tax in the statement of financial position in the line *"Tax assets" or "Tax liabilities"*.

p) Debt Securities

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

q) Subordinated Debt

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

r) Accrued Interest

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

s) Provisions for Liabilities

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

t) Earnings per Share

The Bank discloses earnings per share attributable to holders of ordinary shares. The Bank calculated earnings per ordinary share as profits attributable to holders of ordinary shares divided by the weighted average number of ordinary shares outstanding during the period. The profit attributable to each class of shares is determined based on the face value of each class of shares in relation to the percentage of the total face value of all shares.

u) Interest Income and Interest Expense

Interest income and expense, and interest related charges arising on all interest-bearing instruments are accrued in the statement of comprehensive income using the effective interest rate method. Interest income (expense) from securities includes revenues from coupons with fixed and floating rates, and amortised discount or premium.

v) Fees and Commissions

Fees and commissions received and paid are recognised in the statement of comprehensive income as *"Net Interest income"* on an accrual basis. Fees related to the provision of loans are accrued over the term of the respective loan.

4. Significant Accounting Estimates

Presenting the financial statements in compliance with IFRS requires estimates and assumptions to be prepared that affect the reported amounts of assets and liabilities and estimated assets and liabilities as at the reporting date as well as disclosed expenses and revenues for the relevant reporting period. The effect of the change in accounting estimates is included, on a prospective basis, in the profit/loss of the period in which the estimate is changed provided that the changes only affect the given period, or also in the profit/loss of the subsequent periods if the change has an impact on the following periods. The estimates relate to: fair values of financial instruments, provisions for loans to customers and provisions for litigations.

Fair Value of Financial Instruments
If it is not possible to determine the fair value of financial assets and financial liabilities recognized in the statement of financial position from active markets, fair value is determined using by different valuation techniques including mathematical and statistical models. The inputs for these models are taken from observable recognised markets, but if this is not possible, the determination of fair value requires estimates. The estimates include considerations of liquidity and model inputs, eg current interest rates, exchange rates and credit spreads.

Provisions for Loans to Customers
As discussed in Note 3 above and as described in detail in Notes 3 and 30, chapter 5 to the Financial Statements, the Bank recognises a provision for impairment of loans and receivables when there is objective evidence that past events had an adverse impact on estimated future cash flows. These provisions are based on the Bank's historical experience and the latest data on loan defaults, recoverability of loans and/or time needed for a loss event to evolve into default, and from subjective judgements of the Bank's management regarding estimated future cash flows.

The recognition of provisions for loan losses and identified contingent liabilities, however, includes some uncertainties regarding the outcome of the aforementioned risks and requires the Bank's management to make many subjective judgements when estimating losses. Given the existing economic conditions, the outcome of the estimates may differ from the amount of the impairment provisions recognised as at 31 December 2017.

Deferred Tax Asset
The utilization of a deferred tax asset depends on the generation of sufficient future taxable profits. Moreover, rules and regulations have undergone significant changes in recent years; there are few historical precedents or interpretative rulings on a number of complex issues affecting the banking industry. In addition, the tax authorities have broad powers when interpreting the application of the tax laws and regulations when examining taxpayers. Accordingly, there is a high degree of uncertainty about the ultimate outcome of examinations by the tax authorities.

Provision for Litigation Claims
The amounts recognised as provisions for liabilities are based on the Bank's management's judgement and represent the best estimate of the expenses required to settle a liability with uncertain timing and an uncertain amount payable.

Future events and their effects cannot be determined with absolute certainty. Accordingly, accounting estimates require judgement and the estimates that are used in the preparation of the financial statements are changed when new events occur or new information and experience are available, or when the business environment in which the Bank operates changes. Results may differ from these estimates, and the impact can be significant.

5. Notes to the Financial Statements

1. Balances with Central Banks

	31.12.2017	31.12.2016
Compulsory reserves with the NBS	158 318	51 766
Current account in the NBS*	46 521	0
Total	**204 839**	**51 766**

*Relating to the merger of the Bank with Sberbank Slovensko, a.s., when based on a contract concluded between Prima banka and NBS as at 1 August 2017, an account was open to make/receive payments via TARGET2-SK and settle such payments by using bank code 3100 (the code of former Sberbank).

Compulsory reserves with the NBS represent minimum compulsory reserves the Bank is obliged to maintain in cash with the NBS. The system of creating and maintaining minimum reserves is regulated by European Community and European Central Bank regulations. The Bank's ability to withdraw the reserve is restricted by applicable legislation.

2. Due from Banks

	31.12.2017	31.12.2016
Current accounts with other banks	10 336	817
Term deposits	65 162	51 393
Loans to Banks	7 092	0
Total	**82 590**	**52 210**

a) Due from Banks by Geographical Territory

	31.12.2017	31.12.2016
Slovak Republic	603	133
EU Member States	72 840	52 057
Other countries	9 147	19
Total	**82 590**	**52 210**

3. Loans and Advances to Customers

a) By Customer Group

	31.12.2017	31.12.2016
Municipalities	148 173	166 208
Other enterprises	831 441	363 673
Individuals, including:	2 015 932	1 195 628
housing loans	1 777 563	1 005 395
consumer loans	200 376	136 871
other loans/receivables	37 993	13 362
Total	**2 995 546**	**1 725 509**
Specific provisions	(169 094)	(68 229)
Portfolio provisions	(34 997)	(17 557)
Total	**2 791 455**	**1 639 723**

The overview of loans and advances by their residual maturity is stated in Note 38 (2c).

b) By Geographical Territory

	31.12.2017	31.12.2016
Slovak Republic	2 615 116	1 548 698
EU Member States	170 020	83 879
Other countries	6 319	7 146
Total	**2 791 455**	**1 639 723**

c) Provisions for Loans to Customers

Allocation and use of provisions as at 31 December 2017:

	Balance 1.1.2017	Allocation	Release	Use*	Exchange rate differences	Other movements	Balance 31.12.2017
Specific provisions	(68 229)	(23 362)	35 770	3 369	1	(116 643)	(169 094)
Portfolio provisions	(17 557)	(41 326)	36 170	0	5	(12 289)	(34 997)
Total	**(85 786)**	**(64 688)**	**71 940**	**3 369**	**6**	**(128 932)**	**(204 091)**

*Relating to the provision for default interest that was transferred from the balance sheet to off-balance sheet accounts in 2017.

"Other movements" comprise balances of the provisions of Sberbank Slovensko, a.s., which merged with Prima banka as at 1 August 2017.

Allocation and use of provisions in 2016:

	Balance 1.1.2016	Allocation	Release	Use	Exchange rate differences	Balance 31.12.2016
Specific provisions	(65 726)	(43 052)	26 923	13 625	1	(68 229)
Portfolio provisions	(24 585)	(26 245)	33 270	0	3	(17 557)
Total	**(90 311)**	**(69 297)**	**60 193**	**13 625**	**4**	**(85 786)**

4. Financial Assets at Fair Value Through Profit or Loss

	31.12.2017	31.12.2016
Slovak government bonds	2 695	2 828
Total	**2 695**	**2 828**

5. Available-for-Sale Financial Assets

	31.12.2017	31.12.2016
Other securities	1 914	11 397
Total	**1 914**	**11 397**

In its portfolio of available-for-sale financial assets, the Bank has equity instruments in the total amount of € 1 914 thousand, which are capital participations in SWIFT Belgium and VISA Inc. USA. As at 31 July 2017, the Bank resigned shares of the company Sberbank Slovensko, a.s. parent company Penta Investment Limited, Cyprus at the amount € 10 995 thousand.

Other Securities – Shares and Other Equity Shares

	Equity share at 31.12.2017			Equity share at 31.12.2016		
Name	(%)	Nominal Value	Fair Value	(%)	Nominal Value	Fair Value
SWIFT LA HULPE, Belgium	0.000	16	16	0	0	1
Visa Inc., USA	0.000	1 898	1 898	0.000	402	402
Sberbank Slovensko a.s.	0.000	0	0	0.100	148	148
Sberbank Slovensko a.s.	0.000	0	0	7.497	10 847	10 847
Total	**x**	**1 914**	**1 914**	**x**	**11 397**	**11 397**

6. Held-to-Maturity Financial Assets

	31.12.2017	31.12.2016
Slovak government bonds	204 885	184 910
Government bonds of EU Member States	97 957	99 404
Bank bonds	26 292	2 754
Total	**329 134**	**287 068**

7. Derivatives – Positive Fair Value

	31.12.2017		31.12.2016	
Assets	**Fair Value**	**Nominal value**	**Fair Value**	**Nominal value**
Trading derivatives, including	**0**	**10 612**	**0**	**10 854**
interest rate derivatives	0	3 816	0	4 265
currency derivatives	0	6 796	0	6 589
Hedging derivatives, including	**35**	**36 597**	**17**	**24 891**
interest rate derivatives	35	36 597	17	24 891
Total	**35**	**47 209**	**17**	**35 745**

The residual maturity of derivatives at nominal value is stated in Note 35. These are the derivatives to hedge fair value.

8. Non-Current Tangible Assets

Movements in non-current tangible assets as at 31 December 2017:

	1.1.2017	Increase	Decrease	31.12.2017
Land, buildings and structures	30 020	31 930	(2 875)	59 075
Investment technology	5 830	7 876	(1 172)	12 534
Other non-current tangible assets	13 587	15 955	(3 207)	26 335
Operating lease	5	0	0	5
Non-current tangible assets	**49 442**	**55 761**	**(7 254)**	**97 949**
Accumulated depreciation and provisions - buildings and structures	(19 653)	(23 364)	2 325	(40 692)
Accumulated depreciation - investment technologies	(5 633)	(7 066)	1 172	(11 527)
Accumulated depreciation - other non-current tangible assets	(12 064)	(15 409)	3 018	(24 455)
Accumulated depreciation - operating lease	(5)	0	0	(5)
Accumulated depreciation and provisions	**(37 355)**	**(45 839)**	**6 515**	**(76 679)**
Net book value	**12 087**	**9 922**	**(739)**	**21 270**

The merger of Sberbank Slovensko, a.s. with Prima banka Slovensko, a.s. as at 1 August 2017 had the impact on the value of non-current tangible assets, when the cost of such assets and accumulated depreciation increased by € 45 527 thousand and € 37 261 thousand, respectively.

Movements in non-current tangible assets as at 31 December 2016:

	1.1.2016	Increase	Decrease	Other movements	31.12.2016
Land, buildings and structures	29 172	1 257	(409)	0	30 020
Investment technology	7 247	32	(1 449)	0	5 830
Other non-current tangible assets	15 444	450	(2 307)	0	13 587
Operating lease	16	0	(11)	0	5
Non-current tangible assets	**51 879**	**1 739**	**(4 176)**	**0**	**49 442**
Accumulated depreciation and provisions - buildings and structures	(18 442)	(1 716)	505	0	(19 653)
Accumulated depreciation - investment technologies	(6 875)	(207)	1 449	0	(5 633)
Accumulated depreciation - other non-current tangible assets	(13 439)	(864)	2 250	(11)	(12 064)
Accumulated depreciation - operating lease	(16)	0	0	11	(5)
Accumulated depreciation and provisions	**(38 772)**	**(2 787)**	**4 204**	**0**	**(37 355)**
Net book value	**13 108**	**(1 048)**	**28**	**0**	**12 087**

Obligations from Contracts for Purchase of Non-current Tangible Assets
As at 31 December 2017, Prima banka did not record any obligations from contracts for the purchase of non-current tangible assets (31 December 2016: € 422 thousand).

Insurance Coverage
A set of immovable assets has insurance coverage of up to € 63 648 thousand and a set of movable assets with insurance coverage of up to € 50 031 thousand. The insurance covers damage caused by natural disaster, fire, theft and vandalism, flooding from water mains, falls, crashes, etc. Vehicles in the car fleet are insured for one insured accident up to damage of € 2 123 thousand.

Contingent Liabilities from Operating Lease
In off-balance sheet items, Prima banka recognised contingent liabilities from an irrevocable operating lease (as the lessee). Prima banka's ordinary business activities include entering into operating leases of buildings to conduct bank activities, ATMs and POS terminals.

As at 31 December 2017 and 31 December 2016, the total amount of future payments resulting from the irrevocable operating lease agreements was as follows:

Payables from irrevocable operating lease	31.12.2017	31.12.2016
Less than 1 year	360	113
1 year to 5 years	5 618	3 006
More than 5 years	2 828	4 504
Total	**8 807**	**7 623**
Operating lease recognised in general and administrative expenses	8	36

9. Non-Current Intangible Assets

Movements in non-current intangible assets as at 31 December 2017:

	1.1.2017	Increase	Decrease	31.12.2017
Software	5 486	22 520	(1 005)	27 001
Other non-current intangibles assets	19 728	6 243	(161)	25 810
Non-current intangible assets	**25 214**	**28 763**	**(1 166)**	**52 811**
Accumulated amortisation and provisions - software	(5 098)	(23 426)	2 261	(26 263)
Accumulated amortisation - other non-current intangible assets	(19 504)	(5 907)	25	(25 386)
Accumulated amortisation and provisions	**(24 602)**	**(29 333)**	**2 286**	**(51 649)**
Net book value	**612**	**(570)**	**1 120**	**1 162**

The merger of Sberbank Slovensko, a.s. with Prima banka Slovensko, a.s. as at 1 August 2017 had the impact on the value of non-current intangible assets, when the cost of such assets and accumulated amortisation increased by € 28 535 thousand and € 26 511 thousand, respectively.

Movements in non-current intangible assets as at 31 December 2016:

	1.1.2016	Increase	Decrease	31.12.2016
Software	6 050	165	(729)	5 486
Other non-current intangibles assets	21 802	127	(2 201)	19 728
Non-current intangible assets	**27 852**	**292**	**(2 930)**	**25 214**
Accumulated amortisation - software	(5 602)	(224)	728	(5 098)
Accumulated amortisation - other non-current intangible assets	(21 624)	(81)	2 201	(19 504)
Accumulated amortisation and provisions	**(27 226)**	**(305)**	**2 929**	**(24 602)**
Net book value	**626**	**(13)**	**(1)**	**612**

Insurance Coverage

Computer technology is insured up to the maximum amount of € 1 000 thousand. The relevant insurance covers electronic computer programs, data, and electronic media, and computer systems. The coverage is for damage caused by fraudulent modification of programs, data, and their destruction, etc.

As at 31 December 2017, Prima banka did not record any liabilities under agreements to purchase non-current intangible assets (31 December 2016: € 0).

10. Deferred Tax Assets

	31.12.2017	31.12.2016
Deferred tax asset	9 671	7 179
Total	**9 671**	**7 179**

11. Other Assets

	31.12.2017	31.12.2016
Accruals and deferrals	2 066	719
Other assets	4 807	4 557
Total	**6 873**	**5 276**

12. Assets Held for Sale

	31.12.2017	31.12.2016
Land, buildings and structures	0	6 388
Accumulated depreciation - land, buildings and structures	0	(3 102)
Provisions - land, buildings and structures	0	(774)
	0	**2 512**

Based on a decision of the Management Board to sell certain buildings owned by the Bank in 2015, the Bank reclassified selected items of non-current tangible assets to the "available-for-sale" category in accordance with IFRS 5. As at 31 December 2016, the Bank assessed the meeting of criteria for the extension of a period for closing the sale to a period exceeding one year; but as the conditions in accordance with IFRS 5 were not fulfilled in 2017, the Bank reclassified the assets to the Non-Current Tangible-Assets.

13. Loans and Deposits Received from Central Banks

	31.12.2017	31.12.2016
Received short-term loans	0	25 000
Total	**0**	**25 000**

14. Due to banks

	31.12.2017	31.12.2016
Current accounts and demand payables	1 494	0
Term deposits	28 873	10 003
Received short-term loans	0	111
Total	**30 367**	**10 114**

a) By Geographical Territory

	31.12.2017	31.12.2016
Slovak Republic	29 365	10 114
EU Member States	1 002	0
Total	**30 367**	**10 114**

15. Customer Deposits

a) By Customer Group

	31.12.2017	31.12.2016
Municipalities	359 196	319 963
State	1 738	346
Other enterprises	526 850	216 255
Individuals	2 191 876	1 321 784
Total	**3 079 660**	**1 858 349**

b) By Type of Product

	31.12.2017	31.12.2016
Current accounts	1 589 407	904 612
Term deposits	1 333 139	879 053
Saving deposits	155 387	74 684
Received loans	1 727	0
Total	**3 079 660**	**1 858 349**

c) By Currency

	31.12.2017	31.12.2016
In euro	3 062 498	1 857 227
In foreign currencies	17 162	1 122
Total	**3 079 660**	**1 858 349**

d) By Geographical Territory

	31.12.2017	31.12.2016
Slovak Republic	3 050 209	1 850 690
EU Member States	25 309	6 564
Others countries	4 143	1 095
Total	**3 079 660**	**1 858 349**

16. Debt Securities

	31.12.2017	31.12.2016
Mortgage bonds	119 522	53 565
Total	**119 522**	**53 565**

As at 31 December 2017, Prima banka issued the securities summarized in the following table (these securities issued are not placed on a regulated market):

ISIN	Date of issue	Maturity date	Frequency of yield payment	Interest rate	Nominal value (€)	Number of securities issued	Carrying amount
SK4120007998	1.12.2011	1.12.2021	annually	4.00%	1 000.00	1 560	1 889
SK4120008459	28.3.2012	28.3.2018	annually	4.00%	1 000.00	15 000	15 447
SK4120008970	24.1.2013	24.1.2018	annually	0.57%	1 000.00	13 500	13 514
SK4120010737	12.6.2015	12.6.2018	-	ZERO	100 000.00	490	48 870
SK4120013509	28.12.2017	28.12.2018	-	ZERO	100 000.00	490	39 802
Total							**119 522**

Prima banka's issued mortgage bonds are registered book-entry securities. The bonds are readily transferrable with no pre-emption or conversion right attached thereto. Section 68 of the Act on Banks requires that the amount of issued mortgage bonds may not be less than 90% of the total amount of granted mortgage loans. Under a decision of the National Bank of Slovakia, as of 1 January 2017 Prima banka only needs to cover 70% of the volume of granted mortgage loans. The Bank complied with the legal requirements in 2016 and also in 2017.

17. Negative Fair Value of Derivatives

	31.12.2017		31.12.2016	
Liabilities	Fair value	Nominal value	Fair value	Nominal value
Trading derivatives, of which:	**667**	**10 606**	**1 098**	**11 107**
Interest rate derivatives	665	3 816	869	4 265
Currency derivatives	2	6 790	229	6 842
Hedging derivatives, of which:	**1 140**	**36 597**	**924**	**24 891**
Interest rate derivatives	1 140	36 597	924	24 891
Total	**1 807**	**47 203**	**2 022**	**35 998**

The residual maturity of the derivatives at nominal value is summarised in Note 35.

18. Tax Liabilities

	31.12.2017	31.12.2016
Current tax liability	3	3
Total	**3**	**3**

19. Other Liabilities

	31.12.2017	31.12.2016
Accruals and deferrals	135	154
Settlement with employees,	370	845
of which: the social fund	70	73
Other payables	(343)	21 857
Other reserves	0	147
State budget clearing account	655	606
Total	**817**	**23 463**

Reserves and other payables mainly comprise a provision for employee bonuses, a provision for unused vacation days and a provision for unbilled supplies of goods and services.

Social Fund

Prima banka has created the social fund as required by the Social Fund Act, the Income Tax Act. The social fund is used by Prima banka to finance its own social policy. The social fund is created during the year (if

a profit is generated and tax and social security payments fulfilled) by a compulsory allocation at 0.6% of gross wages effectively paid to employees in the current year. For tax purposes, the allocations to the social fund are included in the expenses to generate, ensure and sustain taxable income. Social policy financing represents short-term employee benefits, which are recognized and disclosed as expenses of the current year.

The creation and use of the social fund as at 31 December 2017 and as at 31 December 2016 is presented in the following table:

Social fund	31.12.2017	31.12.2016
Balance as at 1.1.	73	34
Allocation (from expenses)	167	167
Usage: catering	(170)	(129)
Total	**70**	**73**

20. Provisions and Reserves

	31.12.2017	31.12.2016
Provisions for litigation	10 323	7 513
Provisions for restructuring	2 885	375
Provisions for off-balance sheet liabilities	3 250	1 178
Other reserves	356	0
Total	**16 814**	**9 066**

The Bank expects the provision for restructuring to be used in 2018-2020. Provisions for litigation will be used after definitive closing of individual litigations, however, the final date is difficult to predict. Provisions for off-balance sheet liabilities are continuously updated based on the settlement of the obligations.

Movements in provisions for liabilities as at 31 December 2017:

	Balance 1.1.2017	Allocation	Use	Exchange Rate Differences	Other Movements	Balance 31.12.2017
Provision for litigation claims	7 513	702	(57)	(1)	2 166	10 323
Provision for restructuring	375	0	(2 667)	0	5 177	2 885
Provision for off-balance sheet liabilities	1 178	8 457	(7 209)	0	824	3 250
Other reserves	0	0	0	0	356	356
Total	**9 066**	**9 159**	**(9 933)**	**(1)**	**8 523**	**16 814**

Other movements comprise balances of the provisions of Sberbank Slovensko, a.s., which merged with Prima banka as at 1 August 2017.

Movements in provisions for liabilities in 2016:

	1.1.2016	Allocation	Use	Exchange rate differences	31.12.2016
Provisions for litigation	5 528	2 135	(150)	0	7 513
Provisions for restructuring	0	375	0	0	375
Provisions for off-balance sheet liabilities	1 730	6 893	(7 444)	1	1 178
Total	**7 258**	**9 403**	**(7 594)**	**1**	**9 066**

Provisions for Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Each dispute is subject to special monitoring and a regular re-assessment as part of the Bank's standard procedures. If it is probable that the Bank will be required to settle a claim and a reliable estimate of the amount can be made, provisions are recorded. The Bank will release the recorded provisions in the event of a final resolution of a dispute that

was decided in the Bank's favour. The total provision for litigation amounts to € 10 323 thousand as at 31 December 2017, and represents principal and default interest (31 December 2016: € 7 513 thousand).

Provisions for Off-Balance Sheet Liabilities

The Bank recognises provisions for off-balance sheet loan commitments, granted guarantees, and contingent liabilities. The provisions are assessed by the Bank similarly to loans to customers, reflecting the existing financial situation and activities of the entity to which the Bank granted a guarantee or a loan commitment, and the value of received collateral.

21. Subordinated Debt

	31.12.2017	31.12.2016
Subordinated debt	0	22 575
Total	**0**	**22 575**

22. Equity

	31.12.2017	31.12.2016
Share capital	226 773	111 163
Share premium funds	71 190	11
Legal reserve fund	2 743	552
Other capital funds	54 078	46 000
Revaluation reserves	(2 537)	(5 531)
Profit/(loss) from previous years	(63 489)	(17 079)
Profit/(loss) for the current year	14 944	10 453
Total	**303 702**	**145 569**

Share Capital

	31.12.2017		31.12.2016	
Face value of shares	**No. of shares**	**in €´000**	**No. of shares**	**in €´000**
Number of issued shares with face value of € 399	100 200	39 980	100 200	39 980
Number of issued shares with face value of € 67	100 200	6 713	100 200	6 713
Number of issued shares with face value of € 5	701 400	3 507	701 400	3 507
Number of issued shares with face value of € 1	176 572 738	176 572	60 963 297	60 963
	177 474 538	**226 772**	**61 865 097**	**111 163**

In connection with the merger with Sberbank Slovensko, a.s. on August 1, 2017, the extraordinary general meeting held on May 24, 2017 it was decided to increase the share capital by € 115,609,441 by issuing new shares with a nominal value of € 1 per share; 115,609,441 pcs will be issued as ordinary registered shares in the book-entry form. These shares were distributed to the shareholders of Sberbank Slovensko, a.s. to replace their shares.

Revaluation Reserves

	31.12.2017	31.12.2016
Available-for-sale securities*	(3 066)	(5 272)
Cash flow hedge	455	(259)
Actuarial gains	74	0
Total	**(2 537)**	**(5 531)**

The revaluation reserve includes unrealised revaluation of available-for-sale financial assets excluding deferred tax. The Bank recognises the revaluation amount in its revaluation reserves at the transfer of the securities from the available-for-sale financial assets portfolio to the held-to-maturity financial assets portfolio. The aforementioned reserve is gradually amortised in the statement of comprehensive income until the maturity of the transferred securities.

The revaluation reserve also includes gains/(losses) on revaluation hedge instrument used by Prima banka to hedge against variability of cash flows for granted long-term loans until June 2011.

Distribution of Profit for 2017:

Statutory allotment to the reserve fund (10% of the profit after tax)	1 494
Transfer of profit into profit/loss from previous years	13 450
Retained earnings for 2017	**14 944**

The distribution of the 2017 profit is subject to the approval by the General Meeting of Prima banka.

23. Net Interest Margin

	31.12.2017	31.12.2016
Interest income and similar income on:	**73 739**	**68 069**
Balances with the central banks	0	2
Due from banks	144	620
Loans and advances to customers	67 122	59 928
Financial assets at fair value revaluated through profit and loss	129	129
Financial assets held to maturity	6 425	7 437
Derivatives	(81)	(47)
Interest expense and similar expense for:	**(17 414)**	**(19 524)**
Loans and deposits received from the central banks	0	(13)
Due to banks	(160)	(153)
Customer deposits	(15 487)	(17 435)
Debt securities	(849)	(560)
Derivatives	(304)	(480)
Subordinated debt	(614)	(883)
Net Interest Margin	**56 325**	**48 545**

24. Net Fee and Commission Income

	31.12.2017	31.12.2016
Fee and commission income on:	**22 866**	**17 541**
Payment services	17 353	13 934
Credit activity	3 967	2 634
Transactions with securities	140	121
Other banking services	1 406	852
Fee and commission expense for:	**(4 570)**	**(2 798)**
Payment services	(1 709)	(836)
Credit activity	(10)	(17)
Transactions with securities	(122)	(78)
Other banking services	(2 729)	(1 867)
Net Fee and Commission Income	**18 296**	**14 743**

25. Net Trading Income (Expense)

	31.12.2017	31.12.2016
Loans and advances to customers hedged by derivatives	(494)	(66)
Financial assets at fair value revaluated through profit and loss	(133)	(111)
Derivatives	1 398	(91)
Exchange rate differences	(197)	405
Net Trading Income (Expense)	**574**	**137**

26. Net Income (Expense) on Investments

	31.12.2017	31.12.2016
Net income from securities	(202)	2 061
Net income (expense) from transfer and sale of non-current assets	(318)	106
Net Income (Expense) on Investments	**(520)**	**2 167**

27. Other Income (Expense)

	31.12.2017	31.12.2016
Operational lease income	148	113
Other non-banking income	155	8
Other expenses from non-banking operations	(26)	0
Other Income (Expense)	**277**	**121**

28. Specific Contributions of Selected Financial Institutions

	31.12.2017	31.12.2016
Deposits Protection Fund	(172)	(426)
Special levy of banking institutions	(5 209)	(3 897)
Resolution fund	(270)	(491)
Supervision of Central Banks	(180)	(114)
Specific Contributions of Selected Financial Institutions	**(5 831)**	**(4 928)**

As of 1 January 2012, Act No. 384/2011 Coll. on the Special Levy on Selected Financial Institutions came into effect. The levy calculation is based on the amount of the Bank's liabilities less the amount of equity and subordinated debt. Data as at the last date of the preceding calendar quarter were used to determine the base for calculating the levy for the relevant calendar quarter.

In addition, pursuant to Act No. 371/2014 Coll., the Bank makes contributions to the national resolution fund, which was established as one of the fundamental elements of the mechanism for the resolution of crisis situations in the financial sector. Contributions to the fund are calculated using the methodology set out in the European Commission's regulations, taking into account the size and risk profile of the financial institution.

29. General and Administrative Expenses

	31.12.2017	31.12.2016
Personnel expenses	**(21 533)**	**(17 873)**
Wages and salaries*	(16 307)	(12 902)
Social expenses	(5 263)	(4 287)
Other personnel costs	37	(684)
Depreciation	**(2 823)**	**(3 032)**
Depreciation of non-current tangible assets	(2 372)	(2 727)
Amortisation of non-current intangible assets	(451)	(305)
Purchased output and services and other expenses	**(23 136)**	**(21 249)**
IT costs	(3 419)	(3 371)
Marketing, advertising and other services	(6 487)	(4 880)
Costs of audit and related services**	(262)	(168)
Other purchased outputs and services	(12 699)	(10 469)
Creation of provisions for litigation	(645)	(1 985)
Creation (use) of provisions for restructuring	376	(376)
	(47 492)	**(42 154)**

*Including salaries and bonuses to members of the Management Board and Board of Directors.

** Costs of audit and the related services provided by the auditor to the Bank during the reporting period ended 31 December 2017, the provision of which was approved by the Board of Directors/Audit Committee of Prima banka at its session on 14 December 2017. The item comprises the following:

a) Verification of disclosures in the Bank's reports required by the NBS;
b) Preparation of a Long-form auditor's reports in line with the NBS requirements;
c) Performance of agreed-upon procedures in respect of measures of a Securities Trader; and
d) Verification of interim financial information as at 31 July 2017.

Prima banka does not have pension arrangements separate from the compulsory state pension system of the Slovak Republic. Pursuant to Slovak legal regulations, an employer is obliged to pay contributions to social security, health insurance, medical insurance, accident insurance, unemployment insurance, and contributions to a guarantee fund set as a percentage of the assessment base. These expenses are recognised in the statement of comprehensive income in the period in which the employee was entitled to a salary.

The Bank contributes to a defined contribution supplementary pension plan administered by a private pension fund, based on the employment period of the employee. No liabilities arise to the Bank from the payment of pensions to employees in the future. Supplementary pension insurance expenses amounted to € 128 thousand as at 31 December 2017 (31 December 2016: € 110 thousand).

30. Net Allocation to Provisions and Reserves

	31.12.2017	31.12.2016
Net additions to reserves and provisions for loans and receivables	7 251	4 521
Creation/reversal of portfolio provisions for loans and deposits with other banks	0	116
Creation of provisions for financial assets available for sale	0	20
Reversal of provisions for financial assets held to maturity	0	113
Creation/reversal use of provisions for off balances sheet exposures	(1 247)	551
Net loss on written-off and assigned receivables	(15 183)	(12 984)
Net Allocation to Provisions and Reserves	**(9 179)**	**(7 663)**

More information on provisions for losses from loans to customers and provisions for off-balance sheet liabilities is disclosed in Note 3c) and in Note 20, respectively.

31. Income Tax

Theoretical Tax

The tax on the Bank's profit/loss before tax differs from the theoretical tax that would arise from using the effective income tax rate of 21% valid in the Slovak Republic (2016: 22%):

	31.12.2017	31.12.2016
Profit before tax	**12 455**	**10 968**
Theoretical tax at tax rate of 21% (2016: 22 %) expense/(income)	**2 616**	**2 413**
Tax-exempt income	(1 320)	(431)
Tax non-deductible expenses	1 524	2 239
Effect of a deferred tax asset not recognised in previous periods	(5 311)	(3 360)
Impact of the tax license	3	3
Total income tax expense/(income)	**(2 488)**	**515**
Effective tax rate	**(19.98%)**	**4.69%**

Deferred Income Tax

When recognising deferred tax assets and deferred tax liabilities, the Bank uses a conservative approach. Deferred tax assets and liabilities are calculated from temporary differences using the tax rate applicable for the following years - 21% (2016: 21%).

The effect of the recognition of a deferred tax asset and a deferred tax liability was as follows:

	Temporary difference		Deferred tax	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deferred tax asset, of which:	**234 029**	**147 009**	**49 146**	**30 872**
Loans receivables	186 597	80 055	39 185	16 812
Receivables from financial transactions	2 451	2 438	515	512
Short-term operating payables	12 801	9 817	2 688	2 062
Non-current tangible assets	5 549	3 443	1 166	723
Tax loss carried forward	18 934	44 092	3 976	9 259
Other receivables	7 697	7 164	1 616	1 504
Total	**x**	**x**	**49 146**	**30 872**
Adjustment for uncertain utilisation of deferred tax asset			(39 475)	(23 693)
Deferred tax asset/(liabilities), net	**x**	**x**	**9 671**	**7 179**
Effect of deferred tax on:				
expenses/income	x	x	2 491	(512)
equity	x	x	0	0

As at 31 December 2017, the Bank did not recognise a deferred tax asset in the amount of € 39 475 thousand (31 December 2016: € 23 693 thousand), which is related mainly to deductible temporary differences arising from provisions and reserves, other receivables and tax loss carried forward, due to their uncertain timing and utilisation in the future reporting periods.

32. Net Earnings per Share

	31.12.2017	31.12.2016
Net earnings for the current period (€ T)	14 944	10 453
Number of issued shares with value € 399	100 200	100 200
Number of issued shares with value € 67	100 200	100 200
Number of issued shares with value € 5	701 400	701 400
Number of issued shares with value € 1	176 572 738	14 705 882
Net earnings per share (face value € 399) in €	37.354	37.518
Net earnings per share (face value € 67) in €	6.273	6.300
Net earnings per share (face value € 5) in €	0.468	0.470
Net earnings per share (face value € 1) in €	0.094	0.094

33. Information on Statement of Cash Flows

In respect of the statement of cash flows, cash equivalents include the following items with a maturity of up to three months:

	31.12.2017	31.12.2016
Cash	101 054	77 051
Balances with central banks	46 521	0
Current accounts in other banks	10 337	817
Term deposits in banks up to 3 months	13 990	0
Total	**171 902**	**77 868**

34. Contingent Liabilities and Other Off-Balance Sheet Items

Off-balance Sheet Assets

	31.12.2017	31.12.2016
Receivables from spot transactions	8	0
Guarantees received	15 185	2 201
Loan commitments - received	8 346	0
Received collateral from pledge, security and other rights	2 584 774	1 572 377
Total	**2 608 313**	**1 574 578**

Off-balance Sheet Liabilities

	31.12.2017	31.12.2016
Liabilities from spot transactions	8	0
Guarantees issued	14 958	2 146
Loan commitments and unused credit facilities	190 419	66 764
Letters of credit - given	72	0
Collateral given for the Bank's credit facility	253 560	305 003
Assets in custody	41 802	15 873
Total	**500 819**	**389 786**

The risk associated with off-balance sheet loan commitments, issued guarantees and contingent liabilities is assessed similarly as for loans to customers, and also reflects the financial situation and activities of the entity to which the Bank granted the guarantee as well as the value of received collateral. As at 31 December 2017, provisions recorded for off-balance sheet exposures amounted to € 3 250 thousand (31 December 2016: € 1 178 thousand), see Note 20 in this Chapter.

Issued Guarantees
Guarantees issued to customers constitute Prima banka's obligations to make payments when its customers are not able to meet their obligations to third parties.

Loan Commitments and Unused Credit Facilities
Loan commitments and unused credit facilities comprise approved but unused amounts of loans and overdraft facilities.

Assets Received in Custody
Assets received from clients in custody are not in the Bank's possession and are thus not included in the Bank's assets. Income on securities in custody is recognised in the statement of comprehensive income as *"Net fee and commission income"*.

35. Residual Maturity of Derivatives

All derivatives are traded in the over-the-counter market. A summary of derivatives with positive fair values is stated in Note 7 and derivatives with negative fair values are stated in Note 17 of this chapter.

The following summary shows the residual maturity of derivatives' face values as at 31 December 2017:

	Up to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	6 597	7 209	26 607	40 413
Currency swaps	6 797	0	0	6 797
Total Off-balance sheet assets	**13 393**	**7 209**	**26 607**	**47 210**
Interest rate swaps	6 579	7 209	26 607	40 413
Currency swaps	6 790	0	0	6 790
Total Off-balance sheet liabilities	**13 387**	**7 209**	**26 607**	**47 203**
Net derivatives	**7**	**0**	**0**	**7**

The following summary shows the residual maturity of derivatives' face values as at 31 December 2016:

	Up to 1 year	1 to 5 years	Total
Interest rate swaps	6 655	22 501	29 156
Currency swaps	6 450	0	6 450
Currency forward	139	0	139
Off-balance sheet assets total	**13 244**	**22 501**	**35 745**
Interest rate swaps	6 655	22 501	29 156
Currency swaps	6 700	0	6 700
Currency forward	142	0	142
Off-balance sheet liabilities total	**13 497**	**22 501**	**35 998**
Net derivatives	**(253)**	**0**	**(253)**

36. Fair Value of Financial Instruments

Financial Instruments Recognised at Fair Value

The fair value of a financial instrument is the price at which it would be possible to sell the asset or transfer the liability as part of a standard transaction between market participants at the value determination date.

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

- Level 1 - market prices available on an active market for an identical financial instrument;
- Level 2 - if there is no market price, the Bank measures the financial instrument based on a model, which is a quantified estimate based on mathematical or statistical methods or a combination thereof, using market (observable) inputs with a strong impact on their fair value;
- Level 3 - valuation techniques where no observable market data with a significant impact on the fair value exist.

The following table presents an overview of financial instruments recognized at fair value and classified in Levels 1 - 3 based on the determination of their fair values as at 31 December 2017 (as ta 31 December 2016):

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	2 695	0	0	2 695
Available-for-sale financial assets	0	0	1 914	1 914
Positive fair value of derivatives	0	35	0	35
Financial assets at fair value total	**2 695**	**35**	**1 914**	**4 644**
Negative fair value of derivatives	0	1 807	0	1 807
Financial liabilities at fair value total	**0**	**1 807**	**0**	**1 807**

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	2 828	0	0	2 828
Available-for-sale financial assets	0	0	11 397	11 397
Positive fair value of derivatives	0	17	0	17
Financial assets at fair value total	**2 828**	**17**	**11 397**	**14 242**
Negative fair value of derivatives	0	1 921	101	2 022
Financial liabilities at fair value total	**0**	**1 921**	**101**	**2 022**

The fair value of debt securities measured through profit or loss is based on the price available from the Exchange rate of the Stock Exchange in Bratislava and from the Bloomberg system. The available-for-sale financial assets are mainly participations in companies providing settlement and card services whose fair value differs from their carrying amount after revaluation.

The fair value of deposits measured at fair value is given as the present value of discounted future cash flows using the relevant yield curves, which consist of observable market factors.

The fair value of derivatives is also determined by discounting future cash flows using the relevant yield curves consisting of observable market factors. The reconciliation of fair values of derivatives with a professional counterparty is performed on a monthly basis.

The following table shows the development of the fair value of financial instruments for which valuation models are based on unobservable market inputs:

	Available-for-sale financial assets	Negative value of derivatives
Market value as at 31 December 2016	**11 397**	**101**
Accrued coupon	0	100
Carrying amount as at 31 December 2016	**11 397**	**101**
Total gains/(losses)		
in the statement of profit and loss	(195)	(101)
in the other comprehensive income	1 706	0
Repayment of the issue	**(10 994)**	**0**
Market value as at 31 December 2017	**1 914**	**0**
Accrued coupon	0	0
Carrying amount as at 31 December 2017	**1 914**	**0**
Total gains/(losses) for the financial year included in the profit or loss for assets/liabilities held at the end of the reporting period	(1 511)	(101)

Fair Value of Financial Assets and Liabilities Reported at Amortised Cost

The calculation of the fair value of assets and liabilities reported at amortized cost is based on the sequence using the prices listed at the beginning of this chapter. This means if there is an available market price, it is used by the Bank, otherwise, the Bank uses the model. The Bank uses a valuation technique based on the discounted future cash flows using observable market interest rates, which are modified for credit spreads. In this way, every planned cash flow is measured in line with the signed contracts with counterparties. For assets where fair values are available, the fair value is determined in line with them.

The calculation takes into account current interest rates, currency exchange rates, and credit spreads. Interest rates and currency exchange rates are provided by Bloomberg. The curve is projected as follows: for a period of up to one year Money Market rates are applied; for periods of over one year, swap rates are applied. Credit spreads are calculated as a product of PD (probability of default) and LGD (loss given default).

Fair values of financial instruments at amortised cost were determined for the presentation of the financial statements for general use. Information on the fair value of these instruments cannot be used for any specific transaction of purchase or sale of these financial instruments. The users of financial statements should not rely on these financial statements when assessing the fair value of financial instruments at amortised cost as the only source of information.

The following table shows the comparison of fair values and carrying amounts of balance sheet items as at 31 December 2017:

	Carrying amount	Estimated fair value		
		Level 1	Level 2	Level 3
Cash	101 054	0	101 054	0
Balances with the central banks	204 839	0	204 839	0
Due from banks	82 590	0	71 827	0
Loans and advances to customers	2 791 455	0	0	2 979 779
Held-to-maturity financial assets	329 134	352 304	0	0
Financial assets	**3 509 072**	**352 304**	**377 720**	**2 979 779**
Due to banks	30 367	0	30 367	0
Customer deposits	3 079 660	0	0	3 084 001
Issued mortgage bonds	119 522	0	119 920	0
Financial liabilities	**3 229 549**	**0**	**150 287**	**3 084 001**

The following table shows the comparison of fair values and carrying amounts of balance sheet items as at 31 December 2016:

	Carrying amount	Estimated fair value		
		Level 1	Level 2	Level 3
Cash	77 051	0	77 051	0
Balances with the central banks	51 766	0	51 766	0
Due from banks	52 210	0	48 537	0
Loans and advances to customers	1 639 723	0	0	1 784 773
Held-to-maturity financial assets	287 068	333 139	0	0
Financial assets	**2 107 818**	**333 139**	**177 354**	**1 784 773**
Loans and deposits received from the central banks	25 000	0	25 000	0
Due to banks	10 114	0	10 114	0
Customer deposits	1 858 349	0	0	1 860 968
Issued mortgage bonds	53 565	0	69 000	0
Subordinated debt	22 575	0	23 314	0
Financial liabilities	**1 969 603**	**0**	**127 428**	**1 860 968**

The fair value of cash is the same as the carrying amount.

The fair value of receivables from and payables to banks is given as the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread. As most of these deposits are short term, their fair value approximates the carrying amount.

The fair value of receivables from and payables to customers is stated similarly as for receivables from and payables to banks. For receivables and payables with fixed interest and a residual maturity of less than one year, and for receivables and payables with a floating interest if the re-fixing period is shorter than one year, their fair value approximates the carrying value.

Valuation at fair value for the held-to-maturity financial assets is based on observable market price available from Bloomberg. If the market price of a security is not available, the valuation is based on a calculation of the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread.

The fair value of issued mortgage bonds is calculated as the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread.

The fair value of subordinated debt is based on calculating the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread.

Average Interest Rates Per Annum

	2017	2016
Due from banks	0.13%	0.14%
Loans and advances to customers	3.00%	3.33%
Securities	2.20%	2.63%
Assets total	**2.74%**	**3.06%**
Due to banks	0.24%	0.02%
Customer deposits	0.71%	0.97%
Debt securities	1.06%	0.72%
Subordinated debt	4.72%	4.75%
Liabilities total	**0.67%**	**0.99%**

37. Capital Management

Own Funds

Regulatory capital represents Prima banka's own funds intended for covering unexpected losses resulting from financial risks to which the Bank is exposed. It is calculated in accordance with the valid Regulation of the European Parliament and of the Council (EC) No 575/2013 on prudential requirements for credit institutions

and investment firms (the "CRR") and serves for the capital adequacy calculation in accordance with the CRR. In accordance with the CRR, regulatory capital must cover particular capital requirements on credit risk of the Trading and Banking Books, market risk of the Trading and Banking Books (interest-rate and currency risks), and operational risk.

Capital management monitors and simulates regulatory capital requirements over 10.5% for overall capital adequacy and least 8.5% for Tier I capital adequacy in accordance with regulatory requirements including a buffer of 2.5% for capital preservation. Prima banka's Management Board is regularly informed of the status and expected development of this parameter along with other capital stability parameters which are classified in the Bank's system of risk appetite parameters, and necessary actions are taken on time to comply with the set parameters.

Prima banka's own funds represent a sum of original (Tier 1) and additional own funds (Tier 2) reduced by deductible items. Original own funds consist of paid-up share capital, share premiums, other funds (legal reserve fund, funds created from profit after tax and other capital funds), and retained earnings from previous years. Original own funds are reduced by the net book value of intangible assets and profit/loss to be approved, provided that the loss or loss from previous years was recognized. Additional own funds consist of accepted subordinated debts and general credit risk adjustments acceptable as Tier 2 capital.

Prima banka's own funds and regulatory capital requirements as at 31 December 2017 and 31 December 2016 are stated in the table below:

Own funds	31.12.2017	31.12.2016
Original own funds (Tier 1 Capital)	**298 316**	**140 035**
Items creating the value of original own funds	**355 996**	**157 726**
Paid-up share capital	226 773	111 163
Share premium	71 190	11
Other funds	56 821	46 552
Another accumulated comprehensive result	1 212	0
Items reducing the amount of original own funds	**(57 681)**	**(17 691)**
Accumulated loss of previous year	(55 968)	(17 079)
Intangible assets	(1 162)	(612)
Other items	(550)	0
Additional own funds (Tier 2 Capital)	**22 557**	**18 580**
Items creating the value of additional own funds	**22 557**	**18 580**
Subordinated debts	0	4 473
General credit risk adjustments	22 557	14 107
Own funds total	**320 872**	**158 615**

Own funds requirements*	31.12.2017	31.12.2016
Own funds requirements to cover credit risk and risk of impairment of receivables	144 365	90 282
Own funds requirements to cover operational risk	11 690	8 789
Own funds requirements to cover CVA risk	50	52
Own funds requirements	**159 303**	**99 123**

* Amounts presented as at 31 December 2017 were not audited as at reporting date. A review of own funds requirements will be performed by the Auditor during an audit of regulatory prudent returns by 30 June 2018.

Prima banka met regulatory requirements under the CRR in the year 2017. As at 31 December 2017, the Bank's overall capital adequacy was 16.44% (31 December 2016: 12.80%).

The Bank uses a standardised approach for the calculation of own funds requirements.

38. Risk Management

1. Credit Risk

a) Information on Credit Risk Policy, Objectives and Management

The fundamental goal of the credit risk management strategy at Prima banka is to optimize the amount of accepted risks in line with the capital coverage amount and to generate sustainable profits over the long-term.

The Bank has established a separate organizational unit at the Risk Management Division to identify, measure, monitor, and minimize credit risk and this division is independent from trading and settlements. The whole process is subject to the approved Risk and Capital Management Strategy, which is regularly reassessed in line with changes in the Slovak banking market. Lending is subject to the rules stipulated in the strategy and risk parameters and limits for issuing new loans are strictly observed by members of the credit approval bodies and monitored by the Bank's management, on the basis of regular reporting. Information on customers is permanently monitored and assessed.

Customers are assigned to risk segments to ensure correct monitoring, quantification, reporting and management of credit risks. Exposure limits are set for the defined segments. Exposure limits are also set for individual customers.

The following table gives the maximum amount of credit risk net of provisions, without considering the received collateral:

Credit risk related to balance sheet assets:	**31.12.2017**	**31.12.2016**
Balances with central banks	204 839	51 766
Due from banks	82 590	52 210
Loans and advances to customers	2 791 455	1 639 723
Financial assets at fair value through profit or loss	2 695	2 828
Available-for-sale financial assets	1 914	11 397
Held-to-maturity financial assets	329 134	287 068
Positive fair value of derivatives	35	17
Deferred tax assets	7 282	7 179
Other assets	6 873	5 276
Assets held to sale	0	2 512
Total	**3 426 817**	**2 059 976**

Credit risk related to off-balance sheet items prior to the deduction of reserves:	**31.12.2017**	**31.12.2016**
Issued guarantees	14 958	2 146
Loan commitments and unused credit limits	190 419	66 764
Total	**205 377**	**68 910**

Summary of individual types of received collateral for financial assets in recoverable amounts to cover provided loans:

To cover granted loans	**31.12.2017**	**31.12.2016**
Cash	16 330	15 495
Securities	2	0
Immovable assets	2 480 204	1 536 499
Movable assets	34 901	20 383
Collateral received for financial assets	**2 531 437**	**1 572 377**

b) Description of Credit Risk Measurement and Monitoring Methods

Credit risk is the fundamental and most significant bank risk; therefore, its management has a critical impact on Prima banka's results. In order to minimize credit risk, Prima banka uses various instruments to collateralize credit transactions and focuses on identifying and handling risks arising in credit risk mitigation. Through its internal procedures, Prima banka defines activities to be performed when valuating and accepting collateral instruments.

Prima banka uses its own rating system to assess customer creditworthiness, which is based on an assessment of the customer's financial and non-financial results. Prima banka has developed a specific system for assessing corporate, municipal, retail and sole trader customers. Customers are assigned to one of 17 risk groups. The credit scores are subject to annual reassessment and revised as and when needed, based on a decision of the Credit Committee.

Characteristics of individual rating levels are given in the following summary:

Rating scale	Characteristics
AAA	The highest rated entities with small risk and an extremely strong capacity to meet their financial commitments.
AA+ **AA** **AA-**	Highly rated entities with very strong capacity to meet their financial commitments, with moderate risk over the long-term. It differs from the AAA rating to a small degree.
A+ **A** **A-**	Highly rated entities with strong capacity to meet their financial commitments, with recommended monitoring of future risk in the medium- and long-term.
BBB+ **BBB** **BBB-**	Creditworthy entities with adequate capacity to meet their financial commitments, but susceptible to adverse economic conditions or changing circumstances.
BB+ **BB** **BB-**	Entities with some ability to meet their present liabilities, likely to be significantly affected by adverse economic conditions or changing circumstances.
B+ **B**	Entities with vulnerable ability to meet their financial commitments, with risky future.
B- **CCC**	Highly risky and unstable entities with very low probability of meeting their financial commitments.

Credit risk is minimized at Prima banka by applying the following:

1. Active monitoring
2. Early identification of non-performing loans
3. Rating scale expressing the probability of a borrower's default
4. Credit procedures
5. Credit security (bank price fixing)
6. Internal review
7. Credit limits system
8. Black list, watch list and information from the Credit Registry and Social Insurance.

The quality of amounts due from banks and loans and advances to customers that are not impaired and are not overdue, prior to the deduction of provisions according to the Bank's internal rating:

Rating scale	Due from banks		Loans and advances to customers, of which: State and Municipalities		Loans and advances to customers, of which: Other business entities	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	82 590	52 210	145 916	161 903	528 618	291 406
Rating AAA	0	0	189	13	11	19
Rating AA+	0	0	1 149	562	155	7 765
Rating AA	0	0	10 181	3 651	3 412	712
Rating AA-	0	0	18 583	26 454	523	619
Rating A+	0	0	18 784	12 971	848	874
Rating A	0	188	12 749	4 797	15 430	5 437
Rating A-	49 479	49 047	11 369	13 785	3 032	839
Rating BBB+	5 557	6	6 731	30 716	1 127	8 840
Rating BBB	4 961	2 772	11 119	10 456	4 595	1 347
Rating BBB-	8 528	0	9 513	15 343	5 365	3 327
Rating BB+	0	0	25 986	30 525	51 446	23 558
Rating BB	14 003	146	5 595	12 990	320 468	212 067
Rating BB-	0	0	9 747	16 284	35 562	7 759
Rating B+	0	0	4 042	5 179	32 206	4 996
Rating B	0	0	179	206	5 987	409
Rating B-	62	51	0	30	29 105	1 064
Rating CCC	0	0	0	0	19 346	385

Quality of off-balance sheet liabilities – issued guarantees and loan commitments according to the Bank's internal rating:

Rating scale	Issued guarantees State and Municipalities		Issued guarantees Other business entities		Loan commitments State and Municipalities		Loan commitments Other business entities	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	1 761	199	11 717	1 641	19 912	0	87 291	16 142
Rating AAA	0	0	12	15	0	0	0	40
Rating AA+	0	0	0	12	461	0	37	123
Rating AA	246	19	0	0	1 827	0	1 083	1 407
Rating AA-	672	0	15	0	1 735	0	325	294
Rating A+	0	0	15	0	2 759	0	280	330
Rating A	588	0	203	100	3 283	0	388	829
Rating A-	0	0	0	0	2 000	0	2 853	84
Rating BBB+	0	0	33	0	2 388	0	829	180
Rating BBB	0	0	4 567	0	1 363	0	8 004	461
Rating BBB-	0	0	642	0	1 603	0	4 276	176
Rating BB+	255	29	954	0	804	0	18 701	41
Rating BB	0	0	3 507	1 237	856	0	25 710	11 956
Rating BB-	0	0	238	0	662	0	1749	140
Rating B+	0	151	1 207	0	21	0	67	56
Rating B	0	0	0	0	6	0	5 433	11
Rating B-	0	0	0	0	0	0	8 562	1
Rating CCC	0	0	327	277	144	0	5 663	13

Credit risk associated with the securities portfolio is low as the majority of purchased debt securities are government bonds issued by the Slovak Republic. As at 31 December 2017, the exposure to bank debt securities amounts to € 26 292 thousand (31 December 2016: € 2 753 thousand).

Risk Monitoring - Limit Setting

Prima banka monitors and evaluates counterparty limits and their use on a daily basis. The Bank reviews whether the limits have been met or exceeded and decides on further steps pursuant to internal rules. Limits are set according to segments, sectors, products and collateral.

The Bank is required to ensure on an on-going basis that its asset exposure net of the effects of credit risk mitigation, including the date of origin of asset exposure, does not exceed the higher of a) 25% of the Bank's regulatory capital and b) the limit for banks or bank groups towards an institution, and towards a group of economically-linked parties where at least one of the parties is an institution, if the sum of values of the Bank's asset exposures net of the effects of credit risk mitigation towards all other parties that are members of the group of economically-linked parties and that at the same time are not institutions, does not exceed 25% of the Bank's regulatory capital.

Bank limit: Prima banka monitors and evaluates compliance with limits for bank entities separately. Limits are set as the absolute maximum amount of exposure to the relevant counterparty.

Country limit: Prima banka monitors and evaluates compliance with country limits separately. Limits are set as the absolute maximum amount of exposure to the relevant counterparty.

d) Credit Risk Concentration Risk – Procedures and Methods Used for Credit Risk Concentration Hedging

For the purposes of the Bank's credit risk management strategy and related banking instructions, Prima banka considers concentration risk to be the risk arising from concentrating the Bank's transactions (asset exposure) with an individual, a group of economically-related parties, the state, a geographic area, or an economic sector.

As credit risks are the most significant risks for banks, all limits of asset exposure are expressed as shares of the Bank's own funds, which limit exposure in relation to the size of the Bank. The upper limit of the total exposure of the Banking and Trading Books corresponds with the limits stipulated by the CRR.

The table below provides an analysis of credit risk exposure by industry segments as at 31 December 2017 and 31 December 2016:

	31.12.2017	31.12.2016
Agriculture, forestry and fishing	3 425	3 307
Mining and quarrying	220	18
Manufacturing	62 579	1 403
Electricity, gas, steam and air conditioning supply	100 011	35 257
Water supply; sewerage and waste water management	22 397	18 615
Construction	1 514	12 975
Wholesale and retail trade	89 619	9 772
Transportation and storage	10 363	1 022
Accommodation and catering	10 485	595
Information and communication	1 904	115
Financial and insurance activities	49 144	66 008
Real estate activities	234 237	61 750
Professional, scientific and technical activities	5 102	27 222
Administrative and support service activities	46 240	40 164
Public administration and defence; compulsory social security	146 881	165 219
Education	275	38
Health care and social work activities	1 280	759
Arts, entertainment and recreation	1 089	290
Other activities	9 136	13 196
Activities of households as employers	1 995 554	1 181 998
Total	**2 791 455**	**1 639 723**

e) Identification of Impaired Assets (Mainly Receivables)

In respect of impaired assets, Prima banka has stipulated related rules and procedures in its internal regulations. The rules for identifying impaired assets are based on the rules specified in the NBS's Decrees, related internal regulations, and International Financial Reporting Standards.

As at 30 June 2016, Prima banka updated its provisioning methodology and modified portfolio segmentation taking into account business areas and risk characteristics of individual portfolio parts. This adjustment mainly affected the creation of specific provisions.

The summary below provides an analysis of the unimpaired loan portfolio according to days overdue as at 31 December 2017 prior to the deduction of provisions:

	Within maturity	Up to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Received collateral to defaulted loans
Loans and deposits with other banks	82 590	0	0	0	0	0
Loans and advances to customers, of which:	2 724 372	28 397	1 705	0	0	29 732
municipalities	145 916	49	0	0	0	18
other enterprises	528 618	2 817	1 129	0	0	11 828
individuals	2 049 839	25 531	576	0	0	17 276
Total	**2 806 597**	**28 397**	**1 705**	**0**	**0**	**29 732**

The summary below provides an analysis of the unimpaired loan portfolio according to days overdue as at 31 December 2016 prior to the deduction of provisions:

	Within maturity	Up to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Received collateral to defaulted loans
Loans and deposits with other banks	52 210	0	0	0	0	0
Loans and advances to customers, of which:	1 605 856	17 686	50	2	4	20 374
municipalities	161 903	2 659	0	0	0	0
other enterprises	291 406	177	1	0	0	3 159
individuals	1 152 547	14 850	49	2	4	17 215
Total	**1 658 066**	**17 686**	**50**	**2**	**4**	**20 374**

The summary below provides an analysis of the impaired loan portfolio as at 31 December 2017, including other receivables from financial transactions:

	Municipalities	Other enterprises	Individuals	Total
Individually measured – impaired loans	1 817	170 451	0	172 269
Specific provisions	704	111 141	0	111 845
Recoverable amount of collaterals received – individually measured	0	2 552	0	2 552
Portfolio measured – impaired loans	0	17 371	51 433	68 804
Portfolio provisions	0	14 298	42 680	56 978
Recoverable amount of collaterals received – portfolio measured	0	2 487	7 013	9 500
% of coverage by provisions	39 %	67 %	83 %	70%
% of coverage by provisions and received collateral	39 %	69 %	97 %	75%
Interest income on impaired loans	x	x	x	1 310

The summary below provides an analysis of the impaired loan portfolio as at 31 December 2016, including other receivables from financial transactions:

	Municipalities	Other enterprises	Individuals	Total
Individually measured - impaired loans	1 646	63 493	0	65 486
Specific provisions	607	34 224	0	34 831
Recoverable amount of collateral received	0	5 803	0	5 803
Group measured - impaired loans	0	8 596	28 147	36 396
Specific provisions	0	6 736	26 661	33 398
Recoverable amount of collateral received	0	3 948	4 494	8 442
% of coverage by provisions	37 %	57 %	96 %	67 %
% of coverage by provisions and received collateral	37 %	70 %	112 %	81 %
Interest income on impaired loans	x	x	x	7 283

Restructuring

The Bank may modify the repayment terms of its loan receivables if the client's financial position is weak and the client will be unable to repay its liabilities to the Bank on time.

For overdraft loans, the loan agreements may be transformed into instalment loans. In extraordinary circumstances, an overdraft loan may be extended but with the use of a gradual reduction. For instalment loans, repayment schedules are modified if a client is unable to keep to the agreed-upon deadlines.

The carrying amount of credit receivables whose contractual terms and conditions were amended due to their non-payment or the customer's impaired financial condition was € 1 053 thousand as at 31 December 2017 (31 December 2016: € 3 390 thousand).

The Bank sold real estate pledged against receivables which were unpaid in 2017 for € 2 083 thousand (31 December 2016: € 998 thousand). The Bank sold a pledge over moveable assets (receivables) as at 31 December for € 29 thousand (31 December 2016: € 0 thousand).

f) Description of the Procedures and Rules of Acceptable Collateral Acceptance and Valuation

The procedures and rules for the collateral acceptance and valuation have been specified in Prima banka's internal regulations. Collateral is used to minimise the Bank's credit risk and constitutes a secondary source of credit repayment. Collateral should guarantee repayment of the Bank's receivables arising from credit transactions if a borrower becomes insolvent due to the deterioration of his financial position. Collateral has both financed and non-financed form.

Financed collateral means the right of lien (on immovable assets, movable assets, receivables, cash collateral, securities, etc). The Bank accepts various forms of collateral depending on a borrower's creditworthiness and collateral quality. Prima banka determines individual acceptance values of collateral on the basis of professional experience and historical results.

Prima banka's right of lien on collateral instruments is constituted by a written agreement, which is an inseparable part of a loan agreement. The agreement contains terms and conditions governing the implementation process and termination of the lien.

Non-financed collateral means a guarantee by third parties (state guarantee, bank guarantee, corporate guarantee, or personal guarantee). This collateral's effectiveness is subject to a commitment of unconditional debt assumption if the primary borrower is in default. Such a commitment is stipulated in a written agreement with the guarantor. Other instruments used by Prima banka to manage credit risk include a notarial deed, promissory note, insurance, and comfort letter.

The collateral held by Prima banka must comply with legal regulations, be enforceable in court, be of good quality, and comply with maximum liquidity requirements so that a yield from the collateral covers the highest possible amount of a customer's liabilities arising from a granted credit product. The collateral instruments held are listed in Note 38 (1).

When valuating collateral, Prima banka takes into consideration the collateral's general value set by a court expert in an expert opinion (immovable assets, movable assets), the carrying amount maintained in the customer's accounting books (receivables, stock, new movable assets), and the market value (securities).

The following principles are applied when accepting and valuing collateral:
- Collateral is considered a secondary source of loan repayment.
- The required collateral amount/value depends on the level of accepted credit risk. Unsecured loans are typically only used for operational financing and for small amounts.
- The physical inspection of collateral is performed by a front-office employee (primarily for commercial real estate) who prepares a report on such an inspection.
- A real estate collateral valuation is prepared by a court expert and revalued by a bank supervisor.
- Real estate revaluation depends on conditions on the Slovak real estate market. Prima banka responds to significant changes in the real estate market by revaluating held collateral.
- The asset to be financed is usually required to be used as collateral.

2. Market Risk

a) Information on Market Risk Policy and Management

As regards market risk, Prima banka only takes into consideration interest and currency risk. Share and commodity risk is insignificant as Prima banka's approved strategy does not allow such instruments to be purchased for the Bank's portfolio due to the high risk. Exposure to equities, which Prima banka includes in the Banking Book, is very limited and they are not held for capital gain purposes. When valuing these exposures, Prima banka uses an equity method or recognizes them at their nominal value.

The market risk management system arises from the provisions of the CRR, the Banking Act and the related Decrees of the National Bank of Slovakia on prudent banking, risk management, and bank liquidity management.

Market risk management rules at Prima banka are primarily specified in internal documents that have been approved by the statutory body and contain the key targets, principles and procedures for market risk management. The responsibility for market risk management is assigned to the ALCO Committee, which makes decisions based on the underlying data provided by the relevant departments.

Prima banka has adopted a uniform policy to value hedging and hedged financial instruments. The purpose of uniform valuation is to adopt the valuation of a hedging instrument and use it to revalue a hedging instrument

in respect of a perfect hedge, ie the parameters of the hedging financial instrument are identical with those of a hedged financial instrument (principle, currency, term, date of origin and maturity, interest rate, date and term of interest rate, principle and interest repayments, etc).

In order to manage the Trading Book and the Banking Book and to measure and monitor the market risk, Prima banka uses the Value at Risk method ("VaR"), a gap analysis and calculation of net present value ("NPV") or changes in NPV at a parallel and non-parallel shift in the yield curve. Prima banka uses a standard method as defined in the CRR to report and calculate its regulatory capital to cover market risk.

b) Interest Risk

Prima banka manages interest risk with respect to the current and expected situation in the market by adjusting the assets and liabilities structure in terms of the type of interest rate and maturity of new transactions. Interest risk is managed separately for the Trading Book and the Banking Book. In line with the approved strategy, the Bank does not perform transactions that would meet conditions for including them in the Trading Book. The position in the Trading Book is zero.

To measure the Banking Book's interest risk, Prima banka uses the VaR method on a weekly and a monthly basis at the 99% reliability interval. The interest risk of the Banking Book is measured based on estimated changes to the Net Present Value (NPV) positions caused by changes in market interest rates. The method is based on a gap analysis of the Banking Book positions. In addition, estimated changes to NPV positions in the Banking Book are calculated at a parallel shift in the yield curves of +/- 100, +/- 200 and +/- 300 basis points, including an opportunity for a non-parallel shift of the yield curve, and above all positions in the portfolio of financial assets at fair value through profit or loss at a parallel shift in the yield curves by +/- 100 basis points. Using back testing, Prima banka compares estimated VaR with changes to NPV positions caused by interest rate fluctuations on a weekly and monthly basis and evaluates the back testing results once a year.

Demand deposits (current accounts and term deposits accounts) are mapped by the Bank by time bands 1 month – 6 years. The Bank uses an internal model for the mapping and it is performed automatically in the data warehouse based on the approved model. The Bank classifies demand deposits into bands with a longer maturity than those that correspond to interest rate sensitivity. The mapping is based on the historical monitoring of movements in balances and the probability that the fulfilment of the relevant liabilities will not be requested (back testing).

The estimated change in the NPV positions in the Banking Book resulting from the interest rate fluctuation is quantified in the following table, assuming a negative movement of the yield curve to the detriment of the Bank by +100 basis points.

The impact of a change in the present value of assets and liabilities due to a change in the interest rate for euro positions as at 31 December 2017:

	Movement in yield curve	Bank´s loss from movement in yield curve
Banking Book: euro	+100 BP	(9 460)
Total		**(9 460)**

The impact of a change in the present value of assets and liabilities due to a change in the interest rate for euro positions as at 31 December 2016:

	Movement in yield curve	Bank´s loss from movement in yield curve
Banking Book: euro	+100 BP	(10 642)
Total		**(10 642)**

In terms of the Bank's overall position, the positions in other currencies are insignificant. A potential effect of movements in the yield curve on the Bank's profit/loss with respect to other currencies is insignificant.

The following table presents information on the balance sheet amounts of financial assets and liabilities per interest rate fluctuation risk. The assets and liabilities with a fixed interest rate are classified according to maturity date. The assets and liabilities with variable interest rates are listed according to the date of the anticipated closest change in interest rates. The Bank uses an internal model to classify demand deposits and

savings deposits. Assets and liabilities without a contractually agreed maturity date and those that bear no interest are classified as "Unspecified items".

Financial assets and liabilities according to the risk of interest rate fluctuations as at 31 December 2017:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspe-cified items	Total
Balances with central banks	204 839	0	0	0	0	204 839
Due from banks	33 258	48 869	0	0	463	82 590
Loans and advances to customers	357 029	794 017	1 538 770	47 745	53 894	2 791 455
Financial assets at fair value through profit or loss	0	81	2 614	0	0	2 695
Available-for-sale financial assets	1 914	0	0	0	0	1 914
Held-to-maturity financial assets	4 491	44 201	204 992	75 450	0	329 134
Interest rate position - financial assets	**601 531**	**887 168**	**1 746 376**	**123 195**	**54 357**	**3 412 627**
Loans and deposits from central banks	0	0	0	0	0	0
Due to banks	1 494	28 873	0	0	0	30 367
Customer deposits	850 470	773 220	1 404 327	51 643	0	3 079 660
Debt securities	28 961	89 057	1 504	0	0	119 522
Subordinated debt	0	0	0	0	0	0
Interest rate position - financial liabilities	**880 925**	**891 150**	**1 405 831**	**51 643**	**0**	**3 229 549**
Net interest rate position	**(279 394)**	**(3 982)**	**340 545**	**71 552**	**54 357**	**183 078**

Financial assets and liabilities according to the risk of interest rate fluctuations as at 31 December 2016:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspe-cified items	Total
Balances with central banks	51 766	0	0	0	0	51 766
Due from banks	3 635	0	48 575	0	0	52 210
Loans and advances to customers	196 986	475 767	908 152	37 381	21 437	1 639 723
Financial assets at fair value through profit or loss	0	82	2 746	0	0	2 828
Available-for-sale financial assets	11 397	0	0	0	0	11 397
Held-to-maturity financial assets	1 619	37 783	211 475	36 191	0	287 068
Interest rate position - financial assets	**265 403**	**513 632**	**1 170 948**	**73 572**	**21 437**	**2 044 992**
Loans and deposits from central banks	25 000	0	0	0	0	25 000
Due to banks	10 003	0	111	0	0	10 114
Customer deposits	673 674	614 051	543 801	26 823	0	1 858 349
Debt securities	0	4 990	48 575	0	0	53 565
Subordinated debt	0	318	22 257	0	0	22 575
Interest rate position - financial liabilities	**708 677**	**619 359**	**614 744**	**26 823**	**0**	**1 969 603**
Net interest rate position	**(443 274)**	**(105 727)**	**556 204**	**46 749**	**21 437**	**75 389**

c) Liquidity Risk

Liquidity risk is the risk of a potential loss of the ability to pay one's liabilities as they mature. It is in the interest of the Bank to maintain permanent solvency, ie the ability to settle liabilities duly and on time, and to manage assets and liabilities to ensure the Bank always has sufficient liquidity.

Prima banka monitors liquidity risk via external and internal liquidity indicators and warning signals. The first of the externally defined liquidity indicators is the fixed and non-liquid assets indicator, whose value must be

lower than or equal to 1, and the second is the liquid assets indicator, which may not be lower than 1. From 1 January 2017 to 31 December 2017, the Bank complied with NBS indicators with a sufficient cushion.

Internal liquidity indicators include, but are not limited to: seven-day liquidity indicator, global indicators of short- and long-term liquidity; and main currency limits (total assets in the main currency in relation to the Bank's total assets).

Liquidity warning signals include: amount of the volatile portion of demand deposits; LD ratio (ratio of primary deposits excl. mortgage bonds to extended loans); daily or weekly decrease in capital; daily or weekly increase in loan receivables overdue by more than 30 days; and weekly or monthly additions to loans.

The method for measuring liquidity risk is based on the measuring of net and accumulated cash flows in the relevant time bands for all balance sheet and selected off-balance sheet items. Prima banka has prepared basic and alternative scenarios and a contingency plan - crisis scenarios. The Bank maintains its sound and sustainable development by observing its liquidity limits and managing its balance sheet structure.

The table below provides an analysis of the earliest possible contractual maturity of assets and liabilities by current residual maturity as at 31 December 2017:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspe-cified items	Total
Cash	101 054	0	0	0	0	101 054
Balances with central banks	204 839	0	0	0	0	204 839
Due from banks	26 531	53 800	2 259	0	0	82 590
Loans and advances to customers	136 846	367 312	679 824	1 561 572	45 901	2 791 455
Financial assets at fair value through profit or loss	0	82	2 613	0	0	2 695
Available-for-sale financial assets	0	0	0	1 914	0	1 914
Held-to-maturity financial assets	4 491	44 200	204 991	75 452	0	329 134
Positive fair value of derivatives	35	0	0	0	0	35
Non-current tangible assets	0	0	0	0	21 270	21 270
Non-current intangible assets	0	0	0	0	1 162	1 162
Tax assets	0	0	0	0	9 671	9 671
Other assets	0	0	0	0	6 873	6 873
Assets held for sale	0	0	0	0	0	0
Assets total	**473 796**	**465 394**	**889 687**	**1 638 938**	**84 877**	**3 552 692**
Due to banks	492	28 873	1 002	0	0	30 367
Customer deposits	1 988 903	631 320	457 583	1 854	0	3 079 660
Debt securities	28 961	89 057	1 504	0	0	119 522
Negative fair value of derivatives	13	133	120	1541	0	1 807
Tax liabilities	0	0	0	0	3	3
Other liabilities	0	0	0	0	817	817
Provisions and reserves	0	0	0	0	16 814	16 814
Equity	0	0	0	0	303 702	303 702
Liabilities and equity total	**2 018 369**	**749 383**	**460 209**	**3 395**	**321 336**	**3 552 692**
Net balance sheet position	**(1 544 573)**	**(283 989)**	**429 478**	**1 635 543**	**(236 459)**	**0**

The table below provides an analysis of the earliest possible contractual maturity of assets and liabilities by current residual maturity as at 31 December 2016:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspe-cified items	Total
Cash	77 051	0	0	0	0	77 051
Balances with central banks	51 766	0	0	0	0	51 766
Due from banks	865	2 770	48 575	0	0	52 210
Loans and advances to customers	67 915	201 262	444 982	908 810	16 754	1 639 723
Financial assets at fair value through profit or loss	0	82	2 746	0	0	2 828
Available-for-sale financial assets	0	0	0	11 397	0	11 397
Held-to-maturity financial assets	1 619	37 782	211 476	36 191	0	287 068
Positive fair value of derivatives	0	0	0	17	0	17
Non-current tangible assets	0	0	0	0	12 087	12 087
Non-current intangible assets	0	0	0	0	612	612
Tax assets	0	0	0	0	7 179	7 179
Other assets	0	0	0	0	5 276	5 276
Assets held for sale	0	0	0	0	2 512	2 512
Assets total	**199 216**	**241 896**	**707 779**	**956 415**	**44 420**	**2 149 726**
Loans and deposits received from central banks	25 000	0	0	0	0	25 000
Due to banks	10 003	0	111	0	0	10 114
Customer deposits	1 146 789	346 513	365 047	0	0	1 858 349
Debt securities	0	4 990	48 575	0	0	53 565
Negative fair value of derivatives	331	0	0	1 691	0	2 022
Tax liabilities	0	0	0	0	3	3
Other liabilities	23 153	147	0	0	163	23 463
Provisions and reserves	0	0	0	0	9 066	9 066
Subordinated debt	0	318	22 257	0	0	22 575
Equity	0	0	0	0	145 569	145 569
Liabilities and equity total	**1 205 726**	**351 968**	**435 990**	**1 691**	**154 801**	**2 149 726**
Net balance sheet position	**(1 006 060)**	**(110 072)**	**271 789**	**954 724**	**(110 381)**	**0**

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

	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	More than 5 years incl.
Non-derivative financial liabilities:						
Loans and deposits received from central banks	0	0	0	0	0	0
Due to banks	30 367	30 491	492	28 997	1 002	0
Customer deposits	3 079 660	3 094 285	1 989 227	635 431	467 773	1 854
Debt securities	119 522	119 813	77 874	39 860	2 079	0
Subordinated debt	0	0	0	0	0	0
Other liabilities	817	30 312	30 312	0	0	0

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

	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.
Non-derivative financial liabilities:					
Loans and deposits received from central banks	25 000	25 000	25 000	0	0
Due to banks	10 114	10 115	10 004	0	111
Customer deposits	1 858 349	1 872 691	1 147 155	350 424	375 112
Debt securities	53 565	53 565	0	4 990	48 575
Subordinated debt	22 575	23 634	0	1 057	22 577
Other liabilities	23 463	23 316	23 316	0	0

The summary below is the worst-case scenario of an analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2017 (at non-discounted values):

	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.
Contingent liabilities and other off-balance sheet items:				
Contingent liabilities from guarantees	14 958	17 834	17 834	0
Contingent liabilities from letters of credit	72	72	72	0
Loan commitments, of which:	190 419	188 187	187 822	365
irrevocable	162 653	188 187	187 822	365

The summary below is the worst-case scenario of an analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2016 (at non-discounted values):

	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.
Contingent liabilities and other off-balance sheet items:				
Contingent liabilities from guarantees	2 146	2 146	2 146	0
Loan commitments, of which:	66 764	66 764	66 667	97
irrevocable	66 764	66 764	66 667	97

d) Exchange Rate Risk

The Bank continued to apply conservative exchange rate risk management in accordance with the set limits. Foreign exchange positions of the Banking Book were open to a minimum extent, and only as a result of the standard operating activities of the Bank. The Bank did not enter into any speculative transactions regarding exchange rate movements for clients or on the Bank's account. During the year 2017, the Bank did not have any speculative foreign exchange positions open in its Trading Book.

When measuring the exchange rate risk of the Banking Book and the Trading Book, Prima banka uses the VaR method on a daily basis at the 99% reliability interval. As at 31 December 2017, the VaR amounted to (€ 3 007) (31 December 2016: (€ 2 124)).

In addition to monitoring the internal VaR limits, the Bank has defined an internal limit for an individual open position in a given currency in absolute terms.

Foreign exchange position of Prima banka as at 31 December 2017:

	EUR	CZK	USD	Other	Total
Assets	3 530 356	2 939	11 925	5 083	3 550 303
Liabilities and equity	(3 531 413)	(3 225)	(10 968)	(4 697)	(3 550 303)
Net balance sheet foreign exchange position	**(1 057)**	**(286)**	**957**	**386**	**0**
Off-balance sheet assets	2 650 420	72	143	1	2 650 636
Off-balance sheet liabilities	(498 084)	(1 780)	(951)	(4)	(500 819)
Net off-balance sheet foreign exchange position	**2 152 336**	**(1 708)**	**(808)**	**(3)**	**2 149 817**
Net foreign exchange position	**2 151 279**	**(1 994)**	**149**	**383**	**2 149 817**

Foreign exchange position of Prima banka as at 31 December 2016:

	EUR	CZK	USD	Other	Total
Assets	2 141 589	217	6 781	1 139	2 149 726
Liabilities and equity	(2 141 589)	(218)	(6 780)	(1 139)	(2 149 726)
Net balance sheet foreign exchange position	**0**	**(1)**	**1**	**0**	**0**
Off-balance sheet assets	1 634 845	1	0	0	1 634 846
Off-balance sheet liabilities	(388 529)	0	(1 254)	(3)	(389 786)
Net off-balance sheet foreign exchange position	**1 246 316**	**1**	**(1 254)**	**(3)**	**1 245 060**
Net foreign exchange position	**1 246 316**	**0**	**(1 253)**	**(3)**	**1 245 060**

Based on back testing, Prima banka compares estimated VaR with the change to the fair value of the instruments on a daily basis and evaluates back testing results once a year. Prima banka compares the individual limit of an open position in a given currency in absolute terms with the open FX position on a daily basis.

The Bank performs stress testing quarterly. The Bank tests euro depreciation and appreciation scenarios against other foreign currencies by 3%, 8%, and 10%. Considering the minimum open foreign exchange positions for individual foreign currencies from the beginning of 2017, the impact of fluctuations in exchange rates on the Bank's profit/loss is insignificant.

To manage its FX position the Bank uses spot deals on the interbank market.

e) Equity Risk

The Bank's strategy is to not actively trade equity instruments, as evidenced by the size and structure of the equity securities portfolio. In its AFS portfolio, the Bank has equity shares in a total amount of € 1 914 thousand which are shares in the companies SWIFT Belgium and VISA Inc. USA.

f) Commodity Risk

The Bank is not exposed to commodity risk. In line with the Bank's strategy, the Bank does not carry out transactions with commodities and has no exposure to commodities.

3. Operational Risk

Operational Risk is the risk of financial and non-financial impacts resulting from inadequate or missing internal processes/actions of staff/system or external events. Operational risk includes legal risk but excludes strategy risk.

Prima banka manages operational risks in line with the operational risk management strategy approved by the Bank's Management Board. The operational risk management comprises OR identification, assessment, monitoring and management/mitigation methods. Operational risk management is aimed at optimizing the Bank's risk profile at acceptable costs.

Operational risk is identified using risk analyses when preparing new products, new processes, non-standard transactions, implementing new information technologies/information sources, project management, and business continuity planning. The Bank monitors and analyses key risk indicators and records and analyses all operational risk-related events. Residual risk is identified during the Risk and Control Self-assessment process.

If an operational risk event or another operational risk instance is identified, action plans are usually adopted to eliminate or mitigate the occurrence of operational risk. To mitigate the financial impact of the occurrence of events, the Bank has concluded numerous insurance policies that cover the main risks.

The Bank uses a standardized approach in accordance with the CRR to calculate regulatory capital requirements for operational risk, according to which the requirement is currently € 15 356 thousand. Capital requirements for individual business lines are as follows: commercial banking: € 37 427 thousand, payment services and settlement: € 4 417 thousand, retail banking: € 34 550 thousand, financial market trading: € 345 thousand. Management measures and implemented systems for operational risk management are adequate for the Bank's strategy and profile.

39. Transactions with Related Parties

Under IAS 24 *"Related Party Disclosures"* a related party is a counterparty that:

a) Directly or indirectly through one or more intermediaries, has control over or is under joint control with the reporting entity (including parent companies, subsidiaries and fellow subsidiaries);
b) Is an associate;
c) Is a joint venture;
d) Is a member of key management personnel of the reporting entity or its parent company; and
e) Is a close member of the family of any individual referred to in letter a) or d).

When considering relations with each related party, attention is paid to the nature of the relation, not only to its legal form. Transactions with related parties were made under standard conditions and at market prices. Included in assets, liabilities, expenses, revenues and off-balance sheet items are the balances with the parent company PENTA INVESTMENTS LIMITED, Cyprus, with other companies of the Penta Investments Group ("Penta Group"), the members of the Board of Directors and Management Board, and other related parties pursuant to IAS 24.

Assets and liabilities concerning related parties as at 31 December 2017:

Balance sheet	Penta Investments Limited	Penta Group	Other related parties	Total
Loans and advances to customers	0	79 198	447	79 645
Other assets	0	4 062	0	4 062
Total assets	**0**	**83 260**	**447**	**83 707**
Due to banks	0	238	0	238
Customer deposits	10	1 203	2 727	3 940
Other liabilities	0	(406)	0	(406)
Total liabilities and equity	**10**	**1 035**	**2 727**	**3 772**

Assets and liabilities concerning related parties as at 31 December 2016:

Balance sheet	Penta Investments Limited	Penta Group	Other related parties	Total
Loans and advances to customers	0	39 067	421	39 488
Financial assets for sale	0	10 994	0	10 994
Other assets	0	3 145	0	3 145
Total assets	**0**	**53 206**	**421**	**53 627**
Due to banks	0	111	0	111
Customer deposits	11	599	2 085	2 695
Other liabilities	0	51	0	51
Subordinated debt	0	22 575	0	22 575
Total liabilities and equity	**11**	**23 336**	**2 085**	**25 432**

Revenues and expenses concerning related parties as at 31 December 2017:

	Penta Investments Limited	Penta Group	Other related parties	Total
Interest and similar income*	0	(603)	8	(595)
Interest and similar expense	0	(615)	(26)	(641)
Net fee and commission income	0	35	1	36
Net income (expense) on investments	0	12	0	12
Other income (expense)	0	36	0	36
General and administrative expenses	0	(5 956)	(1 381)	(7 337)

*The Bank received a cash collateral for the provided loan and the related interest expense recognised as a decrease in interest income.

Revenues and expenses concerning related parties as at 31 December 2016:

	Penta Investments Limited	Other companies of Penta Group	Other related parties	Total
Interest and similar income	0	1 250	10	1 260
Interest and similar expense	0	(314)	(36)	(350)
Net fee and commission income	0	1	1	2
Net trading income (expense)	0	(31)	0	(31)
Other income (expense)	0	2	0	2
General and administrative expenses	0	(4 835)	(2 434)	(7 269)

Off-balance sheet liabilities concerning related parties as at 31 December 2017:

	Penta Group	Other related parties	Total
Received collateral from pledge, security and other rights	0	438	438
Off-balance sheet assets	**0**	**438**	**438**
Given guarantees from pledge, security and other rights	0	0	0
Off-balance sheet liabilities	**0**	**0**	**0**

Off-balance sheet liabilities concerning related parties as at 31 December 2016:

	Penta Group	Other related parties	Total
Received collateral from pledge, security and other rights	15 352	411	15 763
Off-balance sheet assets	**15 352**	**411**	**15 763**
Loan commitments and unused credit limits	0	43	43
Given guarantees from pledge, security and other rights	20 012	0	20 012
Off-balance sheet liabilities	**20 012**	**43**	**20 055**

40. Events After the Balance Sheet Date

Between the balance sheet date and the authorisation date of these financial statements, there were no other significant events that would require any adjustment or additional disclosure.