

Prima banka Slovensko, a.s.

Separate Financial Statements
For the Year Ended 31 December 2018

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

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Independent Auditor's Report

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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 separate statement of financial position as at 31 December 2018, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and 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	
<i>See Notes 2 and 5.1 to the financial statements</i>	
The assessment of loan loss provisions for loans to customers requires the Bank's management to exercise a significant level of judgment, especially with regard to identifying impaired receivables and quantifying loan impairment. To assess the amount of provisions for expected losses, the Bank applies comprehensive statistical models with a number of input parameters obtained from internal and external sources.	<p>We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provisions for the selected significant portfolios.</p> <p>We tested the design and operating effectiveness of key controls the Bank's management has implemented over the impairment assessment processes.</p>

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

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<p>In accordance with the requirements of IFRS 9 "Financial Instruments", the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and relevant debtors, and subjective judgments of the Bank.</p> <p>For loans, where no repayment difficulties were identified for a particular receivable (Stage 1 and Stage 2), the Bank creates a provision using a statistical model for each homogeneous group.</p> <p>Stage 3 includes impaired receivables regarding which any of the following events have occurred:</p> <ul style="list-style-type: none"> a) The debtor is behind contractual payments by more than 90 days; b) It is likely that the debtor will not repay its liabilities in full without the Bank taking action, such as realisation of the collateral. <p>For large, individually significant impaired loans, impairment is assessed on an individual basis. When determining the provision amount, the Bank's management primarily considers the following factors:</p> <ul style="list-style-type: none"> a) The Bank's estimated success rate of recovering debt; b) Amount and timing of expected future cash flows; c) Collateral value. <p>For smaller, individually insignificant loans in Stage 3, impairment is determined using a statistical model for each homogeneous group.</p> <p>The statistical models used are based on deriving the probability of loan default and the estimated amount of the subsequent loss. Input data used in the model and the calculation logic and its comprehensiveness depend on the Bank's management judgment.</p> <p>Additional adjustments to the provision amount and input parameters are applied if available historical data do not accurately reflect the expected level of credit risk and economic situation.</p> <p>The provisions for loan losses amount to EUR 174.8 million as at 31 December 2018.</p>	<p>For provisions for loan losses assessed on an individual basis, the testing included controls related to the preparation of a list of monitored loans and their impairment, regular reviews of customer credit quality, approval of expert's collateral valuation and review and approval of the impairment evaluation results by the Bank's management.</p> <p>On a sample of the Bank's significant loans we assessed the 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.</p> <p>These procedures included assessing the work of experts used by the Bank to value the collateral, and to assess estimates of future cash flows.</p> <p>Where we determined that a more appropriate assumption or input could be used for the measurement of a provision, we recalculated the provision on that basis and compared the results in order to assess whether there is any indication of error or management bias.</p> <p>With regard to provisions calculated using a statistical model, the testing focused on controls related to loan monitoring processes and the process of review and approval of the model outputs.</p> <p>Our credit risk experts assessed the appropriateness of the Bank's management judgments, including the correctness and appropriateness of input data used in the Bank's calculation models by comparing the assumptions with available historical data, external data and industry practices.</p> <p>The overall conclusion was supported by an analysis performed at an overall portfolio level aimed to identify anomalies in:</p> <ul style="list-style-type: none"> a) Classification of loans to corresponding impairment stages, and b) The provision amount calculated by the Bank.
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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 2018 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 19 April 2018. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 10 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.

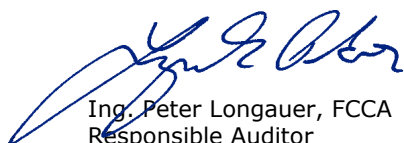
Non-Audit Services

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 6-month period ending on 30 June 2018 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;
- Performance of agreed-upon procedures related to the measures of the securities trader to protect the financial instruments and cash of a customer defined in Articles 71 h) to 71 k) of the Act on Securities and Investment Services, as amended;
- Accounting advisory;
- Review of IT security measures implemented by the Bank.

Bratislava, 28 February 2019



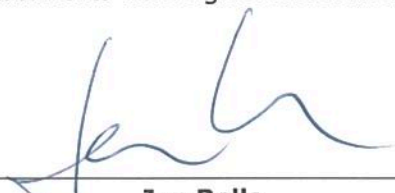
Ing. Peter Longauer, FCCA
Responsible Auditor
Licence UDVA No. 1136

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

I. FINANCIAL STATEMENTS**Separate Statement of Financial Position**

	Note	31.12.2018	31.12.2017
Cash		95 750	101 054
Financial assets at amortised cost, of which:	1	3 464 239	3 410 713
Balances with central banks		97 006	204 839
Due from banks		7 095	82 590
Loans and advances to customers		3 054 489	2 768 274
Debt securities		305 649	355 010
Financial assets held for trading – derivatives	2	52	0
Financial assets at fair value through other comprehensive income	3	2 141	1 914
Hedging derivatives	4	0	35
Non-current tangible assets	5	14 412	21 270
Non-current intangible assets	6	1 894	1 162
Deferred tax asset	7	9 570	9 671
Other assets	8	11 988	6 873
Assets total		3 600 046	3 552 692
Liabilities and equity			
Financial liabilities at amortised cost, of which:	9	3 220 271	3 229 549
Loans and deposits received from central banks		100 000	0
Due to banks		30 517	30 367
Customer deposits		3 087 787	3 079 660
Debt securities		1 967	119 522
Subordinated debt		0	0
Financial liabilities held for trading – derivatives	10	0	667
Hedging derivatives	11	427	1 140
Provisions and reserves	12	15 942	16 814
Current tax liability	13	0	3
Other liabilities	14	36 633	817
Liabilities total		3 273 273	3 248 990
Equity (except profit for the current year)		304 760	288 758
Profit/loss for the current year after tax		22 013	14 944
Equity total	15	326 773	303 702
Liabilities and equity total		3 600 046	3 552 692

The notes on pages 5 to 57 are an integral part of these separate financial statements. The separate financial statements were signed and authorised for issue on 28 February 2019:


Jan Rollo
 Chairman of Management Board
 and Chief Executive Officer


Renata Andries
 Member of Management Board
 and Chief Financial Officer

Separate Statement of Comprehensive Income

	Note	31.12.2018	31.12.2017
Interest income and similar income		82 513	73 739
Interest expense and similar expenses		(17 226)	(17 414)
Net interest income	16	65 287	56 325
Fee and commission income		27 763	22 865
Fee and commission expenses		(5 467)	(4 569)
Net fee and commission income	17	22 296	18 296
Net profit from financial transactions	18	489	373
Other operating income	19	2 266	(42)
Dividend income		6	6
Specific contributions of selected financial institutions	20	(7 017)	(5 831)
Net income from banking activities		83 327	69 127
Personnel expenses		(24 144)	(21 533)
Depreciation and provisions for assets		(3 852)	(2 823)
Purchased output and services and other expenses		(27 075)	(23 136)
General and administrative expenses	21	(55 071)	(47 492)
Net operating income		28 256	21 635
Net allocation to provisions for receivables		(3 320)	(3 763)
Net allocation to provisions for off-balance sheet exposures		(1 729)	(1 247)
Write-off and assignment of receivables		(1 093)	(4 169)
Net allocation to provisions and reserves	22	(6 142)	(9 179)
Profit before tax		22 114	12 456
Current tax		0	(3)
Deferred tax		(101)	2 491
Total tax		(101)	2 488
Net earnings	23	22 013	14 944
Net earnings per share (face value of € 399) in €		38.731	37.354
Net earnings per share (face value of € 67) in €		6.504	6.273
Net earnings share (face value of € 5) in €		0.485	0.468
Net earnings per share (face value of € 1) in €		0.097	0.094
Other Comprehensive Income and Loss			
	Note	31.12.2018	31.12.2017
Items that may be reclassified to profit or loss			
Amortisation of reclassified financial assets		1 555	2 207
Revaluation of cash flow hedge		(177)	713
Items that may not be reclassified to profit or loss			
Equity instruments at fair value through other comprehensive income		394	0
Actuarial gains (losses)		(74)	74
Total	15	1 698	2 994
Comprehensive income total		23 711	17 938

Separate Statement of Cash Flows

	31.12.2018	31.12.2017
Cash flows from operating activities		
Profit before tax	22 114	12 457
Adjustments:		
Depreciation and amortisation	3 852	2 823
(Profit)/loss from the sale non-current tangible and intangible assets	(1 805)	(318)
Loss from revaluation of financial liabilities at fair value through profit and loss	0	4
Profit/(loss) from amortisation of revaluation of reclassified financial assets	1 555	683
(Profit)/loss from revaluation of financial assets held for trading – derivatives	(52)	0
(Profit)/loss from revaluation of hedging derivatives	(1 522)	(1 207)
Profit from revaluation of financial assets at fair value through other comprehensive income	167	0
Dividend income	(6)	(6)
Interest expense	17 226	17 414
Interest income	(82 513)	(73 741)
Provisions and reserves for losses, net	5 099	1 438
Net loss on written-off receivables	554	4 165
Net loss from assigned receivables	540	5
Other non-cash transactions	(3 368)	(154 045)
Net cash flows from operating activities before changes in operating assets and liabilities	(38 159)	(190 328)
(Increase) decrease in operating assets		
Due to the NBS – compulsory reserve	79 820	(106 552)
Interbank loans and advances	55 790	283 697
Loans and advances to customers	(246 578)	(197 542)
Financial assets at fair value remeasured through profit or loss	0	129
Financial assets at fair value through other comprehensive income	0	10 994
Other assets	(5 115)	(1 254)
Asset available for sale	0	2 512
Changes in operating liabilities		
Loans received from the central banks	100 000	(25 000)
Due to other banks	150	17 966
Customer deposits	7 157	102 136
Debt securities	(117 500)	0
Other liabilities	35 816	113 265
Interest paid	(16 311)	(20 969)
Interest received	76 982	74 811
Tax on income paid	0	0
Net cash flows from operating activities	(68 249)	63 865
Cash flows from investment activities		
Purchase of non-current tangible and intangible assets	(2 108)	(2 224)
Proceeds from the sale of non-current tangible and intangible assets	6 187	(807)
Proceeds from assigned receivables	(540)	0
Debt securities at amortised cost	22 661	33 194
Proceeds from shares and equity interests	6	6
Net cash flows from investment activities	26 207	30 169
Net cash inflows	(52 240)	94 034
Cash and cash equivalents at the beginning of the period (Note 25)	171 903	77 868
Cash and cash equivalents at the end of the period (Note 25)	119 662	171 902

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 the current year	Equity total
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
Balance at 1.1.2018	226 773	71 190	2 743	54 078	(2 537)	(63 489)	14 944	303 702
Distribution/settlement of profit/(loss) for 2017			1 494			13 450	(14 944)	0
Profit/(loss) for 2018							22 013	22 013
Effect of IFRS 9 adoption						(640)		(640)
Profit on revaluation of available-for-sale financial assets					1 555			1 555
Revaluation of cash flow hedge					(177)			(177)
Revaluation of equity instruments					394			394
Actuarial gain					(74)			(74)
Balance at 31.12.2018	226 773	71 190	4 237	54 078	(839)	(50 679)	22 013	326 773

*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.

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.

Statutory and Management Bodies

Board of Directors

Chairman: Iain Child
Vice-Chairman: Marián Slivovič
Member: Evžen Ollari

Management Board

Chairman: Jan Rollo
Members: Henrieta Gahérová
Renáta Andries
Stanislav Kubala – start of office on 1 November 2018

Proxy

Igor Tušíl

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 %	
	31.12.2018	31.12.2017
PENTA INVESTMENTS LIMITED, Cyprus	99.31	99.31
Shareholders under 1%	0.69	0.69
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 2018 and 31 December 2017 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	SK11100013671	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

Number of Employees

	31.12.2018
Average number of employees, of which:	866
Average number of managers	6

As at 31 December 2018, Prima banka had 873 employees (31 December 2017: 959) and offered its services at 128 branches (31 December 2017: 127 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 2017) were approved and authorised for issue on 28 February 2018 and subsequently approved on 19 April 2018 by the General Meeting.

Basis of Presentation

The separate financial statements of the Bank (the "financial statements") for the year ended 31 December 2018 and comparative data for the year ended 31 December 2017 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 International Financial Reporting Interpretations Committee (hereinafter "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.

Standards and interpretations effective in the current period

The Bank 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 2018. The following standards and amendments to the existing standards issued by the IASB and adopted by the EU are effective for the current reporting period:

- **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);
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 "Revenue from Contracts with Customers" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to 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);
- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);

- **Amendments to 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 – adopted by the EU on 7 February 2018 (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),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The application of these standards and amendments to the existing standards caused no material changes in the Bank's accounting principles. IFRS 9 was adopted by the Bank for the first time on 1 January 2018 as issued in July 2014.

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

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

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

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

The Bank assesses the impacts of the application of these standards, and their impact on the financial statements up to the moment of the financial statements preparation is estimated at EUR 6 – 7 million (adoption of IFRS 16). The Bank adopted the requirements for the classification of financial instruments in accordance with IFRS 9. As a result of the new standard adoption there were changes that are described in more detail in the section "IFRS 9 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 17 "Insurance Contracts"** (effective for annual periods beginning on after 1 January 2021);
- **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 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);
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement – clarifies when it is recognised (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material for the inclusion of information in the financial statements (effective for annual periods beginning on or after 1 January 2020);

- **Revised Conceptual Framework for Financial Reporting** effective for annual periods beginning on or after 1 January 2020.

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.

IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" (hereinafter "IFRS 9") replaces IAS 39 *"Financial Instruments: Recognition and Measurement"* (hereinafter "IAS 39"), except for the fair value hedging of interest rate risk for the portfolio of financial assets and liabilities, which remains in effect.

For hedge accounting, the reporting entity may opt between an accounting policy under IFRS 9 or IAS 39. At the first application of IFRS, the Bank opted to continue to apply the accounting policy under IAS 39.

Under IFRS 9, the Bank classifies financial assets as subsequently measured at amortised cost (hereinafter "AC"), at fair value through other comprehensive income (hereinafter "FVTOCI"), or at fair value through profit or loss (hereinafter "FVTPL") based on the following two aspects:

- a) The business model of the reporting entity for managing financial assets; and
- b) Contractual characteristics of the underlying financial asset as regards cash flows.

Financial assets measured at amortised cost ("AC")

Both of the following conditions must be met:

- The financial asset is held in a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

Both of the following conditions must be met:

- The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

In this portfolio, the Bank only recognises derivative financial instruments (interest rate or currency forwards, swaps, and options).

Impairment

For financial instruments, impairment-related requirements are based on the expected credit loss model (hereinafter "ECL") that supersedes the incurred loss model. Hence, when using the ECL model, an event that may cause a loss need not occur prior to the provision recognition.

The ECL model applies to debt financial instruments measured at amortised cost or FVOCI, it does not apply to financial assets at FVTPL and financial assets classified as equity investments.

The following is recognised:

- 12-month value of expected credit losses;
- Lifetime expected credit losses;

depending on whether the credit risk of the counterparty has significantly increased since initial recognition.

12-month value of expected credit losses

If there was no significant increase in the risk of default as at the reporting date since the initial recognition, a credit loss in an amount equal to 12-month expected credit losses will be recognised.

Lifetime expected credit losses

If there was a significant increase in the risk of default as at the reporting date since the initial recognition, an impairment equal to expected credit losses over the full lifetime of a financial asset is recognised.

The ECL estimation must reflect a probability-weighted result and the effect of the time value of money. It must also be based on reasonable and supportable information. The weighted probability must include at least 2 scenarios (an event occurs and an event does not occur).

Definition of default

The Bank considers a financial asset to be defaulted if:

- Any substantial financial asset of a debtor is overdue by more than 90 days; or
- It is not likely that the debtor will repay its liability in full without the Bank taking action, such as realisation of the collateral.

Application of IFRS 9

The application of IFRS 9 affected the classification and measurement of financial instruments held as at 1 January 2018 as follows (the Bank did not change comparable data for 2017 due to IFRS 9 adoption):

Financial instruments	IAS 39	IFRS 9
Loans and receivables/payables	AC	AC
Securities	AC	AC
Securities	FVOTPL	AC
Equity instruments	FVTOCI	FVTOCI
Derivative financial instruments	FVTPL	FVTPL

Application of IFRS 9: impacts on the separate statement of financial position as at 1 January 2018:

Classification Under IAS 39	Classification Under IFRS 9	Measurement Under IAS 39	Effect of IFRS 9			Measurement Under IFRS 9
			Reclassification	Measurement Change		
Cash	Cash	101 054				101 054
	Financial assets at amortised cost, of which:					
Balances with central banks	Balances with central banks	204 839				204 839
Due from banks	Due from banks	82 590				82 590
Loans and advances to customers	Loans and advances to customers	2 791 455	(23 181)*		712	2 768 986
Held-to-maturity financial assets	Debt securities	329 134	23 181*	2 695		355 010
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss (FVTPL)	2 695		(2 695)		0
Positive fair value of derivatives		35	(35)			0
	Hedging derivatives		35			35
	Financial assets at fair value through other comprehensive income (FVTOCI)					
Available-for-sale financial assets		1 914				1 914
Non-current tangible assets	Non-current tangible assets	21 270				21 270
Non-current intangible assets	Non-current intangible assets	1 162				1 162
Deferred tax asset	Deferred tax asset	9 671				9 671
Other assets	Other assets	6 873				6 873
Assets total		3 552 692	0	0	712	3 553 404

*It includes corporate bonds presented in accordance with IAS 39 in 2017 as "Due from customers", and as at 1 January 2018 they are presented by the Bank as debt securities.

Application of IFRS 9: impacts on the separate statement of financial position as at 1 January 2018 – continued:

Classification Under IAS 39	Classification Under IFRS 9	Measurement Under IAS 39	Effect of IFRS 9			
			Reclassification	Measurement Change	Reclassification	
Loans and deposits received from central banks	Financial liabilities at amortised cost, of which: Loans and deposits received from central banks	0				0
Due to banks	Due to banks	30 367				30 367
Customer deposits	Customer deposits	3 079 660				3 079 660
Debt securities	Debt securities	119 522				119 522
Subordinated debt	Subordinated debt	0				0
Negative fair value of derivatives		1 807	(1 140)	(667)		0
	Financial liabilities held for trading – derivatives	0		667		667
	Hedging derivatives	0	1 140			1 140
Provisions and reserves	Provisions and reserves	16 814		1 352		18 166
Current tax liability	Current tax liability	3				3
Other liabilities	Other liabilities	817				817
Liabilities total	Liabilities total	3 248 990	0	0	1 352	3 250 342
Equity (except profit for the current year)	Equity (except profit for the current year)	288 758		(640)		288 118
Profit/loss for the current year after tax	Profit/loss for the current year after tax	14 944				14 944
Equity total	Equity total	303 702		(640)		303 062
Liabilities and equity total		3 552 692	0	0	712	3 553 404

The table below shows the reconciliation of closing balances of provisions for assets under IAS 39 and off-balance sheet exposures (provisions for loan commitments and financial guarantees) under IAS 37 as at 31 December 2017 and opening balances of provisions and reserves calculated in accordance with IFRS 9 as at 1 January 2018:

	31.12.2017 (IAS 39/IAS 37)	Reclassification +/-	Remeasurement */-	1.1.2018 (IFRS 9)
Financial assets at amortised cost	(204 091)	0	712	(203 379)
Financial assets at fair value through other comprehensive income	-	-	-	-
Off-balance sheet exposures (loan commitments and provided guarantees)	(3 250)	0	(1 352)	(4 602)

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. Tables in these financial statements may contain rounding differences.

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*.

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 (NBS), including the compulsory minimum reserve. The compulsory minimum reserve with the NBS 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 at AC"*. 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. With effect from 1 January 2018, the Bank classifies financial instruments based on the business model for management of financial instruments in accordance with its investment strategy and differentiates the following categories of financial instruments:

- Financial assets/financial liabilities measured at amortised cost (AC)
- Financial assets/financial liabilities measured at fair value through profit or loss (FVTPL);
- Financial assets measured at fair value through other comprehensive income (FVOCI).

Business model assessment

- Classification of financial assets into separate groups or portfolios based on their management;
- Identification of the objectives which the Bank uses to manage each group or portfolio;
- Based on such objectives, the Bank classifies each group or portfolio of financial assets into the relevant business model;
- For assets classified as held to collect contractual cash flows, an assessment of the correct classification based on the analysis of the cash flows characteristics (the SPPI test "Solely payments of principal and interest").

The Bank has the following business models:

- Loan and investment portfolio (financial assets held only to collect contractual cash flows);
- Portfolio for trading (mainly derivatives);
- Equity share portfolio;

- Hedging portfolio.

Contractual cash flows

The Bank assesses whether contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (under a standard loan agreement, consideration for the time value of money and credit risk are usually the most significant elements of interest). However, in such an agreement, interest may also include consideration for other basic risks (eg liquidity risk) and expenses (eg administrative expenses) related to holding a financial asset over a certain period. Interest may also include a profit margin which is consistent with the standard loan agreement.

The time value of money is the element of interest that only provides consideration for the passage of time, ie the time value of the money element does not provide consideration for other risks or expenses related to holding a financial asset.

Financial assets measured at amortised cost

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

- The financial asset is held in a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In this business model, the Bank holds the following financial assets:

- Loans and receivables;
- Debt securities;

ie non-derivative financial instruments with fixed or determinable payments and maturity.

Loans and receivables are measured at amortised cost using the effective interest rate less provisions. Upon signing a loan agreement, a confirmation on the provision of a credit facility is recognised in the off-balance sheet accounts on the trade date. On the date the funds are drawn, the loan is reclassified to the statement of financial position. The unused portion of the loan recognised in the off-balance sheet accounts represents for the Bank, contingent liabilities with an inherent credit risk for which the Bank records a provision and a reserve. Provisions and reserves are recorded for off-balance sheet liabilities, such as unused credit facilities, issued bank guarantees, and letters of credit.

Debt securities are mainly securities issued by the government, or other securities of good quality, which the Bank intends to hold to maturity. They are also measured at amortised cost using the effective interest rate and potential impairment is reflected in provisioning. Interest income, discounts and premiums are accrued on a daily basis and recognised in the statement of comprehensive income line "*Interest and similar income*".

Financial assets measured at fair value through other comprehensive income (FVTOCI)

To classify a financial instrument in this portfolio, both of the following conditions must be met:

- The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank holds the following financial assets in this business model:

- Equity instruments: solely equity securities of companies, in which participation is compulsory for the Bank (S. W. I. F. T. s. c., Belgium and VISA INC., USA).

Dividends are recognised in the statement of comprehensive income under "Dividend income".

To determine the fair value of these securities, the Bank uses Level 3.

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

The calculation of expected credit losses requires the use of accounting estimates and judgments. For expected credit losses, the Bank recognises a provision for financial assets measured at amortised cost and at fair value through other comprehensive income as at the reporting date. Provisions are recognised in the statement of financial position.

The Bank measures expected credit losses to reflect:

- The unbiased and probability-weighted amount of a loss that is determined by assessing various possible outcomes;
- The time value of money;
- Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions available as at the reporting date without unreasonable costs or disproportionate effort.

IFRS 9 sets a 3-stage impairment model that is based on changes that have occurred in credit quality since the initial recognition date, ie a financial asset must be monitored over its full lifetime.

Upon its initial recognition, a financial asset is classified in stage 1. At this stage, a financial asset is measured at a provision equal to a 1-year expected credit loss.

If a significant increase in credit risk is subsequently identified since the initial recognition without the asset being impaired, the asset is moved to stage 2. If a financial asset is credit-impaired, it is classified in stage 3. In stages 2 and 3, a financial asset is measured at a provision equal to the expected credit loss over the full lifetime of the asset.

If the impairment of a financial asset was measured in an amount equal to expected credit losses over the asset's full lifetime in the previous reporting period, but such conditions are not met as at the current reporting date, the Bank measures the impairment loss in an amount equal to a 1-year expected credit loss as at the current reporting date.

The assessment of a financial asset's credit risk is based on the estimates as to the determination of the probability of default (PD), exposure at default (EaD) and loss given default (LGD).

The assessment of credit impairment is performed on a collective or individual basis.

At each reporting date, the Bank assesses whether there has been a change in the risk of default over the expected lifetime of a financial asset since the initial recognition by comparing the risk of default at the initial recognition to the risk of default as at the reporting date, taking into account reasonable and supportable information.

Significant increase in credit risk

The assessment of significance comprises future-focused information and is always performed as at the reporting date.

Receivables in portfolios measured solely using statistical models are classified in stage 2 if the client has at least one significant receivable overdue by more than 6 days.

Other receivables are classified in stage 2 on an individual basis. A decision to change the classification and the required coverage amount, if any, is made by the Credit Committee for individually assessed cases based on a monthly review when individual cases are discussed. The review process includes consultation on the opinion of the responsible approval department that expertly and comprehensively assesses the condition of the counterparty and change thereof.

Defaulted financial assets

A financial asset is in default if:

- The debtor is in arrears with material receivables whose contractual instalments are overdue by more than 90 days;
- It is likely that the debtor will not repay its liabilities in full without the Bank taking action, such as realisation of the collateral.

The above criteria are applied to all financial assets held by the Bank and are compliant with the definition of default used for internal credit risk management purposes.

Probability of default

Probability of default is a risk parameter determining the probability that a debtor will fail to repay its financial liability over the next 12 months, or over the remaining lifetime of the liability. Hence, it is the probability that an exposure not in default will default within 12 months, or over the remaining lifetime.

Loss given default

Loss given default is a risk parameter defined as the difference between the value of 100% and the value of the recovery rate at the moment of completion of the debt collection or its write-off. Loss given default represents the Bank's expectation in terms of the loss on a defaulted exposure.

Exposure at default

Exposure at default is the volume of funds the Bank expects to be repaid at the time of default over the next 12 months, or over the remaining lifetime. The assumption of an early repayment of a debt is also taken into consideration in the calculation.

Hedging

The Bank primarily accepts the following types of collateral:

- Immovable assets;
- Movable assets;
- Cash collateral;
- Receivables;
- Securities;
- Guarantees.

The Bank uses the following legal instruments:

- Pledge;
- Blocking of cash;
- Security transfer of receivables;
- Security transfer of the right.

The Bank remeasures individual types of collateral on a regular basis, and the measurement methodology and its frequency depends on the type of collateral. The recoverable amount of collateral is derived from the pledge value, up to the amount of the current value of the receivable. The recoverable amount consists of a number of uncertainties and risks; therefore, the amounts upon realisation of collateral may differ from the estimates, and such a difference may be significant.

When realising collateral, the Bank uses:

- Voluntary auction;
- Foreclosure proceedings;
- Sale of receivables;
- Sale of the pledge over the Bank's receivable in bankruptcy proceedings.

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*".

Financial Assets Measured at Fair Value Through Profit or Loss

This portfolio consists of financial instruments held for trading, including derivatives used solely to manage position exposures, mainly liquidity risk and currency risk.

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 financial instruments 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*".

Financial Liabilities

Financial liabilities measured at amortised cost (AC)

All of the Bank's financial liabilities, except for derivative financial liabilities, are recognised at amortised cost.

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

In this category, the Bank only recognises derivatives with negative values.

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.

g) 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 "*Financial assets held for trading – derivatives*" and "*Hedging 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 profit from financial transactions*".

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.

h) 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. After 1 January 2018, the Bank continues to apply the accounting policy in line with IAS 39.

i) 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.

j) 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.

k) 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*".

l) 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.

m) 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.

When recognising deferred tax assets and deferred tax liabilities, the Bank applies an approach under which deferred tax assets are recognised to the extent that it is probable that conditions for the tax deduction of temporary differences in the future are met and that taxable profits will be available against which such tax assets can be utilised. Given that the amount of future taxable profits cannot be reliably estimated, the Bank does not recognise the deferred tax asset in full.

Deferred tax is recognised in the income statement, except where the deferred tax relates to items not recognised as income or expense, but 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 the income tax assessed by the same tax authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

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

n) Debt Securities

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

o) Subordinated Debt

Subordinated debt refers to the 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*".

p) 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.

q) 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.

r) 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.

s) 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. Interest on impaired receivables (retail exposures are assessed based on the number of days overdue; other exposures are assessed on an individual basis) is reclassified by the Bank in the off-balance sheet accounts.

t) 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, eg fees related to the provision of loans, brokerage commissions (are accrued over the term of the respective loan). Other fees and commissions received and paid, eg fees for account management, payment system fees, etc are recognised in the statement of comprehensive income under "*Net fee and commission income*".

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 the paragraphs of Chapter 3 above, and as described in detail in Notes 1 and 22, Chapter 5 to the financial statements, the Bank recognises a provision for expected credit losses from financial instruments that are carried at amortised cost or fair value through OCI and identified contingent liabilities. The calculation of provisions is based on anticipated estimated cash flows, which are determined using different scenarios, taking into account the time value of money, supportable and reasonable information about past events and estimated future economic conditions.

The recognition of provisions for loan losses and identified contingent liabilities, however, includes various uncertainties regarding the outcome of the above risks (eg for portfolios measured using statistical models, the Bank does not have sufficiently representative historical data available and, therefore, the Bank has elected to use NBS estimates to estimate the impact of an adverse scenario, and requires Bank management to make many subjective judgments when estimating losses. Therefore, the result of such estimates may differ from the provisions recognised as at 31 December 2018.

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. Financial Assets at Amortised Cost

31.12.2018	Gross Carrying Amount	Stage 1	Stage 2	Stage 3
Financial assets at amortised cost, of which:				
Balances with central banks	97 006	97 006	0	0
Current accounts*	18 508	18 508	0	0
Compulsory minimum reserves	78 498	78 498	0	0
Due from banks	7 095	7 095	0	0
Loans and advances to customers, of which:	3 227 325	2 958 050	128 596	140 679
Public administration*)	141 661	140 468	0	1 193
Retail clients**)	2 553 690	2 488 486	16 005	49 199
Other clients**)	531 974	329 096	112 591	90 287
Debt securities, of which:	307 657	287 577	20 080	0
Banks	16 019	16 019	0	0
Public administration	271 558	271 558	0	0
Other clients	20 080	0	20 080	0
Total	3 639 083	3 349 728	148 676	140 679
Provisions	(174 844)	(29 385)	(20 076)	(125 383)
Net carrying amount	3 464 239	3 320 343	128 600	15 296

*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).

**The Bank classifies clients into sectors pursuant to Regulation (EU) No 549/2013 of the European Parliament and of the Council on the European system of national and regional accounts in the European Union, "ESA 2010", where "Public Administration" is sector S.13, "Retail Clients" is sectors S.14 and S.15, and other clients are sectors S.11 and S.12, except for central and other banks.

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.

1.1.2018	Gross Carrying Amount	Stage 1	Stage 2	Stage 3
Financial assets at amortised cost, of which:				
Balances with central banks	204 839	204 839	0	0
Current accounts*	46 521	46 521	0	0
Compulsory minimum reserves	158 318	158 318	0	0
Due from banks	82 590	82 590	0	0
Loans and advances to customers, of which:	2 971 890	2 658 262	72 555	241 073
Public administration	147 928	146 110	0	1 818
Retail clients	2 175 042	2 100 116	13 512	61 415
Other clients	648 920	412 036	59 043	177 840
Debt securities, of which:	355 486	355 486	0	0
Banks	26 292	26 292	0	0
Public administration	305 537	305 537	0	0
Other clients	23 657	23 657	0	0
Total	3 614 805	3 301 177	72 555	241 073
Provisions	(203 379)	(23 294)	(8 735)	(171 350)
Net carrying amount	3 411 426	3 277 883	63 820	69 723

The accompanying notes are an integral part of these financial statements.

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31.12.2017	Gross Carrying Amount	Provisions	Net Carrying Amount
Balances with central banks	204 839	0	204 839
Current accounts*	46 521	0	46 521
Compulsory minimum reserves	158 318	0	158 318
Due from banks	82 590	0	82 590
Current accounts with other banks	10 336	0	10 336
Term deposits	65 162	0	65 162
Loans to banks	7 092	0	7 092
Loans and advances to customers	2 971 889	(203 615)	2 768 274
Public administration	148 173	(720)	147 453
Other sectors	807 785	(162 233)	645 552
Individuals, of which:	2 015 932	(40 662)	1 975 270
housing loans	1 777 563	(8 959)	1 768 604
consumer loans	200 376	(25 160)	175 216
other loans/receivables	37 613	(6 543)	31 070
Debt securities	355 486	(476)	355 010
Government bonds	305 537	0	305 537
Bonds issued by the banking sector	26 292	0	26 292
Bonds issued by other sectors	23 657	(476)	23 181
Total	3 614 804	(204 091)	3 410 713

The following summary shows the financial assets at amortised cost in the net carrying amount by geographical territory:

	31.12.2018	31.12.2017
Balances with central banks	97 006	204 839
Slovak Republic	97 006	204 839
Due from banks	7 095	82 590
Slovak Republic	6	603
EU Member States	5 288	72 840
Other countries	1 801	9 147
Loans and advances to customers	3 054 489	2 768 274
Slovak Republic	2 888 631	2 615 116
EU Member States	157 678	146 839
Other countries	8 180	6 319
Debt securities	305 649	355 010
Slovak Republic	221 155	254 375
EU Member States	84 494	100 635
Total	3 464 239	3 410 713

The summary of the financial assets at amortised cost by residual maturity is presented in Note 30 2c).

Provisions for Loans and Advances to Customers

Allocation and use of provisions as at 31 December 2018:

	1.1.2018	(Creation)/ Reversal	Use	FX Differences	31.12.2018
Provisions for financial assets without an increase in credit risk since the initial recognition (stage 1)	(23 294)	(6 091)	0	0	(29 385)
Clients	(22 818)	(6 567)	0	0	(29 385)
Public administration	(23)	13	0	0	(10)
Retail clients	(16 092)	(8 383)	0	0	(24 475)
Other clients	(6 703)	1 803	0	0	(4 900)
Debt securities	(476)	(476)	0	0	0
Provisions for financial assets with a significant increase in credit risk since the initial recognition, but not credit-impaired (stage 2)	(8 735)	(11 341)	0	0	(20 076)
Clients	(8 735)	(9 333)	0	0	(18 068)
Public administration	0	0	0	0	0
Retail clients	(2 831)	(1 327)	0	0	(4 158)
Other clients	(5 904)	(8 006)	0	0	(13 910)
Debt securities	0	(2 008)	0	0	(2 008)
Specific provision for individually and collectively measured items (stage 3)	(171 350)	12 110	33 857	(1)	(125 383)
Clients	(171 350)	12 110	33 857	(1)	(125 383)
Public administration	(704)	(101)	0	0	(805)
Retail clients	(52 885)	781	11 461	(1)	(40 643)
Other clients	(117 761)	11 430	22 396	0	(83 935)
Debt securities	0	0	0	0	0
	(203 379)	(5 322)	33 857	(1)	(174 844)

	31.12.2017	Reclassification	Effect of IFRS 9	1.1.2018
Provisions for financial assets without an increase in credit risk since the initial recognition (stage 1)	(31 530)	0	8 236	(23 294)
Clients	(31 054)	0	8 236	(22 818)
Public administration	(23)	0	0	(23)
Retail clients	(22 371)	0	6 279	(16 092)
Other clients	(8 660)	0	1 957	(6 703)
Debt securities	(476)	0	0	(476)
Provisions for financial assets with a significant increase in credit risk since the initial recognition, but not credit-impaired (stage 2)	(3 738)	0	(4 997)	(8 735)
Clients	(3 738)	0	(4 997)	(8 735)
Public administration	0	0	0	0
Retail clients	(2 549)	0	(282)	(2 831)
Other clients	(1 189)	0	(4 715)	(5 904)
Debt securities	0	0	0	0
Specific provision for individually and collectively measured items (stage 3)	(168 823)	0	(2 527)	(171 350)
Clients	(168 823)	0	(2 527)	(171 350)
Public administration	(704)	0	0	(704)
Retail clients	(50 460)	0	(2 425)	(52 885)
Other clients	(117 659)	0	(102)	(117 761)
	(204 091)	0	712	(203 379)

The accompanying notes are an integral part of these financial statements.

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Allocation and use of provisions as at 31 December 2017:

	Balance 1.1.2017	Allocation	Release	Use*	Exchange rate difference s	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 overdue 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.

2. Financial Assets Held for Trading – Derivatives

	31.12.2018		31.12.2017	
	Fair Value	Nominal Value	Fair Value	Nominal Value
Interest rate derivatives	0	0	0	3 816
Currency derivatives	52	10 149	0	6 796
Total	52	10 149	0	10 612

3. Financial Assets at Fair Value Through Other Comprehensive Income

Name	Equity share at 31.12.2018			Equity share at 31.12.2017		
	(%)	Nominal Value	Fair Value	(%)	Nominal Value	Fair Value
SWIFT LA HULPE, Belgium	0,000	16	16	0,000	16	16
Visa Inc., USA	0,000	2 125	2 125	0,000	1 898	1 898
Total	x	2 141	2 141	x	1 914	1 914

In its portfolio of financial assets at fair value through other comprehensive income, the Bank records equity securities – equity shares and other shares in a total amount of € 2 141 thousand, which are capital participations in SWIFT LA HULPE, Belgium and VISA Inc. USA.

4. Hedging Derivatives

	31.12.2018		31.12.2017	
	Fair Value	Nominal Value	Fair Value	Nominal Value
Hedging derivatives – interest rate derivatives	0	8 441	35	36 597
Total	0	8 441	35	36 597

The residual maturity of derivatives at nominal value is stated in Note 27. These are the derivatives to hedge fair value.

5. Non-current Tangible Assets

Movements in non-current tangible assets as at 31 December 2018:

	1.1.2018	Increase	Decrease	Other movements	31.12.2018
Land, buildings and structures	59 075	11 140	(24 674)*	0	45 541
Information technologies	12 534	13	(1 419)	0	11 128
Other non-current tangible assets	26 335	2 575	(8 898)	0	20 012
Operating lease	5	0	0	0	5
Non-current tangible assets	97 949	13 728	(34 991)	0	76 686
Accumulated depreciation and provisions - buildings and structures	(40 692)	(9 920)	17 776	0	(32 836)

The accompanying notes are an integral part of these financial statements.

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Accumulated depreciation – information technologies	(11 527)	(378)	1 416	0	(10 489)
Accumulated depreciation - other non-current tangible assets	(24 455)	(3 134)	8 645	0	(18 944)
Accumulated depreciation - operating lease	(5)	0	0	0	(5)
Accumulated depreciation and provisions	(76 679)	(13 432)	27 837	0	(62 274)
Net book value	21 270	296	(7 154)	0	14 412

*A major portion of the disposals is caused by the disposal of immovable assets through their sale.

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

	1.1.2017	Increase	Decrease	Other movements
Land, buildings and structures	30 020	31 930	(2 875)	59 075
Information technologies	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 - information 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

Obligations from Contracts for Purchase of Non-current Tangible Assets

As at 31 December 2018, Prima banka did not record any obligations from contracts for the purchase of non-current tangible assets (31 December 2017: € 0).

Insurance Coverage

A set of immovable assets has insurance coverage of up to € 56 970 thousand and a set of movable assets with insurance coverage of up to € 39 479 thousand. The insurance covers damage caused by natural disaster, fire, theft and vandalism, flooding from water mains, falls, crashes, etc.

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 2018 and 31 December 2017, the total amount of future payments resulting from the irrevocable operating lease agreements was as follows:

Payables from irrevocable operating lease	31.12.2018	31.12.2017
Less than 1 year	437	360
1 year to 5 years	4 583	5 618
More than 5 years	2 166	2 828
Total	7 186	8 807
Operating lease recognised in general and administrative expenses	6	8

6. Non-Current Intangible Assets

Movements in non-current intangible assets as at 31 December 2018:

	1.1.2018	Increase	Decrease	31.12.2018
Software	27 001	1 071	(8 147)	19 925
Other non-current intangible assets	25 810	1 561	(4 109)	23 262
Non-current intangible assets	52 811	2 632	(12 256)	43 187
Accumulated amortisation - software	(26 263)	(2 048)	8 595	(19 716)
Accumulated amortisation - other non-current intangible assets	(25 386)	(258)	4 067	(21 577)
Accumulated amortisation and provisions	(51 649)	(2 306)	12 662	(41 293)
Net book value	1 162	326	406	1 894

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 - 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

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 2018, Prima banka did not record any liabilities under agreements to purchase non-current intangible assets (31 December 2017: € 0).

7. Deferred Tax Assets

	31.12.2018	31.12.2017
Deferred tax asset	9 570	9 671
Total	9 570	9 671

8. Other Assets

	31.12.2018	31.12.2017
Accruals and deferrals	6 168	2 066
Amounts due from assigned receivables	5 373	0
Other assets	5 820	4 807
Total	11 988	6 873

9. Financial Liabilities at Amortised Cost

	31.12.2018	31.12.2017
Balances with central banks	100 000	0
Loans received	100 000	0
Due from banks	30 517	30 367
Current accounts and demand payables	1 644	1 494
Term deposits	28 873	28 873
Customer deposits	3 087 787	3 079 660
Current accounts	1 646 923	1 589 407
Term deposits	1 323 113	1 333 139
Saving deposits	116 943	155 387
Received loans	808	1 727
Debt securities	1 967	119 522
Mortgage debentures	1 967	119 522
Total	3 220 271	3 229 549

A short-term loan received from the NBS in the amount of €100 000 thousand falls due on 2 January 2019. As at 31 December 2018, the Bank pledged government bonds held in the portfolio of financial assets at amortised cost in favour of the NBS for pooling in the amount of €222 985 thousand.

As at 31 December 2018, the Bank recognises long-term loans received from customers falling due in 2025.

The following summary shows the financial liabilities at amortised cost by geographical territory:

	31.12.2018	31.12.2017
Balances with central banks	100 000	0
Slovak Republic	100 000	0
Due from banks	30 517	30 367
Slovak Republic	29 515	29 365
EU Member States	1 002	1 002
Customer deposits	3 087 787	3 079 660
Slovak Republic	3 045 581	3 050 209
EU Member States	37 696	25 309
Other countries	4 510	4 143
Debt securities	1 967	119 522
Slovak Republic	1 967	119 522
Total	3 220 271	3 229 549

As at 31 December 2018, Prima banka issued the securities summarised in the following table (these issued securities 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	-	ZERO	1 000.00	1 560	1 967
Total							1 967

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	-	ZERO%	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	400	39 802
Total							119 522

Prima banka's issued mortgage debentures are registered book-entry securities. The bonds are readily transferrable with no pre-emption or conversion right attached thereto. In 2018, the Bank repaid early mortgage debentures, issue SK4120010737.

10. Financial Liabilities Held for Trading

	31.12.2018		31.12.2017	
	Fair Value	Nominal Value	Fair Value	Nominal Value
Interest rate derivatives	0	0	665	3 816
Currency derivatives	0	10 123	2	6 790
Total	0	10 123	667	10 606

The residual maturity of the derivatives at nominal value is summarised in Note 27.

11. Hedging Derivatives

Amount of Liabilities	31.12.2018		31.12.2017	
	Fair Value	Nominal Value	Fair Value	Nominal Value
Hedging derivatives – interest rate	427	8 441	1 140	36 597
Total	427	8 441	1 140	36 597

The residual maturity of the derivatives at nominal value is summarised in Note 27. These are the fair value hedging derivatives.

12. Provisions and Reserves

	31.12.2018	31.12.2017
Provisions for litigation	10 173	10 323
Provisions for restructuring	1 430	2 885
Provisions for off-balance sheet liabilities	4 339	3 250
Other reserves	0	356
Total	15 942	16 814

The Bank expects the remaining 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 2018:

	1.1.2018	Allocation	Release	Use	31.12.2018
Provisions for litigation	10 323	253	(203)	(200)	10 173
Provisions for restructuring	2 885	70	(1 525)	0	1 430
Provision for off-balance sheet liabilities*	3 250	8 033	(6 944)	0	4 339
Other reserves (for retirement payments)	356	0	(356)	0	0
Total	16 814	8 356	(9 028)	200	15 942

*The effect of IFRS 9 is described in more detail in the Table on pages 14 and 15.

Movements in provisions for liabilities as at 31 December 2017:

	Balance 1.1.2017	Allocation	Release	Exchange Rate Difference s	Other Movements *	Balance 31.12.2017
Provision for litigation	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.

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 € 10 173 thousand as at 31 December 2018, and represents principal and default interest (31 December 2017: € 10 323 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.

13. Current Tax Liabilities

	31.12.2018	31.12.2017
Current tax liability	0	3
Total	0	3

14. Other Liabilities

	31.12.2018	31.12.2017
Accruals and deferrals	84	135
Reserves and other payables	15 612	13 738
Settlement with employees, of which: social fund	897 60	370 70
Other payables	19 543	(14 081)
State budget clearing account	497	655
Total	36 633	817

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. Other liabilities mainly comprise the settlement of clearing collections and payments.

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 2018 and as at 31 December 2017 is presented in the following table:

Social fund	31.12.2018	31.12.2017
Balance as at 1.1.	70	73
Allocation (from expenses)	153	167
Usage: catering allowance	(163)	(170)
Total	60	70

15. Equity

	31.12.2018	31.12.2017
Share capital	226 773	226 773
Share premium funds	71 190	71 190
Legal reserve fund	4 237	2 743
Other capital funds	54 078	54 078
Accumulated other comprehensive income	(839)	(2 537)
Profit/(loss) from previous years	(50 679)	(63 489)
Profit/(loss) for the current year	22 013	14 944
Total	326 773	303 702

Share Capital

Face value of shares	31.12.2018		31.12.2017	
	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	176 573	176 572 738	176 573
	177 474 538	226 773	177 474 538	226 773

Accumulated Other Comprehensive Income

	31.12.2018	31.12.2017
Financial assets at fair value through other comprehensive income	1 121	726
Available-for-sale securities	(2 237)	(3 792)
Cash flow hedge	277	455
Actuarial gains (losses)	0	74
Total	(839)	(2 537)

Accumulated other comprehensive income includes unrealised remeasurement of financial assets at fair value through other comprehensive income without an effect on deferred tax. In accumulated other comprehensive income, the Bank also recognises the revaluation amount from the transfer of securities from the available-for-sale financial assets portfolio to the held-to-maturity financial assets portfolio pursuant to IAS 39. The aforementioned reserve is gradually amortised in the statement of comprehensive income until the maturity of the transferred securities.

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

Proposed Distribution of Profit/Loss for 2018:

Statutory allotment to the reserve fund (10% of the profit after tax)	2 201
Transfer of profit into profit/loss from previous years	19 812
Retained earnings for 2018	22 013

The distribution of the 2018 profit is subject to the approval by the General Meeting of Prima banka.

16. Net Interest Margin

	31.12.2018	31.12.2017
Interest income and similar income on:	82 513	73 739
Financial assets at amortised cost, of which:		
Balances with the central banks	(495)	0
Due from banks	(8)	144
Loans and advances to customers	75 558	66 522
Debt securities	7 519	7 154
Financial assets held for trading – derivatives	(2)	(14)
Hedging derivatives	(59)	(67)
Interest expense and similar expense for:	(17 226)	(17 414)
Financial liabilities at amortised cost, of which:		
Due to banks	(181)	(160)
Customer deposits	(16 508)	(15 487)
Debt securities	(240)	(849)
Subordinated debt	0	(614)
Financial liabilities held for trading – derivatives	(10)	(173)
Hedging derivatives	(287)	(131)
Net Interest Margin	65 287	56 325

17. Net Fee and Commission Income

	31.12.2018	31.12.2017
Fee and commission income on:	27 763	22 866
Payment services	21 362	17 353
Credit activity	4 653	3 967
Transactions with securities	116	140
Other banking services	1 632	1 406
Fee and commission expense for:	(5 467)	(4 570)
Payment services	(1 620)	(1 709)
Credit activity	(3)	(10)
Transactions with securities	(72)	(122)
Other banking services	(3 772)	(2 729)
Net Fee and Commission Income	22 296	18 296

18. Profit from Financial Transactions

	31.12.2018	31.12.2017
Net loss from debt securities	0	(7)
Net income (loss) from financial assets held for trading – derivatives	(447)	795
Financial assets at fair value remeasured through profit or loss	0	(133)
Net loss from revaluation of financial assets at fair value through other comprehensive income	(210)	(195)
Net income (loss) from hedging derivatives	30	109
Foreign exchange differences	1 116	(196)
Net profit from financial transactions	489	373

19. Other Operating Income (Loss)

	31.12.2018	31.12.2017
Net income (loss) on the sale of non-current assets	1 805	(312)
Operating lease income	102	148
Other income from non-banking activities	516	154
Other expenses from non-banking activities	(157)	(32)
Other operating income	2 266	(42)

20. Specific Contributions of Selected Financial Institutions

	31.12.2018	31.12.2017
Deposits Protection Fund	(283)	(604)
Special levy of banking institutions	(6 446)	(4 777)
Resolution fund	(46)	(270)
Supervision of Central Banks	(242)	(180)
Specific Contributions of Selected Financial Institutions	(7 017)	(5 831)

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.

21. General and Administrative Expenses

	31.12.2018	31.12.2017
Personnel expenses	(24 144)	(21 533)
Wages and salaries*	(17 243)	(16 307)
Social expenses	(6 099)	(5 263)
Other personnel costs	(802)	37
Depreciation	(3 852)	(2 823)
Depreciation of non-current tangible assets	(2 982)	(2 372)
Amortisation of non-current intangible assets	(870)	(451)
Purchased output and services and other expenses	(27 075)	(23 136)
IT costs	(5 032)	(3 419)
Marketing, advertising and other services	(7 258)	(6 487)
Costs of audit and related services**	(325)	(262)
Other purchased outputs and services	(14 410)	(12 699)
Creation of provisions for litigation	(50)	(645)
Creation (use) of provisions for restructuring	0	376
General operating costs	(55 071)	(47 492)

*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 2018, 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) Audit of the financial statements: €154 thousand (31 December 2017: €119 thousand);
- b) Assurance audit services other than the audit of the financial statements: €75 thousand (31 December 2017: €82 thousand);
- c) Tax advisory services: €0 (31 December 2017: €0);
- d) Other non-audit services: €19 thousand (31 December 2017: €17 thousand).

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 € 137 thousand as at 31 December 2018 (31 December 2017: € 128 thousand).

22. Net Allocation to Provisions and Reserves

	31.12.2018	31.12.2017
(Allocation to)/reversal of provisions for financial assets at amortised cost, of which:		
Loans and advances	(3 320)	(3 763)
Debt securities	(1 788)	(3 287)
Allocation to provisions for off-balances sheet exposures	(1 532)	(476)
Written-off and assignment of receivables	(1 729)	(1 247)
Written-off and assignment of receivables	(1 093)	(4 169)
Net Allocation to Provisions and Reserves	(6 142)	(9 179)

More information on provisions for losses from loans to customers and provisions for off-balance sheet liabilities is disclosed in Note 1 and in Note 12, respectively.

Disclosures on written-off/assigned receivables as at 31 December 2017 only include expenses and income on written-off/assigned receivables and do not include the use of provisions. As at 31 December 2018, they are recognised on a net basis, ie adjusted for the use of provisions.

23. Income Tax

	31.12.2018	31.12.2017
Current tax	0	(3)
Deferred tax	(101)	2 491
Income tax	(101)	2 488

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 (2017: 21%):

	31.12.2018	31.12.2017
Profit/(loss) before tax	22 114	12 455
Theoretical tax at tax rate of 21% (2017: 21%) expense/(income)	4 644	2 616
Tax-exempt income	(870)	(1 320)
Tax non-deductible expenses	2 005	1 524
Effect of a deferred tax asset not recognised in previous periods	(6 038)	(5 311)
Impact of the tax license	0	3
Other	360	0
Total income tax expense/(income)	101	(2 488)
Effective tax rate	0.46%	(19.98%)

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% (2017: 21%).

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

	Temporary difference		Deferred tax	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Deferred tax asset, of which:	203 099	234 029	42 651	49 146
Loans receivables	166 569	186 597	34 979	39 185
Receivables from financial transactions	2 671	2 451	561	515
Short-term operating payables	14 509	12 801	3 047	2 688
Non-current tangible assets	5 852	5 549	1 229	1 166
Tax loss carried forward	0	18 934	0	3 976
Other receivables	13 498	7 697	2 835	1 616
Total	x	x	42 651	49 146
Adjustment for uncertain utilisation of deferred tax asset			(33 081)	(39 475)
Deferred tax asset/(liabilities), net	x	x	9 570	9 671
Effect of deferred tax on:				
expenses/income	x	x	(101)	(512)
equity	x	x	0	0

As at 31 December 2018, the Bank did not recognise a deferred tax asset in the amount of € 33 081 thousand (31 December 2017: € 39 475 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.

24. Net Earnings per Share

	31.12.2018	31.12.2017
Net earnings for the current period (€ T)	22 013	14 944
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	176 572 738
Net earnings per share (face value € 399) in €	38.731	37.354
Net earnings per share (face value € 67) in €	6.504	6.273
Net earnings per share (face value € 5) in €	0.485	0.468
Net earnings per share (face value € 1) in €	0.097	0.094

25. 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:

	31.12.2018	31.12.2017
Cash	95 750	101 054
Balances with central banks	18 508	46 521
Current accounts in other banks	5 315	10 337
Term deposits in banks up to 3 months	88	13 990
Total	119 661	171 902

26. Contingent Liabilities and Other Off-Balance Sheet Items

Off-balance Sheet Assets

	31.12.2018	31.12.2017
Receivables from spot transactions	15 000	8
Guarantees received	12 818	15 185
Loan commitments - received	0	8 346
Received collateral from pledge, security and other rights	3 017 719	2 584 774
Total	3 045 537	2 608 313

Off-balance Sheet Liabilities

	31.12.2018	31.12.2017
Liabilities from spot transactions	15 000	8
Guarantees issued	7 253	14 958
Loan commitments and unused credit facilities	191 625	190 419
Letters of credit - given	2 945	72
Collateral given for the Bank's credit facility	227 514	253 560
Assets in custody	15 715	41 802
Total	460 052	500 819

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 2018, provisions recorded for off-balance sheet exposures amounted to € 4 339 thousand (31 December 2017: € 3 250 thousand), see Note 12 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"*.

27. Residual Maturity of Derivatives

All derivatives are traded in the over-the-counter market. The summary of derivatives held for trading with positive fair values is described in Note 10 and the summary of hedging derivatives with negative fair values is described in Notes 4 and 11 of this chapter.

The following summary shows the residual maturity of derivatives' face values as at 31 December 2018:

	Up to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	0	3 020	5 421	8 441
Currency swaps	10 149	0	0	10 149
Total off-balance sheet assets	10 149	3 020	5 421	18 590
Interest rate swaps	0	3 020	5 421	8 441
Currency swaps	10 122	0	0	10 122
Total off-balance sheet liabilities	10 122	3 020	5 421	18 563
Net derivatives	27	0	0	27

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

28. 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 recognised at fair value and classified in Levels 1 - 3 based on the determination of their fair values as at 31 December 2018 (as at 31 December 2017):

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets held for trading: derivatives	0	52	0	52
Financial assets at fair value through other comprehensive income	0	0	2 141	2 141
Financial assets at fair value total	0	52	2 141	2 193
Hedging derivatives	0	427	0	427
Financial liabilities at fair value total	0	427	0	427

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	0	0	1 914	1 914
Hedging derivatives	0	35	0	35
Financial assets at fair value total	0	35	1 914	1 949
Financial liabilities held for trading – derivatives		667		667
Negative fair value of derivatives	0	1 140	0	1 140
Financial liabilities at fair value total	0	1 807	0	1 807

Financial assets at fair value through other comprehensive income are mainly capital participations in companies providing settlement and card services, whose fair value differs from their carrying amount after revaluation.

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:

	Financial assets at fair value through other comprehensive income
Market value as at 31 December 2017	1 914
Accrued coupon	0
Carrying amount as at 31 December 2017	1 914
Total gains/(losses)	
in the statement of profit and loss	(210)
in the other comprehensive income	437
Market value as at 31 December 2018	2 141
Accrued coupon	0
Carrying amount as at 31 December 2018	2 141
Total gains/(losses) for the financial year included in the profit or loss for assets/liabilities held at the end of the reporting period	227

Fair Value of Financial Assets and Liabilities Reported at Amortised Cost

The calculation of the fair value of assets and liabilities reported at amortised 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 2018:

	Carrying amount	Estimated fair value		
		Level 1	Level 2	Level 3
Cash	95 750	0	95 750	0
Financial assets at amortised cost, of which:	3 464 239	302 275	127 353	3 270 455
Balances with central banks	97 006	0	97 006	0
Due from banks	7 095	0	7 220	0
Loans and advances to customers	3 054 489	0	0	3 270 455
Debt securities	305 649	302 275	23 128	0
Financial assets	3 559 989	302 275	223 103	3 270 455
Financial liabilities at amortised cost, of which:	3 220 271	0	132 844	3 062 933
Loans and deposits received from central banks	100 000	0	100 000	0
Due to banks	30 517	0	30 611	0
Customer deposits	3 087 787	0	0	3 062 933
Issued securities	1 967	0	2 232	0
Financial liabilities	3 220 271	0	132 844	3 062 933

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
Financial assets at amortised cost, of which:	3 408 018	352 304	276 666	2 979 779
Balances with 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
Debt securities	329 134	352 304	0	0
Financial assets	3 509 072	352 304	377 720	2 979 779
Financial liabilities at amortised cost, of which:	3 229 549	0	150 287	3 084 001
Due to banks	30 367	0	30 367	0
Customer deposits	3 079 660	0	0	3 084 001
Issued securities	119 522	0	119 920	0
Financial liabilities	3 229 549	0	150 287	3 084 001

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.

The fair-value measurement for financial assets at amortised cost is based on an observable market price 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 debentures is calculated as the present value of discounted future cash flows using observable market factors on the interbank market, including the relevant credit spread.

29. 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.

The Bank's Management Board is regularly informed of the status and expected development of the adequacy of own funds 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 general credit risk adjustments acceptable as Tier 2 capital.

Prima banka's own funds and regulatory capital requirements as at 31 December 2018 and 31 December 2017 are stated in the table below:

Own funds	31.12.2018	31.12.2017
Original own funds (Tier 1 Capital)	312 012	298 316
Items creating the value of original own funds	355 415	355 996
Paid-up share capital	226 773	226 773
Share premium	71 190	71 190
Other funds	58 315	56 821
Another accumulated comprehensive result	(838)	1 212
Items reducing the amount of original own funds	(43 344)	(57 681)
Accumulated loss of previous year	(41 451)	(55 968)
Intangible assets	(1 893)	(1 162)
Other items	0	(550)
Additional own funds (Tier 2 Capital)	21 959	22 557
Items creating the value of additional own funds	21 959	22 557
Subordinated debts	0	0
General credit risk adjustments	21 959	22 557
Own funds total	335 147	320 872
Own funds requirements*	31.12.2018	31.12.2017
Own funds requirements to cover credit risk and risk of impairment of receivables	141 355	144 365
Own funds requirements to cover operational risk	13 300	11 690
Own funds requirements to cover CVA risk	11	50
Own funds requirements	154 666	156 105

* Amounts presented as at 31 December 2018 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 2019.

Prima banka met regulatory requirements under the CRR in 2018. As at 31 December 2018, the Bank's overall capital adequacy was 17.37% (31 December 2017: 16.44%). The Bank uses a standardised approach for the calculation of own funds requirements.

30. 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:	31.12.2018	31.12.2017
Financial assets at amortised cost	3 464 239	3 410 713
Balances with central banks	97 006	204 839
Due from banks	7 095	82 590
Loans and advances to customers	3 054 489	2 791 455
Debt securities	305 649	331 829
Financial assets at fair value through other comprehensive income	2 141	1 914
Hedging derivatives	0	35
Deferred tax assets	9 570	9 671
Other assets	11 988	6 873
Total	3 487 938	3 429 206
Credit risk related to off-balance sheet items prior to the deduction of reserves:	31.12.2018	31.12.2017
Issued guarantees	7 253	14 958
Loan commitments and unused credit limits	191 625	190 419
Issued letters of credit	2 945	0
Total	201 823	205 377

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

To cover granted loans	31.12.2018	31.12.2017
Cash	14 683	16 330
Securities	0	2
Immovable assets	2 994 133	2 480 204
Movable assets	6 692	34 901
Collateral received for financial assets	3 015 508	2 531 437

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 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 debtor'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:			
			Public administration		Other clients	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	7 095	82 590	140 329	145 916	576 775	528 618
Rating AAA	0	0	380	189	47	11
Rating AA+	0	0	1 485	1 149	297	155
Rating AA	4	0	6 184	10 181	48 543	3 412
Rating AA-	0	0	9 330	18 583	1 622	523
Rating A+	1 464	0	11 202	18 784	29 717	848
Rating A	20	0	21 409	12 749	26 242	15 430
Rating A-	2 490	49 479	9 783	11 369	7 104	3 032
Rating BBB+	969	5 557	34 466	6 731	13 155	1 127
Rating BBB	184	4 961	9 255	11 119	8 610	4 595
Rating BBB-	74	8 528	9 156	9 513	3 984	5 365
Rating BB+	0	0	10 441	25 986	10 983	51 446
Rating BB	6	14 003	6 889	5 595	297 168	320 468
Rating BB-	1 758	0	4 856	9 747	31 488	35 562
Rating B+	0	0	1 843	4 042	6 417	32 306
Rating B	0	0	3 490	179	13 239	5 987
Rating B-	126	62	160	0	14 370	29 105
Rating CCC	0	0	0	0	63 789	19 346

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

Rating scale	Issued guarantees				Loan commitments			
	Public administration		Other clients		Public administration		Other clients	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	3 702	1 761	6 337	11 717	21 600	19 912	55 453	87 291
Rating AAA	0	0	0	12	0	0	32	0
Rating AA+	0	0	10	0	277	461	1 162	37
Rating AA	31	246	272	0	1 402	1 827	1 230	1 083
Rating AA-	760	672	415	15	3 547	1 735	1 219	325
Rating A+	1 336	0	44	15	3 105	2 759	1 312	280
Rating A	117	588	179	203	3 543	3 283	927	388
Rating A-	675	0	383	0	2 540	2 000	1 522	2 853
Rating BBB+	306	0	383	33	1 799	2 388	1 317	829
Rating BBB	49	0	40	4 567	1 357	1 363	1 454	8 004
Rating BBB-	350	0	8	642	1 473	1 603	1 270	4 276
Rating BB+	0	255	45	954	1 052	804	3 731	18 701
Rating BB	78	0	1 312	3 507	876	856	5 960	25 710
Rating BB-	0	0	3	238	571	662	342	1 749
Rating B+	0	0	0	1 207	52	21	1 284	3 397
Rating B	0	0	0	0	6	6	181	5 433
Rating B-	0	0	0	0	0	0	81	8 563
Rating CCC	0	0	3 243	327	0	144	32 429	5 663

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 2018, the exposure to bank and corporate debt securities amounts to € 36 099 thousand (31 December 2017: € 26 272 thousand).

c) 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 ensures on an ongoing 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.

The 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 2018 and 31 December 2017:

	31.12.2018	31.12.2017
Agriculture, forestry and fishing	2 289	3 425
Mining and quarrying	89	220
Manufacturing	16 964	62 579
Electricity, gas, steam and air conditioning supply	16 003	100 011
Water supply; sewerage and waste water management	3 854	22 397
Construction	5 894	1 514
Wholesale and retail trade	37 481	89 619
Transportation and storage	3 433	10 363
Accommodation and catering	2 782	10 485
Information and communication	775	1 904
Financial and insurance activities	184 311	49 144
Real estate activities	111 498	234 237
Professional, scientific and technical activities	6 187	5 102
Administrative and support service activities	50 420	46 240
Public administration and defence; compulsory social security	140 523	146 881
Education	55	275
Health care and social work activities	3 274	1 280
Arts, entertainment and recreation	2 658	1 089
Other activities	458	9 136
Activities of households as employers	2 465 551	1 995 554
Total	3 054 499	2 791 455

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 1 January 2018, Prima banka changed its methodology to calculate provisions and reserves in accordance with IFRS 9 application (described in more detail in chapter 3).

The summary below provides an analysis of the unimpaired loan portfolio (stage 1 and stage 2) based on days overdue as at 31 December 2018 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	7 095	0	0	0	0	0
Loans and advances to customers, of which:	3 063 826	22 781	0	1	0	23 972
Public administration	140 329	138	0	0	0	0
Other clients	576 775	3 197	0	1	0	1 424
Individuals	2 346 722	19 446	0	0	0	22 548
Total	3 070 921	22 781	0	1	0	23 972

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
Public administration	145 916	49	0	0	0	18
Other clients	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 impaired loan portfolio (stage 3) as at 31 December 2018, including other receivables from financial transactions:

	Public administration	Other clients	Individuals	Total
Individually measured – impaired loans	1 194	69 480	0	70 674
Specific provisions	805	67 089	0	67 894
Recoverable amount of collateral received – individually measured	0	2 551	0	2 551
Portfolio measured – impaired loans	0	20 797	49 246	70 043
Portfolio provisions	0	17 933	41 152	59 085
Recoverable amount of collateral received – portfolio measured	0	2 442	8 023	10 465
% of coverage by provisions	67%	94%	84%	90%
% of coverage by provisions and received collateral	67%	100%	100%	99%
Interest income on impaired loans	x	x	x	2 131

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

	Public administration	Other clients	Individuals	Total
Individually measured – impaired loans	1 817	170 451	0	172 269
Specific provisions	704	111 141	0	111 845
Recoverable amount of collateral 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 collateral 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

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 at agreed 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 € 1 873 thousand as at 31 December 2018 (31 December 2017: € 1 053 thousand).

The Bank sold real estate pledged against receivables which were unpaid in 2018 for € 3 446 thousand (31 December 2017: € 2 083 thousand). The Bank sold a pledge over moveable assets (receivables) as at 31 December 2018 for € 0 thousand (31 December 2017: € 29 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 debtor 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 debtor'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 debtor 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 30 (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.

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 2018:

	Movement in yield curve	Bank's loss from movement in yield curve
Banking Book: euro	+100 BP	(11 288)
Total		(11 170)

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)

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 2018:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 years incl.	Unspecified items	Total
Financial assets at amortised cost, of which:						
Balances with central banks	97 006	0	0	0	0	97 006
Due from banks	5 404	719	972	0	0	7 095
Loans and advances to customers	481 078	822 531	1 721 935	34 887	(5 942)	3 054 489
Debt securities	2 071	75 652	162 708	65 218	0	305 649
Financial assets at fair value through other comprehensive income	2 141	0	0	0	0	2 141
Financial assets held for trading – derivatives	52	0	0	0	0	52
Interest rate position - financial assets	587 752	898 902	1 885 615	100 105	(5 942)	3 466 432
Financial liabilities at amortised cost, of which:						
Loans and deposits received from central banks	100 000	0	0	0	0	100 000
Due from banks	1 644	28 873	0	0	0	30 517
Customer deposits	636 568	706 337	1 684 517	60 365	0	3 087 787
Issued securities	0	0	1 967	0	0	1 967
Financial liabilities held for trading - derivatives	0	0	0	0	0	0
Hedging derivatives	427	0	0	0	0	427
Interest rate position - financial liabilities	738 639	735 210	1 686 484	60 365	0	3 220 698

The accompanying notes are an integral part of these financial statements.

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

Net interest rate position	(150 887)	163 692	199 131	39 740	(5 942)	245 734
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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
Financial assets at amortised cost, of which:						
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
Debt securities	4 491	44 282	207 606	75 450	0	331 829
Financial assets at fair value through other comprehensive income	1 914	0	0	0	0	1 914
Interest rate position - financial assets	601 531	887 168	1 746 376	123 195	54 357	3 412 627
Financial liabilities at amortised cost, of which:						
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
Issued securities	28 961	89 057	1 504	0	0	119 522
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

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. From the externally defined liquidity indicators, the liquid assets indicator may not be lower than 1. In 2018, the Bank complied with the above legislative indicator 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.

Liquidity warning signals include: amount of the volatile portion of demand deposits; LD ratio (ratio of primary deposits excl. mortgage debentures 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, balance sheet amount of selected foreign currencies to the Bank's total assets.

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 2018:

	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	95 750	0	0	0	0	95 750
Financial assets at amortised cost, of which:						
Balances with central banks	97 006	0	0	0	0	97 006
Due from banks	5 404	719	972	0	0	7 095
Loans and advances to customers	194 621	193 981	857 786	1 825 930	(17 829)	3 054 489
Debt securities	2 071	75 652	162 708	65 218	0	305 649
Financial assets held for trading – derivatives					52	52
Financial assets at fair value through other comprehensive income	0	0	0	2 141	0	2 141
Non-current tangible assets	0	0	0	0	14 412	14 412
Non-current intangible assets	0	0	0	0	1 894	1 894
Deferred tax asset					9 570	9 570
Other assets	0	0	0	0	11 988	11 988
Held-for-sale assets	0	0	0	0	0	0
Assets total	394 852	270 352	1 021 466	1 893 289	20 087	3 600 046
Financial liabilities at amortised cost, of which:						
Loans and deposits received from central banks	100 000	0	0	0	0	100 000
Due to banks	1 644	28 873	0	0	0	30 517
Customer deposits	1 971 633	535 205	580 141	808	0	3 087 787
Issued securities	0	0	1 967	0	0	1 967
Financial liabilities held for trading - derivatives	0	0	0	0	0	0
Hedging derivatives	0	0	0	0	427	427
Reserves	0	0	0	0	15 942	15 942
Other liabilities	24 644	0	0	0	11 989	36 633
Total equity	0	0	0	0	326 773	326 773
Liabilities and equity total	2 097 921	564 078	582 108	808	355 131	3 600 046
Net balance sheet position	(1 703 069)	(293 726)	439 358	1 892 481	(335 044)	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 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
Financial assets at amortised cost, of which:						
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
Debt securities	4 491	44 282	207 604	75 452	0	311 829
Financial assets at fair value through other comprehensive income	0	0	0	1 914	0	1 914
Hedging 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
Deferred tax asset	0	0	0	0	9 671	9 671
Other assets	0	0	0	0	6 873	6 873
Assets total	473 796	465 394	889 687	1 638 938	84 877	3 552 692
Financial liabilities at amortised cost, of which:						
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
Issued securities	28 961	89 057	1 504	0	0	119 522
Financial liabilities for trading	13	133	120	401	0	667
Hedging derivatives	0	0	0	1 140	0	1 140
Reserves	0	0	0	0	16 814	16 814
Current tax liability	0	0	0	0	3	3
Other liabilities	0	0	0	0	817	817
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 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 2018 (in undiscounted 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:						
Financial liabilities at amortised cost, of which:						
Due to banks	30 517	30 639	1 644	28 995	0	0
Customer deposits	3 087 787	3 100 138	1 971 918	538 570	588 842	808
Issued securities	1 967	2 149	0	0	2 149	0
Other liabilities	36 633	36 633	36 633	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 2017 (in undiscounted 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:						
Financial assets at amortised cost, of which:						
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
Issued securities	119 522	119 813	77 874	39 860	2 079	0
Other liabilities	817	30 312	30 312	0	0	0

The summary below provides the worst-case scenario of an analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2018 (in undiscounted 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	7 253	7 237	7 237	0
Contingent liabilities from letters of credit	2 945	2 913	2 913	0
Loan commitments, of which:	191 625	191 625	191 625	0
irrevocable	191 625	191 625	191 625	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 (in undiscounted 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

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 2018, 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 2018, the VaR amounted to € (980) (31 December 2017: € (3 007)).

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 and a limit for the sum of absolute values of open positions in absolute terms for all currencies together.

Foreign exchange position of Prima banka as at 31 December 2018:

	EUR	CZK	USD	Other	Total
Assets	3 581 607	2 085	14 392	1 962	3 600 046
Liabilities and equity	(3 581 607)	(2 074)	(14 403)	(1 961)	(3 600 046)
Net balance sheet foreign exchange position	(0)	11	(11)	1	1
Off-balance sheet assets	3 115 804	3	3	1	3 115 810
Off-balance sheet liabilities	(456 279)	0	(3 770)	(3)	(460 052)
Net off-balance sheet foreign exchange position	2 659 525	3	(3 767)	(2)	2 655 758
Net foreign exchange position	2 659 525	14	(3 779)	(1)	2 655 759

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

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 2018, 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 "Financial assets at fair value through other comprehensive income" portfolio, the Bank records equity securities in the total amount of €2 141 thousand, which are capital participations in SWIFT LA Hulpe, 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 €13 000 thousand, of which the following amounts are attributable to individual business lines: retail banking – €7 556 thousand, commercial banking – €3 943 thousand, payment services and settlement – €990 thousand, other – €811 thousand.* Management measures and implemented systems for operational risk management are adequate for the Bank's strategy and profile.

* Amounts presented as at 31 December 2018 were not audited as at the reporting date. A review of own funds requirements will be performed by the Auditor during an audit of regulatory prudential returns by 30 June 2019.

31. Transactions with Related Parties

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

- 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);
- Is an associate;
- Is a joint venture;
- Is a member of key management personnel of the reporting entity or its parent company; and
- 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 2018:

Balance sheet	Penta Investments Limited	Penta Group	Other related parties	Total
Loans and advances to customers	0	79 191	577	79 768
Other assets	0	3 371	0	3 371
Total assets	0	82 562	577	83 139
Due to banks	0	614	0	614
Customer deposits	10	26 221	2 706	28 937
Other liabilities	0	1 097	0	1 097
Total liabilities and equity	10	27 932	2 706	30 648

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

Revenues and expenses concerning related parties as at 31 December 2018:

	Penta Investments Limited	Penta Group	Other related parties	Total
Interest and similar income	0	2 409	9	2 418
Interest and similar expense	0	(1)	(19)	(20)
Net fee and commission income	1	166	2	169
Net profit from financial transactions	0	9	0	9
General and administrative expenses	0	(7 025)	(1 522)	(8 547)

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	0	36	0	36
General and administrative expenses	0	(5 956)	(1 381)	(7 337)

Off-balance sheet liabilities concerning related parties as at 31 December 2018:

	Penta Group	Other related parties	Total
Received collateral from pledge, security and other rights	0	550	550
Off-balance sheet assets	0	550	550
Loan commitments and unused credit facilities	0	101	101
Off-balance sheet liabilities	0	101	101

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

32. 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.