Slovenská sporiteľňa, a. s., Member of Erste Group

Annual Report 2016

SLOVENSKÁ sporiteľňa

Contents

The Company at a glance

Basic information

Registered office: Tomášikova 48, 832 37 Bratislava, Slovak Republic
Registered: Commercial Register administered by District Court Bratislava I, section: Sa, file no.: 601/B
Company reg. No. (IČO): 00151653
Legal form: joint-stock company
Line of business: universal bank

Profile

Slovenská sporiteľňa was established in 1825 as the first savings bank in Slovakia. Today, the Company is the largest commercial bank in Slovakia servicing more than 2.3 million clients. For a long time it has been holding a leading position in total assets, loans, clients' deposits, number of branches and ATMs. The Bank offers its comprehensive services at almost 290 branches for retail clients and 8 regional commercial centres in Slovakia.

In 2001, Slovenská sporiteľňa became a member of Erste Group, which was founded in 1819 as the first Austrian savings bank. Since 1997, Erste has developed into one of the largest financial services providers in Central Europe, with approximately 46,700 employees serving about 15.9 million clients in 2 700 branches in seven countries of the eastern part of the European Union (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia).

Shareholders as of 31.12.2016

Erste Group Bank AG
Registered office: Am Belvedere 1, Vienna 1100, Austria
Share in the registered capital and voting rights: 100.00%

Significant direct and indirect participations

Služby SLSP, s.r.o.	100.00%
Realitná spoločnosť Slovenskej sporiteľne, a. s.	100.00%
LANED, a. s.	100.00%
Procurement Services SK, spol. s r.o.	51.00%
Slovak Banking Credit Bureau, spol. s r.o.	33.33%
Holding Card Service s.r.o. Czech Republic	31.00%
Prvá stavebná sporiteľňa, a. s.	9.98%

Ratings

Fitch Ratings

Long-term rating	**BBB+**
Short-term rating	**F2**
Viability rating	**bbb+**
Support rating	**2**
Outlook	**stable**

This Annual Report has been prepared in accordance with Act no. 431/2002 Coll. on accounting as later amended, Act no. 423/2015 Coll. on statutory audit as later amended, and Act no. 566/2001 Coll. on securities and investment services and on the amendment to certain laws as later amended (the "Securities Act") as Slovenská sporiteľňa is a securities dealer. This Annual Report substitutes annual financial report as defined in Act no. 429/2002 Coll. on the stock exchange as later amended (the "Stock Exchange Act") as Slovenská sporiteľňa is an issuer of debt securities admitted to trading on a regulated market. Information included in section "Annexes" contains all information required by § 77 (2) (b) of the Securities Act. This Annual Report contains a statement according to § 34 (2) (c) of the Stock Exchange Act as well as a link on webpage containing the Annual Report 2016 of mother company Erste Group Bank AG (according to § 34 (3) of the Stock Exchange Act).

The Annual Report is published via: www.slsp.sk, notice of publication in Hospodárske noviny

Contact persons for the compilation of the Annual Report

Mária Valachyová, chief economist
valachyova.maria@slsp.sk

Martin Reháček, reporting
rehacek.martin@slsp.sk

Monika Zajacová Gogová, reporting
zajacovagogova.monika@slsp.sk

Marta Cesnaková, spokesperson
cesnakova.marta@slsp.sk

Contact

Slovenská sporiteľňa, a.s.
Tomášikova 48
832 37 Bratislava

Telephone: +421 2 4862 1111
Fax: +421 2 5826 8670
Client centre: 0850 111 888

e-mail: info@slsp.sk; press@slsp.sk
website: www.slsp.sk
www.erstegroup.com/en/investors/reports/financial_reports

Financial Highlights

According to IFRS	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016
Prepared in accordance with the International Financial Reporting Standards	(mil. eur)	(mil. eur)	(mil. eur)	(mil. eur)	(mil. eur)
Balance sheet total	11 777	11 699	12 969	13 980	14 825
Loans and advances to credit institutions	290	80	179	122	90
Loans and advances to customers*	7 093	7 161	8 086	9 365	10 250
Financial assets	3 925	3 731	3 953	3 836	3 793
Customer deposits	8 413	9 091	9 666	10 672	11 384
Equity	1 205	1 291	1 311	1 539	1 562
Net profit	188	185	183	186	215
Selected ratios	**(IN %)**	**(IN %)**	**(IN %)**	**(IN %)**	**(IN %)**
Return on equity	16.9	15.1	14.5	13.8	14.0
Return on assets	1.6	1.6	1.5	1.4	1.5
Cost income ratio	42.3	42.8	44.5	44.3	46.1
Net interest margin	4.2	4.2	4.0	3.7	3.4
Loans to deposits ratio	84.3	82.6	83.6	87.8	90.0
Capital adequacy	20.1	25.2	19.9	21.9	21.5
Tier 1 ratio	16.3	20.8	17.7	20.3	20.3
Other figures					
Number of employees	4 210	4 208	4 275	4 205	4 232
Number of branches	297	292	292	291	287
Number of ATMs	773	770	779	790	795
Number of payment cards	1 261 358	1 327 197	1 390 876	1 402 291	N/A

** From 2013, net loans to customers are reported (in 2012 brutto loans)*

Statement by the Chairman of the Board and CEO

Dear partners,

the year 2016 can undoubtedly be considered extraordinarily successful not just in terms of the profitability of the banking sector as a whole, but particularly of Slovenská sporiteľňa, which achieved its best result ever.

Our retail business performed well, both in loans and deposits. Growth in retail lending was achieved thanks to the fact that, besides offering clients attractive interest rates, we also offered valuable additional services making everyday life of our clients easier. We were also able to improve the quality of the loan portfolio, and accordingly reduce the level of risk costs. I am also pleased that even during times of record-low interest rates, more and more people are putting their savings in Slovenská sporiteľňa. Currently almost 650 000 Slovaks save at our bank.

In corporate banking we focused on small and medium-sized enterprises, where we significantly increased the volume of financing for this segment. I am glad that the appetite to try something other than a traditional corporate bank has brought many firms to Slovenská sporiteľňa, where they realised that we are a bank that genuinely stands behind entrepreneurs.

Besides success in traditional banking, our results were also substantially affected by two one-off transactions. These were the sale of a stake in the company Visa Europe and the establishment of a joint venture between Erste Group and Global Payments, which will provide payment services for merchants in Slovakia, the Czech Republic and Romania.

I greatly appreciate that I was able on behalf of my colleagues to again receive the prestigious award TREND TOP Bank of the Year, which we have now won for the fifth time in a row. I see it as an appraisal of the work of the Slovenská sporiteľňa team as a whole. I am also pleased that we have been able to move to the first place in the ranking of most attractive employer in the financial sector. For me it is a signal that each year there are more and more of us who trust in the meaning of our work and who enjoy it.

We care that we are not just successful, but also beneficial to broader society. Therefore, we devoted a share of our proceeds to the Slovenská sporiteľňa Foundation, supporting meaningful projects in education, culture, sport and social assistance. Overall, through the Foundation and the Bank's sponsoring activities, we supported more than 450 projects in a total value of almost €1.8 million. We are a part of society. We feel responsibility to it. This is reflected in our ranking among the top firms in the Via Bona appraisal for outstanding approach to corporate social responsibility. We have also been able to continue developing the concept of social banking, where this focuses mainly on the segments of new entrepreneurs and non-profits.

One negative piece of news for banks during the year was the cancellation of the gradual reduction in the bank levy. This legislative change for us will mean higher costs in coming years. We would rather prefer to invest these funds in raising quality, in faster processes or in developing new services for clients instead.

In 2017, the environment of low interest rates and various legislative changes will impact the profitability of the banking sector as a whole. However, nothing will change the fact that we at Slovenská sporiteľňa will continue to do all we can to make life better for people and businesses in Slovakia. Thank you for your trust,

Štefan Máj
Chairman of the Board of Directors and CEO

Top Management
Board of Directors of Slovenská sporiteľňa, a.s.

ŠTEFAN MÁJ
Chairman of the Board and CEO

Štefan Máj is a graduate of the Management Faculty at the University of Economics in Bratislava. From 1991 to 1995 he worked for Slovenská sporiteľňa, first as the head of Property Management Unit, then as general director of the Technology Division, and later as a board member. In 1995, he joined Komerční banka Bratislava, serving as a member of the Board of Directors and Deputy CEO until December 1998, when he returned to Slovenská sporiteľňa to become Deputy CEO. Mr Máj was a member of the Slovak Finance Ministry's steering group for the restructuring and privatisation of selected banks and restructuring of the financial sector.

Mr Máj was Deputy Chairman of the Board of Directors and First Deputy CEO of Slovenská sporiteľňa until the end of 2014. With effect from 1 January 2015 he was elected Chairman of the Board of Directors and CEO of Slovenská sporiteľňa. He is responsible for accounting, controlling, balance sheet management, facility, environment and construction, and physical security, and within staff units also for strategy & quality management, human relations, communication, sponsoring and the SLSP Foundation.

PETER KRUTIL
Deputy Chairman of the Board and the First Deputy CEO

Peter Krutil is a graduate of the Management Faculty at the University of Economics in Bratislava. He served internships at Creditanstalt Vienna and Creditanstalt London. From 1991 to 1993, he was a securities dealer for VÚB, where he worked on the listing of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka as a dealer in money and capital markets. From 1993 to 1998 he was a managing director and later a member of the Board of Directors at Creditanstalt Securities, o.c.p., a.s., Bratislava. In 1998, Mr Krutil moved to the Slovak Ministry of Economy. In December 1998 he was elected a member of the Board of Directors of Slovenská sporiteľňa. On 1 April 2015 he took up the position of Deputy Chairman of the Board of Directors and Deputy CEO of Slovenská sporiteľňa. He is responsible for the management of corporate banking and capital markets. From the beginning of 2015 until 14 June 2015 he was temporarily responsible for the management of retail banking.

ZDENĚK ROMÁNEK
Board Member and Deputy CEO

Zdeněk Románek is a graduate of the Charles University and University of Economics, Prague. He got an MBA degree in France at INSEAD Fontainebleau University.

He began his professional career in 1999 in the consulting company KPMG in Prague. After a year at the Czech Revitalisation Agency, in 2001 he started working for consulting company McKinsey & Company in several European countries. In 2007 he moved to Česká pojišťovna, a part of the PFF Holding, where he was responsible for the sale, distribution and product management. Since 2013 he was responsible for the retail banking in Air Bank in Czech Republic.

He has been a member of the Board of Directors of Slovenská sporiteľňa since 15 June 2015, when he was elected member of the Board of Directors and Deputy CEO. He is responsible for retail banking, the social bank and private banking.

RICHARD CHOMIST
Board Member and Deputy CEO

Richard Chomist holds a PhD degree in telecommunications from the Slovak University of Technology in Bratislava. For twelve years after graduation he worked in air traffic management in civil aviation where he held various senior positions in the areas of communication networks and AIS systems. During this time period he participated in numerous international internships and courses in the UK and Luxembourg. Since 2010, he has worked in management positions in Erste Group IT SK, which was the main supplier of IT services for Slovenská sporiteľňa. Since 2012 he has been the Head of IT & Operations Division, responsible for the Company's infrastructure and operations. He was elected member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa on 1 April 2015. He is responsible for IT, change management, project management, the retail processes centre and payments & settlement.

BERNHARD SPALT
Board Member and Deputy CEO until 31 December 2016

Bernhard Spalt is a graduate of the Faculty of Law at the University of Vienna in Austria, with a degree in European Law. He joined Erste during his university studies as a specialist in international law, later as a workout specialist. In 1999, he moved from the position of the Head of Secretariat of Erste Bank to become the Head of Workout Department in Erste Bank ČR in Prague. A year later he was appointed Head of Corporate Restructuring & Workout Department in Česká spořitelna. Within Erste Bank in Austria, from 2002 until 2012, he moved from the position of the Head of Risk Management Division at group level to the position of member of the Board of Directors of Erste Group Bank responsible for risk. Since February 2012 he was a member of the Board of Directors and Deputy CEO of Erste Bank Hungary. He was elected a member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa on 1 March 2015. Up until 31 December 2016 he was responsible for risk management, legal services, security, compliance & financial fraud.

Changes in the Board of Directors after 31 December 2016

As at 31 December 2016 Bernhard Spalt resigned from his position as member of the Board and Deputy Director General, due to his election as member of the Board of Directors of Banca Comercială Română, which operates within the Erste Group. His vacated positions of board member and Deputy Director General were then filled through the Supervisory Board of Slovenská sporiteľňa electing, with effect from 1 January 2017, **Alexandra Habeler-Drabek,** who has fully taken over all Bernhard Spalt's former responsibilities.

Alexandra Habeler-Drabek is a graduate of the Wirtschaftsuniversität in Vienna. She has more than 22 years' experience in risk management. Through her career she has acquired extensive knowledge in the areas of underwriting and collection in the retail and business segments, as well as in comprehensive strategic and methodological risk management.
She came to Erste Bank in 2010 from UniCredit as head of operational risk management, and in 2012 became part of the top management at Erste Group.

Supervisory Board of Slovenská sporiteľňa a.s.

Gernot Mittendorfer
Chairman

Gernot Mittendorfer studied law at the University of Linz (Austria). He joined Erste Group in 1990. He has held a number of management positions in Erste group companies in Austria and the Czech Republic. He was appointed member of the Board of Directors of Erste Group Bank in January 2011, and since September 2013 he has been responsible for finance. He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2012.

Heinz Knotzer
Deputy Chairman (Until 12 October 2016)

Heinz Knotzer has held several management positions in banks in the Czech Republic. He began his professional career in the Czech Republic at Bank Austria Creditanstalt, where he was responsible for corporate banking. Later he joined Erste Bank and, after the privatization of Česká spořitelna, he started working at Česká spořitelna. In 2004, he was appointed a member of the Board of Directors with responsibility for corporate banking. Since mid-2007 Heinz Knotzer has been responsible for risk management. Since 1 August 2013 he has been a member of the Board of Directors of Erste Group Immorent, and is responsible for risk management and finances. He was appointed a member of the Supervisory Board of Slovenská sporiteľňa on 1 October 2015, and subsequently on 11 December 2015 he assumed the position of Deputy Chairman. He held this position until 12 October 2016.

Jan Homan
Member

Jan Homan graduated in economics at the UniveWirtschaftsuniversität in Vienna. He gained his banking experience in Chase Manhattan Bank in Frankfurt / New York / Dusseldorf, which he joined in 1972 and later in Bank Société Générale Alsacienne in Vienna. Since 1978 he has held a number of managing positions in international engineering and chemical corporations Sandvik Austria and Sun Chemical in Vienna. Since 1991 he has been the CEO of Constantia Teich Group and since 2004 the Chairman of the Board of Directors of Constantia Flexibles Group. In 2011 he was appointed a member of the Supervisory Board of Constantia Flexibles. He is currently a member of a number of supervisory boards, e.g. Supervisory Board of Erste Bank der österreichischen Sparkassen. He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2012.

Andrea Burgtorf
Member (Until 12 October 2016)

Andrea Burgtorf studied at the WHU – Otto Beisheim School of Management, a privately funded business school based in Vallendar, where she also gained her PhD degree in 1995. She joined Deutsche Bank in Frankfurt while she was still at the university. During her twenty-year career at Deutsche Bank she acquired experience in risk management, stress testing and bank regulation. She has held managing positions for fifteen years. Since 2014 she has headed the Erste Group CRO Office. She was a member of the Supervisory Board of Slovenská sporiteľňa until 12 October 2016.

Supervisory Board members elected by employees

Beatrica Melichárová
Member

Beatrica Melichárová graduated from the Faculty of Law of Comenius University in Bratislava. She joined Slovenská sporiteľňa immediately after graduation in 1981. Since 1987 she has held a number of management positions within the Bratislava branch. In 2002, she assumed the position of the chairperson of the trade union organisation of Slovenská sporiteľňa. She is a member of the European Works Council of Erste Bank and a member of its Board; Deputy Chairman of the Trade Union of Finance and Insurance Workers and an active member of the Slovak Trade Union Confederation committees. She became a member of the Supervisory Board of Slovenská sporiteľňa elected by the employees for the first time in 2003. She was then repeatedly re-elected, last on 09 December 2013.

Štefan Šipoš
Member (Until 24 June 2016)

Štefan Šipoš graduated from the Slovak University of Agriculture in Nitra, specialising in operational economics. In 1992, he began his career with Slovenská sporiteľňa at the town branch in Michalovce. Since 1999 he has held a number of managerial positions, including branch manager and since 2002 he has been a regional director in Košice. On 24 June 2011 he was elected a member of the Supervisory Board of Slovenská sporiteľňa as an employee representative. He held this position until 24 June 2016, when his term of office ended.

Alena Adamcová
Member (From 2 November 2016)

Alena Adamcová holds a master's degree from the Faculty of Arts of Constantine the Philosopher University in Nitra. She has worked at Slovenská sporiteľňa since 1985 in various positions in the branch network, and since 1996 in managerial positions. She currently works as a specialist for entrepreneurs. She is a member of the Erste Bank European Works Council and deputy chairman of the Trade Union Committee of Slovenská sporiteľňa. She was elected to the function of member of the Slovenská sporiteľňa Supervisory Board with effect from 2 November 2016.

Changes in the Supervisory Board after 31 December 2016

With effect from 1 January 2017, **Ľudovít Ódor** was elected as an independent member of the Slovenská sporiteľňa Supervisory Board.
Ľudovít Ódor is a graduate of the Comenius University in Bratislava, Department of Mathematics – management. During his career he has worked as a financial markets analyst in ČSOB, as an economist at the Slovak Rating Agency, and chief economist at the Ministry of Finance and director of the Financial Policy Institute. From 2005 to 2010 he was a member of the Bank Board of the National Bank of Slovakia and then until 2012 an adviser to the Prime Minister and Minister of Finance of the Slovak Republic. Since 2012 he has been a member of the Council for Fiscal Responsibility.

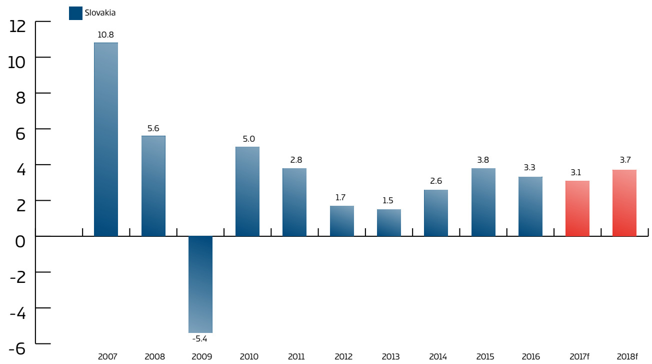
Slovak economy in 2016

- **Slovakia's economy grew at a solid pace in 2016**
- **The labour market's robust recovery continued**
- **Falling prices in Slovakia persisted for the third consecutive year**
- **Slovakia benefited from eurozone trading partners' growth**
- **Monetary policy remains loose**
- **The outlook for 2017 remains favourable**
- **Gradual consolidation of public finances should continue**

The year 2016 saw a slowdown in growth, though the labour market continued its robust recovery

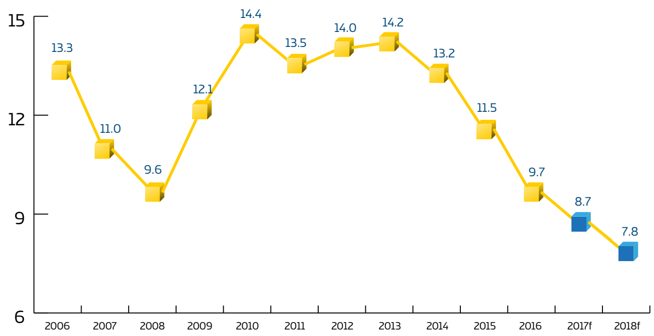
Slovakia's economy performed well in 2016, despite growth slowing as compared to the previous year. Growth in 2015 was significantly driven by public investments resulting from increased spending of EU funds in the 2007 – 2013 programming period. This effect was not repeated in 2016 and so the economy slowed slightly to 3.3%, compared with growth of 3.8% in 2015. After more than two years, economic growth was again driven not just by domestic demand, but again foreign demand. Household consumption also contributed to favourable labour market development, which translated also into growth in household disposable incomes.

Real GDP growth in Slovakia



The improving labour market situation is reflected in dynamic employment growth, falling unemployment, as well as growth in real wages. Concurrent with rising household consumption, household savings also increased. The unemployment rate at the end of year 2016 reached 9.1%, representing a fall of 1.9 percentage points against a year earlier.

Unemployment rate in Slovakia



Deflation persisted until the end of 2016

For the third consecutive year Slovakia again experienced falling prices in 2016. Consumer prices fell on average by 0.5% over the year, due to both a fall in energy prices and reduced value-added tax on selected foodstuffs. Only in December 2016 did price growth return, to rise by 0.2% against a year earlier. We expect that inflation in 2017 will rise only gradually, on average by around 0.7%.

Eurozone growth holds steady

Eurozone growth in 2016 reached 1.7%, which is comparable with the bloc's performance in 2015. Germany, the eurozone's main engine, grew by 1.9%, its fastest growth since 2011. The eurozone's southern economies also performed well – Italy, Spain and Portugal all improved. Some improvement was also seen in Greece, though its economy remains fragile, while questions surrounding its third rescue programme and the country's debt sustainability remain unresolved. The unemployment rate in the eurozone in 2016 continued to fall and at the year-end stood at 9.8%. Even though the unemployment rate in the eurozone has still not returned to its pre-crisis level, it is gradually approaching it.

Monetary policy remains loose

The European Central Bank (ECB) left rates at historically low levels and is continuing in quantitative easing (QE) in an effort to raise inflation closer to its target of just below 2% over the medium term. From March 2016 the deposit rate remained negative at -0.4%. The main refinancing rate is 0% and the upper corridor overnight rate is at 0.25%. The ECB's Governing Council at the end of 2016 decided to extend the QE programme from April 2017 to December 2017, and, if necessary, even longer, at a reduced average monthly volume of €60 billion. Quantitative easing has been extended in a significant volume to the end of 2017, which means that key ECB interest rates should remain at low levels at least during 2017.

Yields on Slovak bonds reached historic lows, with yields on bond maturities of up to 5 years remaining negative. Yields on 10-year bonds rose until the year-end to 1.1%, compared to 0.3% over the summer. The growth in bond yields was connected with Donald Trump's surprise win in the US presidential election, as well as with the reduced volume of bonds purchased by the ECB in the framework of quantitative easing.

Public finances will probably see a lower deficit

Slovak public finances ended 2015 in a deficit of 2.7% of GDP. The Ministry of Finance estimates that the figure for 2016 should be about 2.2% of GDP. Tax collection improved, thanks to better development in the economy, particularly wages and employment, as well as more efficient tax collection, in particular VAT. The reduction in public borrowing should continue this year, with the government envisaging a general government deficit of 1.3% of GDP. Most of the consolidation though remains more on the revenue side. Public debt in 2015 reached 52.7% of GDP. We expect that for 2016 the level of public debt relative to the size of the economy will remain largely unchanged.

Management report on the Bank’s activities in 2016
Data taken from the consolidated financial statements

REVIEW OF FINANCIAL RESULTS

- **In 2016, Slovenská sporiteľňa achieved a consolidated net profit of €214.5 million, its best ever financial result**
- **The profit is a result of steadily growing business supported by positive trends in risk costs. Net profit was greatly affected by two one-off transactions: sell of Visa Europe shares and establishment of the joint venture Global Payments in payment terminals**
- **Total assets increased by 6.0% to €14.8 billion against a year earlier, mainly due to increased lending to clients**
- **In 2016, lending to clients rose by 9.5% to nearly €10.3 billion, while client deposits rose year-on-year by 6.7% to €11.4 billion**
- **Loan-to-deposit ratio at 90% confirms the Bank's stable position in liquidity and financing, and creates the potential for continued growth in the coming period**
- **Cost-income ratio deteriorated slightly from 44.3% in 2015 to 46.1% in 2016, mostly due to the growth in operating costs**
- **Operating income declined slightly by €4.8 million against a year earlier, amounting to €599.9 million**
- **Compared to 2015, net interest income fell slightly by 1.6% from €469.0 million to €461.6 million. This decrease is the result of long-term trends in market interest rates and strong pressure on margins in new lending as well as in loan refinancing, to which the Bank was exposed over the past year mainly due to legislative changes**
- **Fee & commission income increased slightly by €0.3 million against a year earlier, to €121.7 million. Fee income growth resulting from the increased lending, transactions and changes in credit agreements was offset by reduced fee income following the unbundling of payment terminals into the company Global Payments**
- **General operating expenses rose by 3.4% and were affected by activities increasing quality of the services and the merger of daughter company Erste Group IT SK and Slovenská sporiteľňa dating from 1 April 2016**
- **Other operating result was positively influenced by two one-off transactions: proceeds from the sale of the Bank's stake in Visa Europe, amounting to €26.8 million, and the sale of payment terminals of the newly established company Global Payments, amounting to €14.5 million**
- **The year-on-year decrease in provisioning of nearly €10 million resulted from the favourable development of the risk profile, particularly in the corporate segment**

Lending and deposit growth continued despite growing competition and changes in legislation

At the end of 2016, total assets of Slovenská sporiteľňa rose to €14.8 billion, representing a 6% year-on-year growth (+€845 million), with a 21% market share (based on individual results). The increase reflects the continuing trend of growth in transactions with clients, supported by activities aimed at meeting the client needs. At the end of 2016, the lending volume stood at €10.3 billion, a 9.5% increase (+€885 million) against 2015. Retail lending was a significant contributor to this figure, with a year-on-year growth of 12.8% (+€927 million)*. Slovenská sporiteľňa's market share reached 27.5%, confirming the Bank's leading position in the retail lending market. The most important source of growth stemmed from housing loans, the volume of which rose by 13.4%, €718 million in absolute terms, as well as from consumer loans which grew by 9.9% (+€139 million). Lending to corporate clients, including the public sector, declined slightly on a year-on-year basis by €70 million to €2.4 billion*. In 2016, the share of loans in total assets amounted to 69% (in 2015 it was 67%). Lending to banks fell over the year by €32 million to €90 million.

The securities portfolio totalled €3.7 billion at the end of 2016, representing an increase of €10 million over the year. The share of securities held to maturity was approximately 70% of the total portfolio. The vast majority of all investments over the course of 2016 comprised Slovak government bond purchases. The credit risk of the overall portfolio is low as approximately 93% of bonds consist of government bonds, while 91% of the portfolio comprises ECB eligible bonds.
The slight decrease in intangible assets, to €72 million, was primarily due to depreciation of the banking information system and software. The decrease in the volume of tangible assets was connected mainly with the gradual depreciation and revaluation or sale of some tangible assets.

Over the year, the volume of total client deposits rose by 6.7% (+€713 million) to €11.4 billion, in large part thanks to retail deposits, where the Bank recorded growth of 11.2% (+€975 million)*. This growth was largely due to increased volumes on current and giro accounts, as well as saving accounts. Conversely, the Bank recorded a decline in standard term deposits.

Over the course of 2016, the Bank recorded a decline in deposits from corporate clients and the public sector by €260 million to €1.7 billion. This segment experienced a change in the deposit structure in favour of current accounts. The ratio of net loans to deposits stood at +90.0% at the end of 2016 (in 2015 it was 87.8%). The Bank's liquidity and funding position is stable and supports further growth in lending to clients.
Similarly as in 2015, Slovenská sporiteľňa recorded a decline in deposits from banks, falling by €107 million to €278 million. This was due to an increase in client deposits and issued securities. Over the course of the past year the Bank issued debt securities for institutional and retail clients worth nearly €350 million. The major part of these consisted of mortgage bonds and investment certificates. The Bank's equity strengthened slightly over the year to nearly €1.5 billion, mainly due to the increase in retained earnings. The Bank meets with sufficient margin all capital indicator limits set by the regulator.

Continued fall in net interest margin partially offset by growth in volumes

Compared to 2015, Slovenská sporiteľňa's net interest income decreased by €7.6 million (-1.6%) to €461.6 million. This decline arose as a result of long-term trends in market interest rates and strong pressure on margins in the newly provided loans as well as refinancing lending. Moreover, market development was significantly affected by legislative changes which were reflected mainly in the first half-year in the volume of early repaid and revalued loans. The net interest margin decreased against a year earlier from 3.7% to 3.4%. Despite the ongoing activities in satisfying clients' needs as well as change in structure and interest rates on deposit products, it was not possible to fully offset the impact.

Total interest income fell by €15 million against 2015, to €511 million. This decrease was caused primarily by lower interest income from loans, which decreased on a year-on-year basis by €7 million to

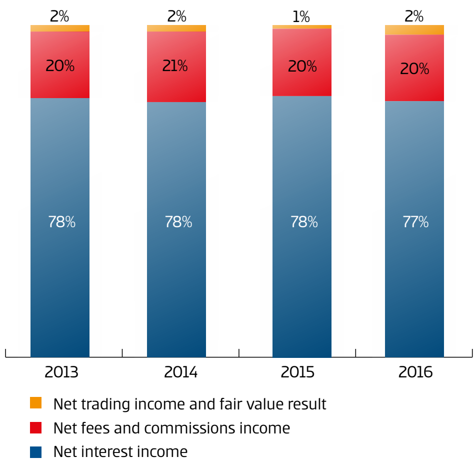
** Figures differ from those shown in the Financial statements due to internal segmentation.*

€395 million. The fall in interest expenses from loans was not fully offset by the rising lending volume. Interest income from securities decreased on a year earlier by more than €6 million and amounted to €124 million. Interest income on derivatives increased slightly over the past year by €1.3 million to nearly €9 million.
The fall in interest expenses on the liabilities side, by more than €7 million against a year earlier, was largely attributable to the fall in interest rates on term deposits and savings accounts. A change in the structure of deposits in favour of current and giro accounts also played a role. In 2016, interest expenses totalled nearly €50 million.

The Bank's net interest income to total operating income ratio declined slightly to 77%, while in 2015 it was 78%. The net interest margin decreased against 2015 by 31 basis points to 3.41%, while in 2015 it fell by 28 basis points. The decline in interest margins was brought about by a fall in interest rates on the market, as well as intense competition for clients between banks, particularly in lending, which was fuelled by a change in legislation.

The Bank invested most of its surplus liquidity in short-term interbank assets within the Erste Group as well as in Slovak government bonds and government bonds of neighbouring countries. A transparent and responsible pricing policy, growing volumes of loans and deposits, as well as efficient liquidity management create favourable conditions for development in net interest income in the near term.

Income structure



Trading income rose, fee income remained almost unchanged

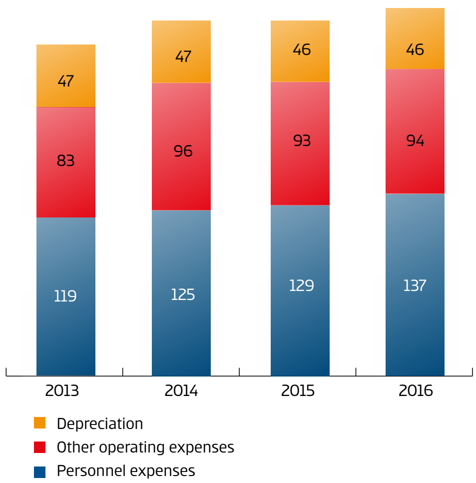
Net fee & commission income increased slightly against a year earlier to €121.7 million (compared to €121.4 million from 2015). The key factors affecting fees in 2016 include, most notably, the sale of payment terminals of Global Payments. The resulting drop in fees amounted to approximately €3.5 million. Another reason was a slowdown in sales of mutual funds reflected in the year-on-year decline of entry fees from Asset Management of Slovenská sporiteľňa by €0.9 million. In 2016, the retail loan market underwent considerable changes concerning the level of fees for early loan repayment as set out through a legislative amendment (application of a fee up to the amount of expenses, at most though 1% of loan principal) as well as review of loan rates. The first half of the year in particular recorded an increase in early repayment and portfolio revaluation. This set off a growth in fees for rate review of €1.6 million, which however was offset by higher spending on mortgage benefits for young people. In 2016, the Bank decided to change the system of benefits in current accounts by cancelling "money-back", rewards on cashless payments, and by introducing a new system "Výhodný súčet" allowing clients to reduce their account fees to zero. The proportion of the Bank's net fee & commission income in total operating income ratio remained at 20%.

Net trading income and net income from revaluation of financial assets and liabilities at fair value was up by €3.8 million and reached €12.6 million. This growth was mainly due to higher trading income obtained especially thanks to the positive revaluation of derivatives. It grew by €6 million as a result of revaluation of currency and interest rate derivatives. On the other hand, the loss from revaluation of financial assets and liabilities at fair value increased slightly against 2015 by €0.6 million to €0.9 million. The main reason for the growth was depreciation of the portfolio.

Operating expenses affected by EGIT SK and Slovenská sporiteľňa merger

General operating expenses rose by 3.4% to €276.7 million, up from €267.6 million in 2015. The increase in operating expenses was linked to the Bank's activities aimed at improving client services as well as the merger between the subsidiary EGIT SK and the Bank. The merger had a direct impact on the year-on-year increase in personnel expenses.

General operating expenses



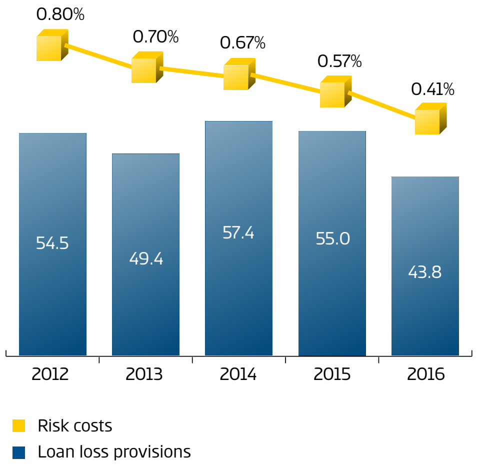
One-off transactions positively affected the other operating result

The other operating result was positively influenced particularly by two one-off transactions having a positive impact on the financial result. The first one represented the divestment of Visa Europe with a positive impact of €26.8 million. The Bank donated a part of this extraordinary income, €2.7 million, to Slovenská sporiteľňa Foundation to support charitable projects. The second extraordinary transaction was the sale of POS terminals to the newly established Global Payments, s.r.o., bringing in a yield of €14.5 million.
The Bank's total levy liability fell by €1.7 million against the figure for 2015, mainly due to a lower contribution to the Single Resolution Fund. In 2016, the contribution dropped by €3.3 million to €4 million. On the other hand, the bank tax rose over the year by €1.5 million to €25.1 million at the same rate of the 0.2% levy. The Deposit Protection Fund levy remained at a level comparable to 2015, at €2.5 million.

Positive development in risk costs

In 2016, Slovenská sporiteľňa's risk costs stood at 0.41%, a significant drop compared to 2015, when they amounted to 0.57%. Despite 9% growth in the loan portfolio, net provisioning at €43.8 million was 20% lower than in 2015. This positive development in risk costs arose largely due to the corporate segment, where improvements in the financial situation of several clients fed through to improve the risk profile of the entire segment.

Development of Loan loss provisions and Risk costs



Return on equity reached 14%, operating profit fell

In 2016, the Bank's consolidated net profit totalled €214.6 million, representing a considerable annual growth of €29.6 million. The main reasons for the growth were in particular two one-off transactions (Visa, payment terminals – Global Payments), along with the positive development in risk costs and an increase in trading revenues. The overall effective income tax rate in 2016 was 25.0%, compared to 24.7% in 2015.

The operating result decreased against a year earlier to €13.9 million (- 4.1%) to €323.2 million. Operating income decreased slightly by €4.8 million (- 0.8%) to €599.9 million, while operating expenses increased by €9.1 million (+ 3.4%), to reach €276.7 million.

In 2016, return on equity stood at 14.0 % (compared to 13.8 % in 2015).

CUSTOMER CARE AND SERVICE QUALITY

- **Customer feedback helps improve bank processes and products**
- **Slovenská sporiteľňa named Bank of the Year by Trend magazine for the fifth year in a row**
- **The Bank considers the development of the society in which it operates important**

Knowing the customers and their feedback as a basis for improving the Bank's products and services

One of Slovenská sporiteľňa's core objectives is to provide products and services that help simplify life of clients, help customers fulfil their dreams and provide comfortable solutions for their life situations.

Regular quantitative and in-depth qualitative surveys enable the Bank to monitor satisfaction not just among its own clients, but also among its competitors' clients, and to identify changes in each client segment's expectations of the Bank and specific products, and thereby help the Bank identify its strengths and weaknesses.

Slovenská sporiteľňa is expanding the opportunities for customers to express an opinion regarding their satisfaction with the Bank's products and services. Over the past year the Bank introduced the possibility of spontaneous feedback also via its website. The Bank worked to streamline the process for entering and handling client complaints. This led to a significant reduction in the time to solve a client's complaint.

For solving a client's specific situation, the Bank has set up a specialised team, which besides individually dealing with clients' complaints, also collects, analyses and evaluates all sources of feedback (including surveys and comments and information from front-line staff, social networks, etc.). In doing so, the Bank identifies room for improvement, which can be implemented in cooperation with other Bank units.

All information received from clients is actively used for adjusting the products and processes, hence for upgrading of the level of provided services. The Bank depends on customer satisfaction and seeks to raise this satisfaction also through the personal involvement of its staff in the final service for the client. For several years now, customer satisfaction and loyalty have been a component of key indicators monitored at the Bank, along with performance evaluation.Thanks to these activities, Slovenská sporiteľňa succeeded in maintaining high client satisfaction in the face of a strengthening competitive environment, major legislative changes and rising client expectations.

Slovenská sporiteľňa again received prestigious awards

Slovenská sporiteľňa in 2016 again received several notable awards. For the fifth consecutive year, the Bank won the most prestigious banking award in Slovakia – **TREND TOP Bank** of the Year 2016 with a considerable margin ahead of the competition.

In addition to this award, Štefan Máj, CEO and Chairman of Slovenská sporiteľňa was awarded the title Banker of the Year 2016, awarded by the magazine Trend in cooperation with the partner Fincentrum. **The Banker of the Year** award was decided by a vote taken also among the heads of Slovak banks themselves.

The development of the society in which Slovenská sporiteľňa operates matters to the Bank

The Bank supports activities in its surroundings and takes exemplary care of its employees, evidenced by the fact that it was among the three finalists of the **Via Bona Award 2015** granted by the Pontis Foundation for corporate social responsibility in the large company category. Slovenská sporiteľňa for the second year in a row received the award **Barrier-Free Bank 2016**, decided in an anonymous vote by members of the Slovak Paralympic Committee. Last, but not least, Slovenská sporiteľňa won a poll for **Best Employer 2015** in the category Finance, Banking, Insurance & Auditing, announced by the job search portal Profesia.sk.

RETAIL SERVICES

- **Slovenská sporiteľňa provided new housing loans worth almost €2 billion**
- **The Bank helped clients with arranging and paying for the land registry entry and valuation**
- **The Bank performed well in consumer loans, for which can clients apply now also via internetbanking**
- **In comparison to the previous year, 100,000 more clients had a personal account with a discount, thanks to the Bank's loyalty scheme**
- **The number of clients with a saving increased by more than a quarter, thanks in part to the sale of saving via tablets**
- **Erste Private Banking signals growth and attractive investment opportunities**

Slovenská sporiteľňa continued in the successful sale of housing loans

Again in 2016 Slovenská sporiteľňa successfully financed housing for many new and existing clients. During the year, the Bank provided new housing loans and mortgage loans for young people in a total volume of €1.9 billion, representing a more than 25% growth against 2015. Most clients who obtained a housing loan opted for a 5-year interest rate fixation, with the remaining preferring primarily a 3-year fixation. In 2016 the average amount of a new loan increased to almost €54,000. Growth in the number of housing loans was encouraged by the historically low interest rates and favourable real-estate prices.

Obstacle-free mortgage

In 2016 the Bank continued to offer the "Obstacle-Free Mortgage", which saves both money and time and provides a significantly simplified process of financing new housing. As a part of this offer, Slovenská sporiteľna as the only Bank in Slovakia arranged the property valuation and entry in the land register for the client and even paid the related costs. Besides that the Bank did not charge a loan provision fee during a campaign running from the beginning of August to the end of the year.
The Bank also continued to provide well-established services, such as loan insurance or property insurance as specified in the loan agreement and its loyalty scheme Výhodný súčet. Thanks to the loyalty scheme, supporting active usage of current account and savings, clients were able to receive a preferential interest rate lower by as much as 0.7 percentage points. Almost every new housing loan was provided with a discount on the ground of using current account and saving with the Bank and almost a third of clients received a further discount thanks to loan insurance.

Consumer lending up

Over the past year Slovenská sporiteľňa succeeded in maintaining a large volume of new consumer loans worth more than €1 billion, a figure comparable with the sales volume in 2015. Similarly as in the case of housing loans, the Bank recorded an increase in the average size of a new consumer loan.
Thanks to the loyalty scheme Výhodný súčet the clients could receive an interest rate lower by as much as 2 percentage points. Almost every client received a discount on the ground of saving, further discount for loan insurance was provided for almost 90% of loans. Last year the Bank financed clients up to the age of 73, with the option of loan insurance. Financing for this group of clients in Slovakia is rare.

Support for digital channels

Slovenská sporiteľňa significantly supported alternative sales channels, with the aim of providing a quality product or service also in a way that does not require the client to visit a branch. Through internetbanking the Bank provided its clients some 40,000 loans. In addition to this, the Bank also approached several thousand clients with pilot offers, with a view of satisfying selected clients' needs with quick small loans that could serve as a reserve ahead of payday. The Bank also optimised processes for consolidating loans from other banks, whereby clients were able to obtain funds more quickly and easily than in 2015, as well as consolidate loans without the need to visit a branch in person.

Successful loyalty scheme

Slovenská sporiteľňa's most successful daily banking product is its Personal Account. The loyalty scheme Výhodný súčet, which underwent some changes at the end of 2015 and which has now been in operation for one full year, has also a share in this success. It is now sufficient for the client to just pay for purchases by debit or credit card, use standing orders or direct debits, have regular saving set up, in order to get the account for free. Unlike most of its competitors, Slovenská sporiteľňa does not make the account discount conditional upon remitting income. Compared to last year, 100,000 more clients began to enjoy benefits under the loyalty scheme.
Besides a free account, the Bank also offers clients other benefits. In the framework of the scheme Odmena+ they can get additional benefits if they use payment cards for purchases at partner merchants. More than 30 merchants, mostly market leaders, are involved in the scheme. The reward may amount to 10% of the purchase value. Contactless payment cards, which are becoming increasingly popular, can also be used in the scheme.

Sale of savings via tablets

In the field of savings, in 2016 Slovenská sporiteľňa brought out several new products, the main one being the sale of savings at branches via tablets that help analyse the client's financial situation, monthly expenses and potential for saving.
Clients can now choose from two new types of saving - "Saving for unexpected situations" and "Saving for enjoyments". All 1,600 advisers are using tablets, which not only improves the advisory services, but also simplifies the sales process, at the end of which clients are no longer signing on paper, but digitally. The sales process via a tablet, and the analysis of potential for saving were attractive for clients, as evidenced by the growth of more than 25% in the number of saving clients, against the preceding year.

They continued to save also via the investment savings scheme Šikovné investičné sporenie, where a part of their money is saved at the Bank and the other part is invested in mutual funds.
The product portfolio was complemented also by insurance policies that form a component of the Saving for unexpected situations (insurance against loss or theft of personal belongings, or damages in the household) and Children's Insurance, which is a part of the Children's Savings Passbook – a popular form of saving for children.

The year 2016 was successful for Slovenská sporiteľňa also in terms of structural changes achieved in the client portfolio. The focus on meeting clients' needs brought about a significant increase in their activity. This was most notably seen in the creation of contingency reserves by regular saving, after the Bank modernised its product offering and sales method. A further positive feature is the activation of clients who consider Slovenská sporiteľňa their primary bank. The number of active clients rose by more than 15,000 clients against the previous year. The Bank also saw improvements in retention—thanks to improved customer care it significantly decreased the client departure rate when compared to the previous year.

Erste Private Banking signals growth and attractive investment opportunities.

Private banking of Slovenská sporiteľňa managed to increase the volume of assets under management by more than 17%. Thus, by the end of 2016 Erste Private Banking, a major player in Slovak long-term investment market, administered a portfolio of more than €780 million. To manage their portfolio, Erste Private Banking clients can use the professional financial instrument – Actively Managed Portfolio, in which funds of almost €90 million are under management.

Erste Private Banking constantly brings interesting investment opportunities, as a response to the current situation on the markets and demand from clients. The year 2016 was no exception in this regard, when Erste Private Banking made 18 successful issues of bonds and investment certificates. Clients showed the greatest interest in investment certificates with the underlying assets: the Eurostoxx 50 index, Statoil and Shell. At the start of the year, clients had the opportunity to invest in subordinated debt of the Erste Group and participate in a bond issue of one of the three largest commercial developers in Europe – HB Reavis.
Erste Private Banking in the framework of expanding its product offering prepared, over the course of the year for its clients, among other products, the Sporo Private Regular Income Fund 3, a fund representing a mix of European corporate bonds across various sectors and countries.
Since 2016 was a turbulent year, private banking clients showed increased interest for investments in gold, which offers a safe port in times of uncertainty, while representing an appropriate instrument for diversifying assets.
In 2016, Erste Group Private Banking for the third consecutive year retained the renowned international award from the magazines The Banker and PWM: Best Private Bank in Central & Eastern Europe.

DISTRIBUTION NETWORK

- **New standard of branches ensures a smoother and higher quality service for customers**
- **Opening hours of selected branches adapted to customer requirements**
- **Increased number of ATMs offering cash deposit option**
- **Personalised offers of loans via internetbanking**
- **Sale of consumer loans also made via the new website**
- **Mobile app users account for nearly a fifth of active users of online banking**

Ongoing upgrade of branch network with a new standard of service

Slovenská sporiteľňa, with 287 branches and 795 ATMs, has the largest bank distribution network in Slovakia. In 2016, the Bank created a new concept of customer service, including modernising branch premises. This should afford customers shorter waiting times, easier orientation in the branch, greater privacy and comfort, including wi-fi and a new waiting area. The Bank successfully tested the new concept in selected branches and intends to gradually extend it as the standard of its branch network.
In 2016 Slovenská sporiteľňa opened two new branches, closed two branches, relocated five branches and upgraded a further eleven. The Bank also extended the opening hours of several branches; a number of branches are open until 6 o'clock in the evening and branches at selected shopping centres are open until 9 o'clock.
The network of ATMs with the option of cash deposit was expanded to a total of 13 ATMs. This allows clients to use Slovenská sporiteľňa services at times outside opening hours.

Personalised offers of loans via internetbanking

Throughout the year, Slovenská sporiteľňa worked on enhancing the sale of products and services provided to customers via online banking. In addition to opening deposit and savings products, the Bank continued to further develop the fully automated sale of credit products. The efforts in 2016 were aimed at targeting offers and their personalized delivery via internetbanking as well as at improving procedures. These included helping clients fill in their data in loan applications. The client centre staff actively contacted by phone those customers who had problems with completing the application. At the same time, the Bank unified the parameters of consumer loans provided through online banking with those provided at branches.

Increase of digital sale

These activities brought an extraordinary increase in loan products sold via internetbanking and the Bank's other digital banking channels. The total volume of digital sales across all the Bank's digital channels in 2016 amounted to almost €50 million and more than tripled against the previous year. This development proves that the sale over digital channels has a great future potential.

Consumer loans now sold also via the new website

Following the successful launch of opening accounts online, Slovenská sporiteľňa brought both its clients and non-clients the option of applying online for a consumer loan. They can do so by using any device – computer, tablet, or even their phone without having to sign a paper agreement or a contract delivered by a courier.

Mobile app users account for nearly a fifth of active users of online banking

Again in 2016, Slovenská sporiteľňa recorded an increase in the number of customers using online banking, accounting for more than 970,000 users. The figure of customers using mobile applications climbed to 120,000 active users. The number and volume of mobile transactions more than doubled against the previous year. Frequency of the application's use during a month also intensified. The clients open the application 17 times a month on average, which underlines the usefulness of mobile banking and its popularity with clients.

PAYMENTS AND TRANSACTIONS

- **In 2016 Slovak banking sector switched over to SEPA payments**
- **Payments between Česká and Slovenská sporiteľňa accelerated**
- **The Bank increased the number of ATMs able to receive cash deposits**

From the start of 2016 the Slovak banking sector switched over to the European Union's single payments system (SEPA). From February 2016, when making SEPA payments, customers are no longer required to indicate the beneficiary's identification BIC SWIFT code. The beneficiary's bank identification code is calculated by the payer's bank on the basis of the beneficiary's account number given in IBAN format.

Harmonised conditions for sending payments within the EU simplified and enhanced financial flows between EU countries, and were greatly welcomed by those clients whose private and business activities are interlinked with the economies of other EU member states. Statutory conditions for SEPA payments were incorporated also by EU countries outside Eurozone, which simplified and accelerated payment transfers made, for instance, in Czech korunas to Česká sporiteľňa. This step was particularly beneficial for a significant share of the Bank's customers having intensive private and business links with the Czech Republic.

ATMs accepting euro banknote deposits

In 2015, Slovenská sporiteľňa was the first bank in Slovakia to introduce ATMs allowing depositing euro banknotes to be automatically credited to the client's deposit account. In 2016, the deposit ATM network was further extended, with the Bank's customers now having available thirteen "cash recycler" ATMs. These are located primarily in the busiest commercial areas in shopping centres.

CORPORATE BANKING

- **Slovenská sporiteľňa has successfully maintained its significant market share in the corporate sector**
- **The Bank has updated its corporate electronic channels**
- **Slovenská sporiteľňa has become the leading bank for a greater number of corporate clients, particularly in the SME segment**
- **Corporate clients satisfaction was supported thanks to the professional approach of advisers as well as new services and products**

Corporate banking has maintained its significant position in the market

Slovenská sporiteľňa throughout 2016 retained its prominent standing in the corporate sector despite strong competitive pressures. The Bank managed to maintain the year-on-year volume of lending provided in corporate banking, despite the transfer of part of the loan portfolio within Erste Group. The largest annual increase in lending was achieved in the SME segment. Transaction banking services contributed on the one hand to meeting client needs and on the other boosted revenues for the Bank.

The Bank updated its electronic banking for corporate clients

The year 2016 saw further streamlining of processes, products and services for corporate clients. The year, though, was not short of innovations facilitating clients' communication with the Bank. Major projects successfully implemented in 2016 included

- Electronic banking Business 24, adding new functionalities. Clients, besides actively managing their current and savings accounts, standing orders and payments, can also administer their mandates, refund requests, as well as requests for allocation of an individual exchange rate. The home page offers new widgets and a drag & drop functionalities. Business 24 includes an overview of the client's loans. An added value is the functionality allowing two-way communication between the client and the Bank. Clients can use this, among other things, to dispatch their documents to the Bank in a safe e-banking environment. The changes applied also to the second e-banking channel, MultiCash, used primarily by large corporate clients. Clients can see information on their current balance and statements in PDF format, and receive messages / notifications from the Bank.
- As a result of the exceptional cooperation between Slovenská sporiteľňa and Česká spořitelna, SEPA payments could be processed at a faster rate. A payment made between the accounts held at these two banks is usually cleared within 30 minutes at a standard fee applicable to domestic transfers. This service followed the pattern of a similar special regime in the CZK currency through which funds are credited to the counter-account on the same day. Thanks to the cooperation with Erste Group, corporate clients can now deliver their payment files to the bank via the electronic service EBICS.
- Furthermore, the lending process has been streamlined, resulting in more efficient and faster loan approval.

- Current accounts processes have also been streamlined, reducing complexity. Towards the end of the past year the Bank decided to discontinue the administration of 6 older account packages and replace them with new modern packages which quickly became popular among clients. The year 2016 saw the expiry of the Homebanking service and its functionality has been fully replaced by Business 24 and MultiCash.

Confirmation of the Bank's major standing in the SME segment

In 2016, Slovenská sporiteľňa confirmed its major market position in the small & medium-sized enterprise (SME) segment with an annual turnover of €1 million to €75. This segment is served through the Bank's eight corporate centres throughout Slovakia's regions.
In addition to a number of successfully implemented internal projects, the corporate strategy "to be the bank of first choice for corporate clients" was fulfilled also thanks to a proactive business approach, resulting in growth in the number of Bank's active clients. The increase in the rate of active clients has translated into a year-on-year rise in revenues from lending, deposits and transaction banking. The total number of SME clients grew this year to over 4,300. The volume of loans rose by 6.4%, to €980 million against the previous year, including leasing and factoring. The volume of assets under management reached €450 million, an increase of 4% against a year earlier. The growth in the loan portfolio in this segment was achieved on the basis of a more active business approach and exploiting business opportunities, both among existing and new SME clients.
In addition to loans provided, global transaction banking specialists supported clients' business activities significantly. They helped boost activity in transactions with customers, as demonstrated by an increase in revenues in the area of transaction services and products.

A stable and strategic partner in the large corporate clients segment

In 2016 Slovenská sporiteľňa reaffirmed its strong standing in the large corporate clients segment, with the number of active clients growing by more than 11%. The Bank confirmed its significance in the local market through its involvement in co-funding most major structured loans. Persistent low interest rates and the strong competitive environment again underlined the importance of providing comprehensive care for corporate clients. A significant portion of the Bank's revenues were achieved through the active use of transaction banking products and services. The professional approach of dealers and comprehensive solution of corporate clients' needs ensured their high-degree of loyalty and customer satisfaction. For a certain segment of large corporate clients the Bank yet again made use of comprehensive services and products provided within Erste Group.

Stable volume of financing for real-estate projects

The Bank's approach in real-estate financing remains conservative. Nevertheless, in 2016 the Bank increased its credit exposure in this segment by more than 7%. The reason for the upturn in the volume of new lending for real-estate funding lay in the market recovery and rising number of business opportunities.
Last year the Bank entered into new loan agreements mainly for office space in Bratislava as well as residential projects and commercial space in Slovakia.

Confirmation of major market standing in the public sector

Slovenská sporiteľňa maintained its major market share in the segment of public and non-profit sector clients, despite the falling market volume of loans granted to the non-profit sector. The Bank continued in its intensive cooperation with the Association of Municipalities and Towns of Slovakia which associates more than 95% of towns and municipalities, and also cooperated with other professional organisations of municipalities and towns, such as the Association of Heads of Municipal Offices, Association of Municipal Finance Officers, and the Association of the Principal Controllers of the Slovak Republic.

Global solutions for corporate clients

In 2016 the global transaction banking specialists maintained the successful promotion of corporate clients and support for fulfilling their complex needs. Sophisticated structured solutions for corporate customers expanded the range of standard products and services focused on management of liabilities and funding of operating and investment needs. The distribution of transaction bankers directly in the regions creates the conditions for a flexible and professional service and gives clients added value over other commercial banks.
Over the course of the year the Bank introduced new products and services such as reverse factoring and financial leasing, which complement the existing portfolio.

Activities in the financial institutions segment

Slovenská sporiteľňa has long been successfully placing issues of debt securities of companies and financial institutions both on the domestic and European market. Against the backdrop of persistent negative interest rates, the Bank enabled its clients to select for their portfolios banking and corporate sector securities that, though bearing higher risk compared to government securities, do nonetheless also bring higher returns. Since 2015 there has been increased interest in exchange-traded derivatives. The volume of managed securities and custodial services has stabilised over recent years and the Bank was able to focus its activities on the acquisition and expansion of cooperation with financial institutions. This provides the basis for developing further business in the coming years.

FINANCIAL MARKETS

- **Slovenská sporiteľňa issued almost €350 million of debt securities**
- **Bank participated in several major transactions for clients**

A successful year in issuing debt securities

The year 2016 was extraordinarily successful for Slovenská sporiteľňa in new debt securities issues. The Bank issued debt securities worth nearly €350 million, with mortgage bonds, unsecured bonds and investment certificates accounting for a major part of this volume. The largest transactions for clients in which Slovenská sporiteľňa actively participated included a syndicated 15-year government bond issue in a total volume of €1.0 billion, a 5-year bond issue for HB Reavis group totalling €25 million, issued in the framework of the newly established bond scheme, as well as a 5-year bond issue by the company Gevorkyan in a total value of €10 million. In addition to these transactions, the Bank participated as an advisor in several bond issues for its clients and redemption of client's bonds on the stock exchange.

RISK MANAGEMENT

- **Sharp drop in the share of non-performing loans from 5.6% to 4.5% in 2016**
- **Capital adequacy ratio in 2016 held above 21%, well above the minimum level required by the regulator**
- **Stable liquidity position, well above minimum regulatory requirements**

Risk management principles

Effective risk management is one of the core pillars for the success of Slovenská sporiteľňa's business operations. Therefore, the Bank strives to introduce and to constantly improve processes for monitoring, evaluating and managing all important risks to which it is exposed. These include in particular credit, market, operational and liquidity risk.

The Bank's objective in the area of risk management is to identify all important risks to which it is exposed, accurately estimate their possible adverse impact and to have procedures in place for their effective management and control. Risk management is guided by the following basic principles:

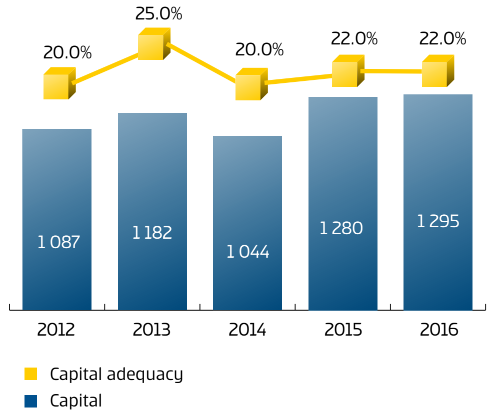
- prudent approach to risk, emphasising long-term sustainability;
- risk management is as far as possible independent of business lines, it is centralised and has sufficient resources and powers to fulfil its functions;
- risk management is integrated; the overall risk profile reflects interdependencies between individual types of risk, and risk exposure is constantly managed with regard to the amount of capital available;
- the Bank does not enter into transactions, investments or products involving risks that it cannot assess or manage.

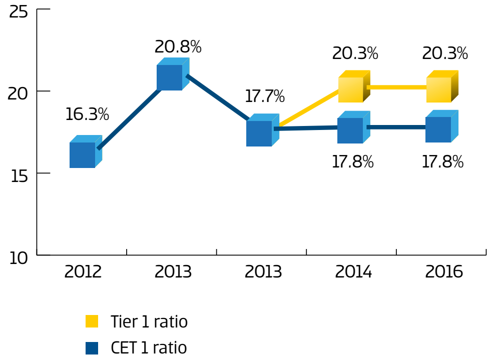
In 2016, the Bank redefined its binding Risk Appetite Statement, which is a set of indicators determining the Bank's target risk profile. This document was one of the defining starting points in creating the Bank's strategic business plan.

Stable capital situation

The Bank consolidated capital adequacy moved from 21.9% at the end of 2015 to 21.5% in 2016. Despite the increased volume of loans, capital adequacy was maintained at a high level, mainly due to reassessment of some models to calculate risk-weighted assets, as well as a modest increase in capital. Throughout the year, the Bank easily satisfied the ECB's minimum capital adequacy ratio, including all capital cushions. Long-term development of CET 1 ratio and Tier 1 ratio follow the capital adequacy trend. Since 2015, Tier 1 ratio is slightly higher than CET 1 ratio due to additional Tier 1 capital in amount €150 million.

Capital and Capital Adequacy





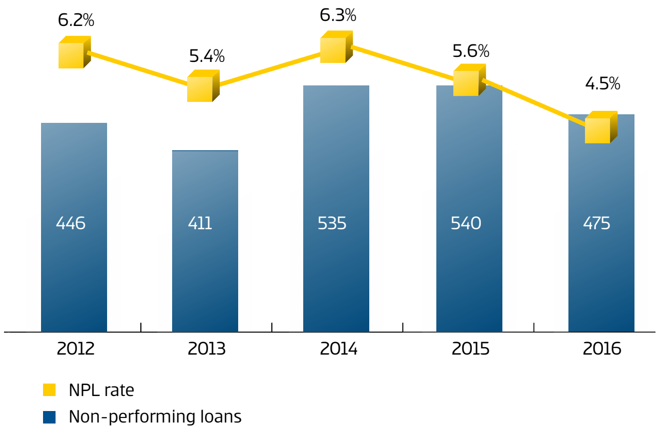
Stable liquidity situation

The Bank's liquidity situation is problem-free; the Bank meets all statutory as well as internal requirements. Liquidity Coverage Ratio (LCR) throughout the year stayed above 250%, well above the statutory limit of 100%. The net stable funding ratio (NSFR) was above the 130% threshold; the statutory limit is 100%. The Bank holds about €4 billion in highly liquid assets (mainly Slovak government bonds) as a liquidity cushion and also meets the internal limits: survival period analysis and concentration and financing limits.

Fall in the share of non-performing loans

Slovenská sporiteľňa recorded a decrease in the share of non-performing loans from 5.6% in 2015 to 4.5% in 2016. This fall was due to a combination of the Bank's prudent lending policy, prevention, improved collection efficiency, and regular write-offs, as well as the sale of non-performing loans in 2016. Due to these positive trends in non-performing loans both in retail as well as in the corporate segment, the Bank also reported a considerable fall in provisioning, from €55.0 million in 2015 to €43.8 million in 2016.

Non-performing Loans and NPL rate



Non-performing loans in retail continued to fall in 2016

The share of non-performing loans in retail fell from 4.5% in 2015 to 4.0% in 2016, confirming the improving quality of the retail portfolio. In 2016, the Bank continued to decrease the share of non-performing loans, despite legal restrictions. In 2016 the Bank applied, as it did in 2015, one of the most conservative policies on the market for defining non-performing loans. The fall in non-performing loans is the outcome mainly of continued enhancement in recovery efforts in unsecured and secured loans. Growth in the Bank's loan portfolio was another contributor.

Licences for entities purchasing non-performing consumer loans

The introduction of licences by the National Bank of Slovakia for entities purchasing non-performing loans had an impact on the volume of non-performing unsecured loans sold and Slovenská sporiteľňa sold fewer non-performing loans than in 2015. This sale took place only in the last quarter, once a sufficient number of entities had received their licences and efficient competition in the bidding process had been generated. The introduction of licences for entities purchasing loans secured by real estate, applicable from 2017, will not have an impact as strong as that created by the licensing of purchases of non-performing consumer loans. In cases where customer workout fails, the primary method used by the Bank for secured loans is real estate auction.

In lending emphasis continues to lie on lending to own clients

In 2016, a substantial part of the growth in the loan portfolio came from the Bank's own clients. Here Slovenská sporiteľňa used its strong position in retail banking in Slovakia. Moreover, the Bank knows its own clients well and is thus able to more precisely assess their risk profile.

Loan portfolio growth was driven by real-estate secured loans. This portfolio is, in retail terms, the most important. The Bank therefore carefully tests its sensitivity to system risks. In 2016, the situation in housing lending changed and the redistribution of loan portfolios among banks intensified. Slovenská sporiteľňa continued to grow in newly provided housing loans and satisfy primary customer needs without relaxing risk standards. Low lending costs supported not just growth in and the affordability of housing loans, but also led to single-digit growth in property prices.

Another major contributor to lending portfolio growth was consumer loans. Their growth was largely influenced by the desire of Slovenská sporiteľňa as well as of other banks to provide customers with solutions in the form of a single loan, instead of multiple loans. In consumer loans, the share of own customers in newly-granted loans exceeds the share of loans secured by real estate. Both, the market as well as Slovenská sporiteľňa's portfolio show signs of an upward trend in the average amount of consumer loans. This is related to customers consolidating their loans from various financial institutions into a single loan that may be serviced more easily by the customer, while the Bank has a clearer picture of the customer's total debt and repayment ability.

Quicker property valuations

The Bank continued in its concept of cooperation with a network of contracted valuation experts who, together with the solution of setting up a mortgage lien, means both added value for the customer and lower risk for the Bank associated with real estate valuation and pledging. In 2016, the Bank reviewed its statistical valuation model for residential real estate used as security. The valuation model was made more precise and efficient due to better use of data collected in the residential real-estate valuation process.

Substantial fall in non-performing corporate loans

The share of non-performing corporate loans at Slovenská sporiteľňa fell substantially from 8.5% in 2015 to 6.0% in 2016. This fall was achieved alongside a minimal reduction in the volume of corporate lending, which remained steady at €2.4 billion, compared to €2.5 billion the preceding year. The Bank recorded a significant year-on-year decline of €65 million in the volume of non-performing loans. Non-performing loans decreased in all corporate banking segments. The number of clients in default remained stable at the 5% limit.

The significant improvement in the quality of the corporate loans portfolio can be seen as the successful outcome of a number of steps taken over preceding years (e.g. lending policy adjustments for individual corporate banking segments, fine-tuning the early warning signals monitoring system), as well as ongoing work with the non-performing portfolio. The progress achieved surpassed the planned framework.

HUMAN RELATIONS

- **The employees of Slovenská sporiteľňa live by its values**
- **Slovenská sporiteľňa has achieved the highest social rating according to an anonymous staff evaluation**
- **The Blue Butterfly platform has initiated changes in numerous issues concerning human relations**
- **Slovenská sporiteľňa supports women as managers**
- **The Bank develops talents**
- **Creative meetings have spread out to the regions**
- **Volunteering has become a part of life at Slovenská sporiteľňa**

The employees perceive Slovenská sporiteľňa positively

Slovenská sporiteľňa and its staff again over the past year lived by the Bank's values. The Human Relations Department helped toward these changes. Employee involvement, satisfaction and appreciation are very important for the Bank, as is team spirit, innovation, or critical thinking among staff. This was confirmed also by the results of the survey "Anatomy of Our Success", based on anonymous responses by employees, in which the Bank received from the Corporate Consulting Group the award of top social rating, **the highest possible of six social ratings**. The result underlines the fact that staff perceives Slovenská sporiteľňa as a successful, trustworthy and reliable bank with a good reputation. In the survey they also expressed their satisfaction with the management skills of their managers, workplace relationships and working conditions. The high quality of Slovenská sporiteľňa as an employer has likewise been confirmed by the independent research portal profesia.sk where the Bank won the award **"Best Employer"** in the category of finance, banking, insurance and audit.

Changes in various areas of human relations

Last year Slovenská sporiteľňa saw the beginning of the Blue Butterfly platform; its purpose being to promote diversity at the workplace, the employer's brand, career paths and promotion practices. Furthermore, the platform is devoted to building an inspiring work environment, capable management and such issues as responsibility toward the company, client experience with using the bank services, or the work / family balance. Last but not least, the platform has brought in new standards in the dress code. The Slovak artist and fashion designer Lea Fekete created specifically for Slovenská sporiteľňa a designer's motif, decorating the fashion accessories and clothing of the Bank's employees.

Slovenská sporiteľňa supports female managers

Last year the Bank had 4,214 employees, almost as many as the year before, of which 73% were women. All in all, the Bank employs 57.2% women and 42.8% men in managerial positions, meaning a year on year increase by one percentage point in favour of women. The average age of women and men working in the Bank stood at 41.3, while the average number of years worked per employee was almost 11 years.

The Bank develops its talent

As part of its educational activities, Slovenská sporiteľňa focused throughout the year on various forms and on specific target groups of employees. For 10 years now it has been working with identified staff talent in the framework of its development programme for prospective managers. Employees from not just the head office, but also the retail network, are enrolled in the programme. Last year 68% of graduates from the programme were placed in management positions, which amounts to a total of 76% in the past 10 years. A new feature at the head office has been half-day inspiration sessions for managers, which have been held once a month, and aimed at developing managerial skills.

Managers of many years' experience also appreciate the possibility of drawing paid leave for a sabbatical. They may draw the leave in various ways in a scope ranging from one to six months.

HydePark toured around Slovakia

Last year the Bank prepared for its staff various interesting events, such as an evening of inspiration or HydePark. A new feature in 2016 was the touring of the creative project HydePark also around Slovakia's regions. Some 50 inspiring meetings presented interesting topics, but also captivating guests.
Slovenská sporiteľňa likewise continued in its successful project Chairman's Invitation for Coffee, which is intended for new recruits.

Volunteering is a part of life at Slovenská sporiteľňa

The aim of employees of Slovenská sporiteľňa is not only to have a good relationship with their colleagues, but also the environment in which they live. More than 700 bank staff in 2016 took advantage of the opportunity to devote one day to any voluntary activity. This is 8% more than last year. Slovenská sporiteľňa's staff worked in total 5,632 volunteering hours. The most preferred form was group volunteering, with the largest group having up to 120 members. Most activities were focused on the social sphere.

Board member remuneration policy and principles

In remunerating members of the statutory body and selected categories of employees Slovenská sporiteľňa proceeds in accordance with the Banks Act and directives of the European Parliament and Council concerning supervision over remuneration principles at banks, i.e. CRD IV.
The principles that the Bank applies in its remuneration of each specific group of employees are drawn up with regard to the significance of those groups' influence on the Bank's risk profile. The basic principles of remuneration of the Board of Directors are approved and their compliance monitored by the Supervisory Board Committee for Remuneration of Slovenská sporiteľňa.

Summary Corporate Governance Report

CODE OF CORPORATE GOVERNANCE

The management of Slovenská sporiteľňa recognises the importance of sound and responsible corporate governance. The basis for applying the principles of corporate governance is the commitment of Slovenská sporiteľňa's parent company – Erste Group Bank, which back in 2003 declared and voluntarily undertook to abide by the Austrian Code of Corporate Governance. The Bank, as a member of the Erste Group, has implemented the Group Governance Policy. This policy reflects the main standards and principles of the OECD Principles of Corporate Governance, as well as those of the Austrian Code of Corporate Governance. Slovenská sporiteľňa, concurrently as a member of the Central European Corporate Governance Association (CECGA), has undertaken to observe the Code of Corporate Governance in Slovakia, issued by that association (hereinafter simply the "Governance Code"). The Company takes all its decisions and carries out all its actions in accordance with the principles of the Governance Code and the adopted Group Governance Policy. Application of the principles and rules of the Governance Code is significantly influenced by the fact that Slovenská sporiteľňa has a sole shareholder, owning 100% of the shares issued by the Company, and which are not traded on any stock market. Certain provisions of the Governance Code relating in particular to the exercise and protection of shareholder rights, therefore, need not be applicable, or are applied to the sole shareholder. The codes of governance are publicly available on the websites: www.corporate-governance.at and www.cecga.com.

Over the course of 2016, Slovenská sporiteľňa complied with all Group Governance Policy rules, as well as the applicable principles of the Governance Code.

Slovenská sporiteľňa has in place a Global Compliance Code, representing a set of ethical standards, principles and binding rules for the Bank and its staff. The responsibility of the Bank and its employees toward clients, as well as mutually between the Bank and its staff is the basis for strict compliance with the adopted rules and standards of the Global Compliance Code. The Bank applies a policy of zero tolerance to any violation of this code. The Global Compliance Code is designed according to European Union requirements for harmonising legislation and unifies the internal standards of Slovenská sporiteľňa with the internal standards of the Erste Group. It is also a practical guide on how to apply statutory provisions in day-to-day contact with information that could alter the behaviour of market entities. Furthermore it is a point of reference for preventing or resolving conflicts of interest between the Bank, its staff, management and customers.
Pursuant to requirements for raising the level of corporate culture, particularly in securities trading, the Bank consistently applies measures under the European Commission Directive on markets in financial instruments (MiFID) for strengthening consumer protection in trading in investment instruments.
Other key documents strengthening customer protection in banking environment are the Code of Ethics, representing the Bank's commitment to providing high-quality financial services to its customers while respecting the principle of fair and transparent business, and the voluntary Code of Conduct, focusing on the provision of pre-contractual information to customers. The latter represents the basic material of the European Agreement on a Voluntary Code of Conduct on Pre-Contractual Information for Home Loans. It has been adopted at the level of European institutions of consumer and the European Credit Sector Associations.

The Code of Ethics and Code of Conduct are published in electronic information books on the Bank's website.

RELEVANT INFORMATION REGARDING MANAGEMENT AND ORGANISATION OF THE COMPANY

The management structure of Slovenská sporiteľňa, as well as that of its parent company – Erste Group Bank, comprises a Supervisory Board and Board of Directors. The Supervisory Board is the Bank's supreme control body. It supervises the activities of the Board of Directors and the implementation of the Bank's business activities. It regularly informs the General Assembly of its activity. The Board of Directors is the Bank's statutory body, managing its activity and acting on its behalf. It decides on all matters of the Bank not reserved under generally binding legal regulations or the Bank's Articles of Association for the General Assembly or Supervisory Board.

The basic and fundamental rules of the Bank's operation and existence are set out in the Slovenská sporiteľňa Articles of Association (the "Articles"). Any changes to the Articles must be approved by the General Assembly. In addition to mandatory requirements under the provisions of the Commercial Code no. 513/1991 and Act no. 483/2001 Coll. on banks (the "Banks Act") applicable to every joint-stock company, the Articles govern the Bank's organisation and system of management, relations and cooperation between the statutory body, Supervisory Board, the Bank's officers, internal audit unit and the Bank's committees. The Bank, in addition to those activities set out in the Articles and entered in the Commercial Register, may, following approval by the National Bank of Slovakia, also perform activities other than banking, related to the operations of the Bank and companies belonging to the consolidated and sub-consolidated Erste Group Bank AG. These activities, in accordance with the Banks Act, are not entered in the Commercial Register.

The organisational structure, basic principles of the Company's organisational arrangement, responsibilities, activities and roles of the Company's organisational units are described in the Slovenská sporiteľňa Organisational Code. The Organisational Code is defined in accordance with the Commercial Code, Banks Act, Securities Act, the Articles and other generally binding legal regulations, and is binding on all Company employees.

The Company performs its activities through its organisational units, comprising the headquarters, branch network, and other units established under the Bank's internal regulations. Responsibility for the creation, implementation, coordination, monitoring and control of the Bank's business objectives lies with the Board of Directors. The Bank, in accordance with generally binding legal regulations, maintains within its organisational structure a separation between activities and powers and responsibilities in the areas:

- risk management and banking activities;
- lending and investment business and monitoring risks to which the Bank is exposed;
- monitoring risks, stemming from conducting banking activities with persons with a special relationship to the Bank.

In 2016 the Company maintained its principle of separate risk monitoring and performance of banking activities to the highest levels of management. The Corporate Credit Risk Management, Retail Credit Risk Management, Strategic Risk Management and

Compliance, and Financial Fraud departments may not engage, and during 2016 did not engage, in any banking, lending or investment business. Competence for authorising transactions with persons with a special relationship to the Bank is held by the Board of Directors, subject to the Banks Act and the Organisational Code.

Slovenská sporiteľňa does not have any foreign units and does not perform banking activities outside the Slovak Republic.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal control system

Slovenská sporiteľňa has in place clearly defined principles and standards of an internal control system. Effective internal control is the basis of sound risk management; it safeguards the Bank's assets, helps reduce or prevent the potential occurrence of serious errors or operational risk events, and helps in their timely detection.

Slovenská sporiteľňa's internal control system has the following objectives:

- to prevent and detect errors and any inefficient or wasteful use of resources;
- to prevent and detect abuses and fraud;
- to ensure the effectiveness and efficiency of banking operations;
- to ensure the integrity, accuracy, timeliness and reliability of information;
- to raise the quality of record-keeping;
- to monitor compliance with laws, regulations and internal policies.

The Bank's Board of Directors is responsible for ensuring that an appropriate and efficient internal control system is implemented and that it is regularly monitored, evaluated and updated.

Each organisational unit is responsible for practical implementation and compliance within its remit. Senior managers are responsible for internal control at the level of the executive, and may not delegate this responsibility.

The Bank's employees are responsible for their work and are governed by the principles of the internal control system. They perform their work in accordance with applicable laws and the Company's internal guidelines. Moreover, they comply with competences related to the approval and authorization for their work. Internal control is a part of their work and responsibilities. The results of each inspection are documented and the responsible employees oversee the removal of any shortcomings found. They supervise the implementation of any recommendations as well.

An independent component of the internal control system is the Internal Audit Division, which reports directly to the Bank's Supervisory Board. The CEO is responsible for its establishment and functioning. Internal Audit is fully independent from all the Bank's activities. This independence is reflected in all stages of its work, particularly during identification and analysis of risks, the planning and preparation of audits, including the selection of review and evaluation methods, drafting and submission of audit reports, evaluation and follow-up of measures taken. In accordance with applicable legislation, internal audit review and evaluation are also applied to outsourced and insourced activities, to the implementation of and compliance with remuneration principles, information systems security, etc. Approval of the internal audit strategy and inspections plan lies in the competence of the Supervisory Board, following prior consultation at the Supervisory Board Audit Committee. The Audit Committee also approves the Internal Audit Statute and monitors and evaluates the efficiency of Internal Audit Division.

Slovenská sporiteľňa pays particular attention to measures for protecting the Bank against money laundering and terrorist financing. The Bank has established an independent Compliance & Financial Fraud unit. The unit is in charge of monitoring compliance of the Bank's internal regulations with the legal regulations of regulatory bodies, and identifying and dealing with fraud, including the application of preventive mechanisms, in accordance with sanction policies and measures. Slovenská sporiteľňa applies a principle of zero tolerance of corrupt conduct and ensures compliance with and monitoring of this. The Bank consistently applies the guideline on the reporting and investigation of antisocial activities, including the establishment of an independent and anonymous means for reporting corrupt or antisocial conduct, available to staff 24 hours a day.

Risk Management System

Slovenská sporiteľňa has, in accordance with applicable Slovak legislation, a risk management system in place, which is based on clearly defined risk management strategy, the Bank's risk appetite and the Bank's ethical values. The Bank has a designated person on the Board of Directors, responsible for risk management. Within its competence, the Board of Directors has established a Risk Management Committee, responsible for compliance with and monitoring of the effectiveness of the risk management system, periodic review of its effectiveness and adequacy. Effectiveness of risk management is overseen by the Supervisory Board, or the Supervisory Board Audit Committee. Within its organisational structure, the Bank has trading and investment activities strictly separated from risk management. Organisational units for strategic risk management, corporate credit risk management, retail credit risk management, restructuring & workout, compliance & financial fraud, information security and legal services report to the member of the Board of Directors responsible for risk management.

Strategic risk management of Slovenská sporiteľňa defines the fundamental principles and risk management objectives, describes the management process, responsible persons and competences in risk identification, monitoring, controlling and management. It also defines the Bank's policy and positions in the area of individual types of risk to which it is or may be exposed. Procedures and measures for mitigating or eliminating individual types of risk are set out in the Bank's internal guidelines and published for the Bank's staff in the internal information channel.

The primary objective of the Bank's risk management is to achieve a sustainable ability to identify all significant risks to which it is exposed, to evaluate and quantify the potential impact of risks on the value of the Bank's assets and to have in place current policies and internal regulations enabling efficient risk management. There is a specific management process for each identified risk The effectiveness and adequacy of the risk management system in place is, in the framework of the adopted strategy, reviewed upon each major change in the risk management process, or in any risk-related activity, though at least once a year. In accordance with statutory and regulatory provisions, the Bank both continuously evaluates and maintains its ability to bear risk in the changing economic and market environment in which it operates.

Within the overall risk management strategy, the Bank has developed its own system for the Internal Capital Adequacy Assessment Process (ICAAP). The assessment system takes into account all real market risks to which the Bank is exposed and which must be continuously covered by its own internal capital. The limits and measures for covering unexpected losses correspond to the nature, scope and complexity of the banking activities in accordance with the Bank's adopted business strategy. The Bank's ICAAP framework and standards are aligned with the Erste Group policy.

INFORMATION ON THE COMPOSITION AND ACTIVITIES OF THE COMPANY'S BODIES AND THEIR COMMITTEES

The rules for the appointment and dismissal of members of the Company's bodies are set out in the Slovenská sporiteľňa Articles, approved by the Shareholders' General Assembly, pursuant to the Commercial Code. In order to ensure the effectiveness of the Supervisory Board's monitoring and supervisory function, the election and dismissal of members of the statutory body falls within the competence of the Supervisory Board. The Supervisory Board appoints members of the Board of Directors subject to the prior approval by the European Central Bank; Slovenská sporiteľňa, as a systemically important bank, falls under ECB supervision. The appointment and dismissal of Supervisory Board members other than representatives elected and dismissed by employees lies in the authority of the General Assembly, following prior consent by the European Central Bank and after assessing the independence and suitability of the proposed candidates.

Shareholders' General Assembly

Pursuant to statutory provisions, the Shareholders' General Assembly is the Company's supreme body. It is held at least once a year and the shareholder participates at it personally, or by means of an authorised representative. The scope of the Slovenská sporiteľňa General Assembly is set out by the Company's Articles. A two-thirds majority of all shares is required for a change to the Articles, in accordance with applicable legislation. The General Assembly also has the competence to amend the Articles of Association, decide on share capital increases or decreases, to elect or dismiss members of the Supervisory Board and other bodies stipulated in the Articles of Association (with the exception of the Supervisory Board members elected and recalled by employees), to approve the Company's regular and extraordinary standalone financial statements, to decide on the distribution of profits (or settlement of losses) and directors' pay, to decide to wind up the Company or change its legal form, to have the Bank's shares removed from trading on the Stock Exchange, and to decide that the Bank will cease to be a public joint-stock company. Slovenská sporiteľňa has a sole shareholder, which can take decisions either at the General Assembly or in the form of a sole shareholder decision, which replaces the effects of the General Assembly. The Bank complies with statutory provisions related to the protection of shareholder rights, with emphasis on the timely provision of all relevant information on the state of the Company, and in accordance with provisions for convening, voting and decision-making at the Shareholders' General Assembly.

In 2016, one ordinary General Assembly was held and three decisions of the sole shareholder were taken. At the General Assembly, the shareholder approved the annual individual and consolidating financial statements, the profit distribution, as well as the Company's Annual Report for 2015. In addition, the shareholder also approved the financial statements of Leasing Slovenskej sporiteľne, a. s. for 2015, due to its merger with its parent company, Slovenská sporiteľňa, as at 1 November 2015. The General Assembly approved Ernst & Young Slovakia, spol. s r.o. as the external auditor for auditing the Company's financial statements for 2016. In March 2016 the sole shareholder decided to wind up the 100% subsidiary Erste Group, IT SK, spol. s r.o., without liquidation and merge it with Slovenská sporiteľňa. Likewise in March 2016, decisions of the sole shareholder were implemented, transferring part of Slovenská sporiteľňa (a separate internal organisational unit of the Bank) and related decisions concerning the transfer of ownership of the Bank's share and the Bank's deposit in the registered capital of the newly acquired equity. By a decision of the sole shareholder, exercising the authority of the General Assembly, it appointed Ľudovít Ódor is a member of the Supervisory Board in December 2016. All information on the General Assembly's activities, its powers, a description of shareholders' rights and the procedure for their application are set out in the Company's Articles of Association, the full text of which is held at the Bank's headquarters and is available on its website. No amendments were made to the Articles during the course of 2016..

Supervisory Board

The Supervisory Board is the Bank's supreme control body. The Supervisory Board may have 3 to 6 members, subject to the Articles of Association. Two thirds of its members are elected by the General Assembly. One third of the Supervisory Board members is elected by employees of the Bank. Membership on the Supervisory of Directors may not be deputised. The Supervisory Board oversees the Board of Directors as well as the Bank's business operations. Meetings are normally held on a quarterly basis. The competences of the Supervisory Board include supervising compliance with generally binding legal regulations, compliance with the Bank's Articles of Association and the General Assembly's decisions, examining the Bank's financial statements and proposals for profit distribution or settlement of losses. The Supervisory Board regularly examines the report on the state of the Bank's business and balance of its assets, monitors the Bank's risk management position, discusses the report on the remuneration system, submits its opinions and statements, recommendations and proposals for decisions to the General Assembly and Board of Directors, and assesses information from the Board of Directors regarding the Bank's principal business objectives. It pre-approves the establishment of legal entities by the Bank, the appointment of the Internal Audit Division Director, elects members of the Board of Directors and, its Chairman. The Supervisory Board informs the General Meeting of its activities, by way of regular reports. The Supervisory Board may establish committees and set the scope of their activities.

Composition of the Supervisory Board and term of office

Slovenská sporiteľňa's Supervisory Board has six members. The term of office of members of the Supervisory Board is five years, subject to the Company's Articles. In 2016 the Supervisory Board acted in the following composition:

Supervisory Board member	Year of birth	Date of first election	End of term
Gernot Mittendorfer (Chairman)	1964	23. 3. 2012	23. 3. 2017
Heinz Knotzer (Deputy Chairman)	1960	1. 10. 2015	12. 10. 2016
Jan Homan	1947	4. 5. 2012	4. 5. 2017
Andrea Burgtorf	1966	11. 9. 2015	12. 10. 2016
Beatrica Melichárová*	1957	19. 12. 2013	19. 12. 2018
Štefan Šipoš*	1961	24. 6. 2011	24. 6. 2016
Alena Adamcová*	1967	2. 11. 2016	2. 11. 2021
Ľudovít Ódor	1976	1. 1. 2017	1. 1. 2022

** Supervisory Board member elected by employees*

Committees and advisory bodies of the Supervisory Board

In accordance with statutory and regulatory provisions and corporate governance rules, the following Supervisory Board committees operate at the Bank:

Audit Committee
The Audit Committee oversees the financial reporting process, the effectiveness of the internal control system (including IT security), compliance with statutory requirements, the effectiveness of risk management, internal audit activities. Moreover, it analyses recommendations made by external and internal auditors. Based on a proposal by the Board of Directors, it recommends an external auditor for the Company to the General Assembly. As a rule, the Audit Committee convenes quarterly.

Credit Committee
The Credit Committee, in accordance with the Bank's Competence Rules, approves credit business (new business, adjustment of the terms of already-approved credit, restructuring and workout) with corporate clients, municipalities and retail clients. It does not approve loans or guarantees for persons with a special relationship to the Bank, which are approved at the level of the Board of Directors.

Remuneration Committee
The Remuneration Committee is established under the provisions of Act no. 493/2001 on banks, determining the rules for prudent management of banks and stockbrokers. The Committee independently assesses the remuneration principles of selected categories of Bank employees. It focuses primarily on the mechanism for balancing all risks, liquidity and capital, and on compliance with the remuneration system, with the aim of achieving long-term prudent management of the Company. Implementation of the remuneration principles is subject to annual inspection by Internal Audit.

Nomination Committee
This Committee was established by the Supervisory Board as an advisory body to fulfil its responsibilities related to the nomination of new members of the Bank's Board of Directors. It was established in accordance with Directive of the European Parliament CRD IV.

Board of Directors

The Company's statutory body is the Board of Directors. Members of the Board of Directors as well as the Chairman of the Board are elected by the Supervisory Board. In accordance with the Company's Articles of Association, the Chairman of the Board also serves as the CEO; the Deputy Chairman of the Board also serves as the first Deputy CEO; other members of the Board of Directors concurrently serve as Deputy CEOs.

The Board of Directors performs its activities on the basis of and in compliance with the rules of procedure. Meetings of the Board of Directors are held at least once a month. Its responsibilities and competences are defined in the Company's Articles. It decides on all matters of the Bank not reserved under generally binding legal regulations or the Bank's Articles for the General Assembly or Supervisory Board. The Board of Directors is responsible for efficient and proper corporate governance, appropriately taking into account the interests of the shareholder, employees, clients, as well as public interests. It takes each decision in accordance with applicable legal regulations, the Company's Articles, as well as internal regulations and guidelines. The Board of Directors decides on the strategic objectives and the Company's business plan, as well as that of its subsidiaries, its organisational structure, remuneration system and staff competences according to individual organisational grades, the Company's internal control system, the provision of loans to the persons with a special relationship to the Bank, the issuing of selected types of securities and outsourcing of selected activities, internal guidelines required by generally binding legal regulations as well as rules of the Erste Group. In addition, it also takes decisions about the Company's policy for specialised areas, such as business activities and terms, risk management, including maintaining an effective system of risk management, compliance and prevention, as well as protection against money laundering and terrorism financing. Based on prior consent from the Supervisory Board, the Board of Directors approves the Internal Audit Division's plan of activities, and the Internal Audit Division Director's salary conditions.

Composition of the Board of Directors and terms of office

The Board of Directors of Slovenská sporiteľňa has five members. The term of office of members of the Board of Directors is five years, subject to the Company's Articles. In 2016, the Board of Directors worked in the following composition:

Member of the Board of Directors	Year of birth	Date of first election	End of term
Štefan Máj (chairman)	1952	21. 12. 1998	3. 1. 2021
Peter Krutil (deputy chairman)	1968	17. 12. 1998	3. 1. 2021
Zdeněk Románek	1976	15. 6. 2015	15. 6. 2020
Bernhard Spalt	1968	1. 3. 2015	31. 12. 2016
Richard Chomist	1974	1. 4. 2015	1. 4. 2020
Alexandra Habeler-Drabek	1970	1. 1. 2017	1. 1. 2021

** Bernhard Spalt held the post of member of the Board of Directors until 31 December 2016. As at that day he resigned from his duties as a member of the Board of Directors due to his election to the Board of Directors of Banca Comercială Română, which operates within the Erste Group. The vacancy was filled in by the appointment of Alexandra Habeler-Drabek. Her nomination was made with the prior approval of the European Central Bank. She was elected to the position of the member of the Board of Directors and Deputy CEO by the Supervisory Board of the Company with the effect as of 1 January 2017.*

Competences and responsibilities of members of the Board of Directors

Member of the Board of Directors	Responsibilities
Štefan Máj (chairman)	Strategy & Quality Management, Human Relationships, Communication & Sponsoring, Accounting & Controlling, Balance Sheet Management, Facilities, Environment & Construction, Physical Security
Peter Krutil (deputy chairman)	Large Corporate Clients, Public & Non-Profit Sector, Global Transaction Banking, Real Estate Financing & Project Financing, Corporate Centres, Corporate Banking Management & Development, Treasury
Zdeněk Románek	Development of Client Services & Value, Client Centre, Digital Banking & Marketing, Branch Network Management, ERSTE Private Banking, Social Bank
Bernhard Spalt (until 31 December 2016) Alexandra Habeler-Drabek (from 1 January 2017)	Strategic Risk management, Corporate Credit Risk Management, Retail Credit Risk Management, Compliance & Financial Fraud, Security, Restructuring & Workout, Legal services. Appointed, pursuant to the Banks Act, as the person designated for risk management.
Richard Chomist	IT Development, IT Architecture, Change Management & Project Management, Financial Management of IT Services, IT Security Systems Operation, Payments & Settlement, Retail Processing Centre. Appointed as the person responsible for the environment.

Committees, advisory bodies of the Board of Directors and specialised functions

The Board of Directors may establish advisory committees, to which it can delegate tasks as well as its decision-making and approval powers in certain areas. Committees are established via a resolution that must contain the date of the committee's establishment, its competences, number of members, composition, designation of the chairman from the committee members and other particulars determined by the Committees' Statute. At any time, the Board of Directors may, by resolution, change committee's competences, its composition, or disband the committee. During 2016, the following committees operated at the Bank:

Assets and Liabilities Committee (ALCO)
The committee assesses and approves the management and control process for the Bank's financial flows, asset and liability structure so as to achieve an optimal balance between the Bank's profitability and its exposure to market risks. It evaluates the Bank's current position in terms of liquidity, market risks, capital adequacy, fulfilment of the planned balance sheet structure, and determines the securities portfolio strategy. The competences of the Committee also include the Bank's liquidity risk management. To this end, the Committee has established a separate advisory committee for operating liquidity management.

Operating Liquidity Management Committee
The Committee's task is to analyse and evaluate the Bank's liquidity position, and where necessary submit proposals to ALCO regarding liquidity management.

Credit Committee
The Credit Committee, in accordance with the Bank's Competence Rules and Lending Policy, approves lending business (new business, amendment of terms of already-approved business, restructuring and workout) with corporate clients, municipalities and retail clients. It does not approve loans and guarantees for persons with a special relationship to the Bank, which are approved by the Board of Directors.

Product Pricing Committee
The Product Pricing Committee sets the prices at which the Bank and its subsidiaries sell products to customers. It approves the Bank's product pricing strategy (interest and fees), receives information on developments in the structure of the Bank's products and subsidiaries' products, as well as their market position.

Business Committee
The Committee analyses the business results and adopts measures to ensure that the business plan of the Bank is fulfilled. It ensures the implementation of the marketing strategy of the group, the Bank and its subsidiaries. It approves the annual marketing communication plan as well as individual campaigns; it allocates costs to campaigns and evaluates their effectiveness. It also pays attention to digitisation of the Bank and electronic sales channels.

Cost Committee
The Committee's role is to make recommendations to the Board of Directors on how to keep costs in line with the approved business plan. The Committee analyses opportunities for cost savings while supporting business activities, monitors the implementation of the cost-saving strategy as well as the responsibility of gestors for budget allocation to the individual Bank units, and keeping costs at or below the level of the business plan. It also considers analyses and comments that could lead to cost optimisation.

Operational Risk & Compliance Committee (ORCO)
The ORCO Committee defines the strategy and processes for operational risk management and sets the degree of acceptability and levels of tolerance for operational risk. It sets measures for reducing or mitigating operating risk, including compliance risk. It defines procedures and strategy for reducing or mitigating money laundering risk, and measures for reducing the number of frauds and for mitigating their impact.

Risk Management Committee
The Committee's responsibility is to maintain an effective risk management system, to monitor and implement risk management strategy and procedures pursuant to Article 27 (1) of the Banks Act. Based on regular review of its effectiveness and adequacy, the Committee proposes adjustments to the risk management system, taking into account the Bank's ability to bear risk in a changing economic environment. It approves changes to the IRB approach as defined by the NBS, as well as internal models in the risk management process, ICAAP principles, including the RAS (Risk Appetite Statement) methodology and stress testing. The Committee creates support and provides information to the Board of Directors and Supervisory Board in the context of risk identification, analysis, monitoring reporting and management.

Crisis Committee
The Committee's role is to assess the situation in the case of an impending crisis and to manage the Bank's procedures at a time of crisis. The Crisis Committee takes decisions and determines responsibilities during a crisis situation. Its task is to regularly monitor and evaluate the situation, to coordinate communication activities and to manage the Bank's procedures for stabilising and calming the situation.

Client Experience Management Committee
The Committee's task is to monitor and evaluate indices and key parameters of customer satisfaction. The Committee develops concepts for managing and measuring the quality of the client experience and identifies key problems and areas with a major impact on client's experience. Moreover, it regularly monitors their development and proposes specific measures for raising the quality of services and the client's experience/customer satisfaction in line with the Company's strategic objectives.

The Board of Directors, in accordance with the defined applicable legislation, appoints persons who are responsible for specific areas and activities. Slovenská sporiteľňa appoints responsible persons for the following specific functions:

Compliance Officer – ensures the fulfilment of tasks in accordance with the programme of Slovenská sporiteľňa's own activity against money laundering and terrorism financing. The compliance officer reports directly to the member of the Bank's Board of Directors responsible for risk management. In the absence of the Compliance Officer, the responsibilities and competences are taken over by the **Deputy Compliance Officer**.

Data Privacy Officer – assesses, prior to the processing of personal data at Slovenská sporiteľňa, whether there is any potential danger of infringement of the subjects' rights and freedoms. Responsibilities and competences of the responsible person are detailed in the guideline "Ensuring Personal Data Privacy".

Persons responsible for specific areas in financial intermediation – they monitor compliance with the Act on Financial Intermediation and Financial Advice, especially in deposit taking, lending, insurance and reinsurance.

Persons responsible for MiFID (Markets in Financial Instruments Directive) – they monitor and evaluate the effectiveness of measures and procedures to comply with the Bank's obligations as a securities dealer under the Securities Act, in providing investment services. The responsibility is divided into two areas. The first one is the organisation, control, reporting and implementation of MiFID2. Another person is responsible for development, methodology, administration of investment products and related guidelines, customer care and related control activities.

FATCA Officer (Foreign Account Tax Compliance Act) – is responsible for the implementation and compliance with the provisions of the American Foreign Account Tax Compliance Act (FATCA).

Officer BCM (Business Continuity Management) – is responsible for managing the policy and implementation of rules for ensuring operational and business continuity of the Bank.

Risk Management Officer – responsible for the implementation and monitoring of the effectiveness of the Bank's risk management system.

Consumer Protection Contact Person – coordinates and implements consumer protection requirements into systems, processes and products of the Bank. The Consumer Protection Contact Person also coordinates and implements requirements from consumer protection supervisory bodies.

Environment Officer – implements environmental concept and manages environmental protection at the Bank.

Supervisory and other board memberships of members of the Board of Directors

Membership of the statutory body in the management and supervisory bodies of other companies is governed by the Banks Act. In 2016, members of the Board of Directors of Slovenská sporiteľňa acted in statutory and similar bodies of Slovak companies or interest groups in accordance with the Banks Act, as follows:

Member of the Board of Directors	Responsibilities
Štefan Máj (chairman)	member of the Presidium of the Slovak Banking Association, deputy chairman of the Deposit Protection Fund Council, chairman of Supervisory Boards of LANED and Realitná spoločnosť Slovenskej sporiteľne, chairman of the Board of Trustees of Slovenská sporiteľňa Foundation, executive of Procurement Services SK, member of the Advisory Committee to Erste Group IT SK (until 31 March 2016), member of the Supervisory Board of Prvá stavebná sporiteľňa, a.s. (from 3 December 2016)
Peter Krutil (deputy chairman)	member of the board of trustees of the Slovenská sporiteľňa Foundation
Zdeněk Románek	member of the Supervisory Board of Realitná spoločnosť Slovenskej sporiteľne
Bernhard Spalt	member of the Presidium of the Slovakia--Austrian Chamber of Commerce (until 31 December 2016), member of the Supervisory Board of Slovenská sporiteľňa Foundation (until 31 December 2016)
Richard Chomist	chairman of the Advisory Committee of Erste Group IT SK (until 31 March 2016)

Policy and principles of remuneration for members of the Board of Directors

The remuneration policy for members of the Board of Directors and selected categories of employees is based on the Banks Act and directives of the European Parliament and the European Council concerning supervision over remuneration principles in banks, i.e. CRD IV. The policy takes account of the principles and requirements of EU legislation for reducing the risk resulting from the motivation of persons who could have a significant impact on a Bank's activity and risks. Rules for remuneration of specific groups of employees adopted by the Bank are drawn up with regard to the Bank's activity, the Bank's risk profile and the significance of the impact of individual categories of staff on the risk profile. Members of the statutory body were, based on evaluation of qualitative and quantitative criteria, identified as persons having a significant impact on the Bank's risk profile. The basic principles of remuneration for members of the Board of Directors, as identified persons, is approved by the Supervisory Board's Remuneration Committee, which also monitors compliance with these principles. Implementation of remuneration principles is subject to annual review by the Internal Audit division of Slovenská sporiteľňa. The review of 2016 did not identify any shortcomings in the methodology. The rules for calculating and awarding the variable component of total remuneration in Slovenská sporiteľňa are in line with the requirements stemming from the Banks Act no. 483/2001 as well as with the Group's rules.

In accordance with statutory requirements and rules as well as methodology adopted by the Erste Group, remuneration is divided into 2 parts - the fixed and variable. The variable component of the wage may reach at most 100% of the fixed wage component. Any payment of a variable remuneration component greater than 100% of the fixed remuneration component must be approved by the Remuneration Committee and subsequently by the Bank's Supervisory Board. Slovenská sporiteľňa has two different arrangements for paying remuneration to members of the Board of Directors. In the first arrangement, a 3-year deferment is applied to 60% of the awarded variable remuneration component (i.e. the deferred part) in the form of investment securities, or certificates. Further 40% share of the awarded variable remuneration component is divided into two equal parts, one of which is payable in cash and the other in the form of investment certificates maturing after one year. In the second arrangement, the 3-year deferment in the form of certificates is applied to 40% of the variable remuneration component and the 60% component is divided into two equal parts, where one of which is payable in cash and the other in the form of investment certificates maturing after one year. Payment of the variable part of the remuneration is subject to predetermined criteria. Individual remuneration is based on a combination of the assessment of individual work performance with the overall results of the Bank. The objectives are set within the risk management system so that in the event of their non-fulfilment the variable portion of total remuneration for the period evaluated will be decreased, or possibly not paid.
Payment of the variable remuneration part is subject to the conditions of zero tolerance in cases of conviction of a crime related to performance of work function, fraudulent conduct, conduct contrary to the Bank's internal regulations or violation of obligations ensuing from legislation. The Bank also has a principle in place that no insurance or further hedging strategy may be applied in connection with remuneration or responsibility that could reduce the impact of remuneration principles focused on risk.

Activities of the Board of Directors in 2016

In 2016, the Board of Directors held 49 meetings. The Board of Directors regularly discussed the Bank's financial results. It dealt with control activity and security policy obligations either by considering reports drawn up by the Company's internal audit or by discussing reports on compliance and evaluation of the programme of own activity against money laundering and terrorism financing. Particular attention was paid to risk management, credit portfolio analyses, as well as monitoring of customer behaviour in order to protect shareholders' and clients' funds. In order to streamline workflows, the Board of Directors also decided to make changes to the Company's organisational structure and approved projects and strategic programmes focused on change management. Changes in the legislative environment and regulatory requirements were reflected also in decisions made by the Board of Directors concerning consumer protection, business conditions and product policy, an update to the programme of own activity against money laundering and terrorism financing, and adoption of the environmental protection policy.

SHAREHOLDER RIGHTS, KEY FUNCTIONS OF OWNERSHIP AND SHARE CAPITAL STRUCTURE

Shares forming the Company's share capital may be issued only as registered book-entry shares; changes to their form or type are forbidden by law. The Company is a private joint-stock company. The Bank's share capital is €212 000 000. It is divided into 212 000 registered book-entry shares. The shares have not been admitted for trading on any regulated market. The par value of one share is €1 000. The shares are registered in SR Central Securities Depository in accordance with applicable legislation. Shares carry the right to participate in the management, profit and liquidation balance, and voting rights. The securities forming the share capital are transferable without restrictions.

As at 31 December 2016, a qualified participation of 100% in the Bank's share capital is held by Erste Group Bank AG, Am Belvedere 1, 1010 Vienna, Austria.

The Company applies principles of equitable treatment of shareholders in a manner appropriate to the fact that the Bank has a sole shareholder. The voting rights of the sole shareholder are not limited, and the management of Slovenská sporiteľňa is not aware of the existence of any agreement that could restrict transferability of securities or restrict voting rights. As at the date of writing this report, Slovenská sporiteľňa has not issued any employee shares or shares with special control rights. In 2016, Slovenská sporiteľňa did not acquire any own shares, interim shares or participating interests or shares; nor does it acquire any interim shares or participating interests in its parent accounting entity pursuant to Article 22 of the Accounting Act. Any decision to increase or decrease the Bank's share capital, to issue or redeem shares lies in the direct responsibility of the General Assembly. The shareholder is entitled to participate at the General Assembly, to vote, to make proposals and to request information and explanations concerning the Company's affairs, or the affairs of entities controlled by the Company that relate to the subject of discussion of the General Assembly. The shareholder also has the right to a share in the Company's profit (dividend), which the General Assembly determines for distribution according to the Company's profit. The shareholder also has the right to decide on the payment of royalties for members of the Supervisory Board in the proposal for profit distribution. In accordance with the Company's Articles, the shareholder has the right to appoint and to dismiss members of the Supervisory Board, other than those members elected by employees. The Bank provides regular information to shareholder in annual, half-yearly and quarterly reports submitted to the regulatory authority so that the shareholder is sufficiently informed about the Company's state and the state of its investment.

The Company is not aware of any significant agreements, to which the Bank is a contracting party and which take effect, are amended or cease to be valid because of a change in control of the Bank that would occur in connection with a takeover bid.

The Bank's relations with members of its bodies and its employees, regarding the end of their tenure or termination of employment, are governed by the Labour Code, Banks Act and Commercial Code.

Slovenská sporiteľňa does not finance any in-house research and development. The Bank has prepared and adopted an environmental policy. The specific programmes for environmental protection and for minimising negative impacts on the environment are in line with standard STN EN ISO 14001:2005. .

STAKEHOLDERS' RIGHTS, INFORMATION DISCLOSURE AND TRANSPARENCY

As the largest bank in the Slovak financial market, Slovenská sporiteľňa fully recognises the importance and degree of social responsibility that it has. A long-term interest of Slovenská sporiteľňa, which is reflected in its strategy and values, is that of delivering benefit to clients, the shareholder, employees and society as a whole. The Bank prepares both financial as well as business plans with all of these stakeholders in mind. The fundamental principle of effective and responsible corporate governance, as well as the principles of transparency and information disclosure, are applied at all levels, both towards its shareholder as well as clients and staff. The Bank strictly observes compliance with legal regulations, corporate governance principles and regularly provides all important information on its business, financial and operating results, and other important events to the shareholder and investors of the parent company. It informs its clients and the public of its financial results and strategic priorities via press conferences and press releases, which are also available on the Bank's website. All information is prepared and disclosed in accordance with standards of accounting and disclosure of financial and non-financial information. Employees are kept informed about the Bank's strategy and results at regular meetings, regional conferences, conferences, by means of internal communication channels, an internal journal, training programmes and management personnel. Staff may exercise their right to information also via their representatives on the Supervisory Board as well as a person appointed for this purpose via a confidential telephone line and email address to which employees can direct their complaints, suggestions and initiatives outside the established workflow, or hierarchy. The clients have direct access to an independent ombudsman, who deals with their submissions or complaints on a case-by-case basis. The Bank has a complaint resolution procedure made by clients in order to ensure their fair, objective and timely investigation according to legal requirements. Affiliated persons are treated by the Bank in accordance with the law. The approval of transactions with related parties is set aside for the Board of Directors; in the case of members of the statutory body being the related party, approval falls to the Supervisory Board.

Corporate Social Responsibility

- **In 2016, the Bank allocated almost €1.8 million through direct support and for projects of the Slovenská sporiteľňa Foundation**
- **The largest number of supported projects were again from the area of culture, financial education and sport**
- **Slovenská sporiteľňa continues to support employee volunteering**
- **The Bank continues to develop the scheme for start-ups and non-profits**
- **Slovenská sporiteľňa further pursued the implementation of the Social Bank project**
- **The Bank continues to build on its environmental policy**

The main areas of support are culture, financial education and sport

In 2016, Slovenská sporiteľňa together with the Slovenská sporiteľňa Foundation supported 454 projects in a total amount of €1.8 million.

The Bank's corporate social responsibility strategy is based on its traditional values. It concurrently reflects the values of the entire Erste Group. It is founded on building long-term partnerships and support for meaningful projects. In choosing projects, the Bank acts in line with its mission as the largest retail bank in Slovakia. Emphasis is placed on the scope of support affecting the entire society in Slovakia. The local community is often involved in the decision-making processes.

Development of financial literacy right from primary school is one of the top priorities as Slovenská sporiteľňa perceives its responsibility arising naturally from its position in the market. Collaboration with the Children of Slovakia Foundation within the e-learning project Know Your Money is now in its seventh year. In 2016, the projects developed together with Junior Chamber International – a series of university lectures Idea Transformed into Success and the Students' Business Prize continued.

The most important cultural partnerships of the Bank include the exceptional music festivals - Bratislava Jazz Days, Viva Musica as well as the Pohoda festival. Slovenská sporiteľňa also worked with leading Slovak theatre groups (Studio L+S, Andrej Bagar Theatre in Nitra, Slovak Chamber Theatre in Martin), which in 2016 also included the National Theatre in Košice. An irreplaceable standing among the long-term partner is held by Danubiana – Modern Art Centre.

Slovenská sporiteľňa has for many years now been supporting sports and been part of major sporting events, which are now an established tradition in Slovakia. Again in 2016, the Bank sponsored the Slovak National Football Team, the Slovak Olympic Team Rio 2016 and popular cross-country events: National Running Event Devín – Bratislava as well as Košice International Peace Marathon.
The Bank supports a healthy society by participating in the Fund for a Transparent Slovakia, partnership at the international conference on how to raise funds for public benefit activities CEE Fundraising Conference and support for the prestigious awards: Journalism Award and Court Ruling of the Year. Slovenská sporiteľňa also contributed to general collections Daffodil Day (League Against Cancer) and Children's Hour (Children of Slovakia Foundation) as a partner. It actively engaged the whole of its branch network into these schemes.

Activities of the Slovenská sporiteľňa Foundation in 2016

By supporting community projects in 2016, the Foundation pursued its efforts to contribute to qualitative changes in education, culture, science, sport, health, social assistance, environmental development and protection.

It focused on the systematic promotion of education and financial literacy in the framework of several projects, such as Teach for Slovakia (Manageria), Social Impact Award (Get Started). The Foundation helped start-ups, contributed to the improvement of life in regions. A good example of its efforts is the project DOM.ov, which is focused on financial education and construction of houses in Roma settlements in eastern Slovakia.

Social assistance and helping disadvantaged groups were directed to all regions. The Foundation supported the civic association Vagus – the café Dobre&Dobré (Well&Good), the mobile children's hospice Pod krídlami Dominiky (Under Dominika's Wings), civic association Návrat (Return), Helping Others Foundation – a rehabilitation centre Natalia, which is intended for children with cerebral palsy, and many others.
Once more in 2016, the Foundation supported the survey conducted by the Ekopolis Foundation – Tree of the Year. A new feature was support for urban bee keeping in collaboration with the non-profit organization Živica – two beehives were placed on the roof of the head office building of Slovenská sporiteľňa and are under the care of professional beehive keepers.

Under the open grant scheme the Foundation supported **153 projects worth more than €800 000.**

Grant scheme for university students **Support your School with an Idea**.
The Foundation supported student media activities (magazines, journals, radios, etc.), publication activities (textbooks, vocational literature for students) as well as student projects intended for the general public. In 2016, the Foundation supported **10 projects totalling €29 752.**

The grant scheme **Football is the Game**
In 2016, the Foundation continued in its 7th year of the grant programme aimed at improving the activities of football clubs for children and youth. The results were decided by public through SMS voting during June 2016; nearly 100 thousand people got involved in the voting last year. The winning clubs were from Konská, Stankovany and Kolárovo. The Foundation supported **20 projects costing nearly €60 000.**

Grant scheme **Euro to Euro**
The Foundation carried out the 11th year of employee scheme Euro to Euro, which aims to support small community projects. Financial support is based on the principle of employees' participation through financial aid or volunteering. In 2016, it supported 59 projects from schools, nurseries, sports and dance clubs and other leisure-time organisations totalling a value exceeding **€57 000.**

Grant scheme Municipalities Closer to You
In the 5th year of the grant scheme the Foundation gave its support to 25 projects of towns and municipalities from across Slovakia, totalling **€87 000**. Projects were focused on support for cultural events, restoration of local cultural heritage and environmental protection. Support was provided, for instance, to the folk festival Letorosty held under Bradlo near Košariská, saving an old blacksmith's workshop in Východná as well as the revitalisation of the mineral spring in Bardejov – Dlhá Lúka.

Multifunctional playgrounds
In 2016, the Foundation provided funds for the construction of 2 multifunctional playgrounds: by a primary school in Nobel Square in Bratislava and in the grounds of the St. Francis of Assisi Grammar School on Kláštorská Street in Levoča. Since 2010 the Foundation has invested roughly €1.35 million in the construction of 26 playgrounds in various regions around Slovakia. Each playground is located near a school and serves primarily pupils. Outside school hours, the playgrounds are made available to the public throughout the year.

International projects
In 2016, the Foundation expanded its activities with **major international projects implemented in close cooperation with the ERSTE Foundation in Vienna**. The biggest project was the educational initiative **aces (Academy of Central European Schools)**, which brings together more than 25 000 students and 3 600 teachers from almost 500 primary and secondary schools from 15 countries of Central and Eastern Europe. The goal of this educational initiative is to build a central European school network and thereby promote intercultural dialogue between young people, increasing active participation among young people and teachers in the exchange and international cooperation process. The project is coordinated under the auspices of the ERSTE Foundation by our Foundation, along with the non-profit organisation Interkulturelles Zentrum in Vienna.
Other international project **ERSTE Foundation Fellowship for Social Research** was designed for professional researchers, concerning particularly social research. The theme for 2014 – 2016 was: Diasporas, nation states and majority societies.
The project **Let Us Be Heard** was carried out by the Foundation in collaboration with the Agency WS Communication Consulting, Czech Republic. It focused on strategic advice in support of media relations for four non-profit organizations in the Czech Republic: Museum of Roma Culture, Pragulic, In IUSTITIA and Lata, which were laureates of the ERSTE Foundation Award for Social Integration in 2013. .

Bank seeks to help groups having difficult access to bank services

In 2016, Slovenská sporiteľňa continued to develop the "Social Bank" project. Its aim is to provide banking services, financial education and advice to groups who would otherwise not have access to them. The Bank focused on start-up entrepreneurs, profit organisations and low-income groups. In so doing Slovenská sporiteľňa wants to contribute to solving social problems such as poverty, low financial literacy or obstacles for start-up entrepreneurs. The Bank wants activities to have the greatest possible impact, to be sustainable and, from the Bank's aspect, without profit or loss.

Slovenská sporiteľňa wants to make it easier for start-up entrepreneurs to set up their businesses and to create an economically sustainable model providing work for the entrepreneur and possibly also others. The Bank supports start-up entrepreneurs by providing them training, banking services, including financing, which would otherwise be hard to come by for them, as well as mentoring. The Bank believes that advice for start-up entrepreneurs significantly raises the possibility of their success in business.

In 2016, the Bank financed a variety of projects throughout Slovakia via loan products for start-ups, for example, a car service centre, IT services and grocery stores. The offer of training was taken up by more than 800 people. The Bank helped numerous start-up entrepreneurs with business skills, in other cases it did not recommend continuing in their business plan. Some entrepreneurs were convinced that it is better to improve the efficiency of existing activities than expand their business into new areas.
Besides support for start-up entrepreneurs, Slovenská sporiteľňa focuses also on non-profit organisations, to which it also offers training, banking services, including financing and mentoring. It wants to support their growth, their positive impact on society and help them find operating models that are economically sustainable.
In the retail segment, the Bank seeks to help people who have repayment problems due to objective reasons, i.e. they have experienced difficult life situations, such as a death in the family, illness of a partner or children, etc.
The Bank actively got involved in the activities of the non-profit organisation DOM.ov, in the preparation of self-help house construction in selected Roma localities and in line with the activities of Slovenská sporiteľňa Foundation with focus on financial education it helped involved families finance their new housing via microloans.

The Bank continues to build on its environmental policy

Slovenská sporiteľňa holds the certificate EN ISO 14001: 2004 Environmental Management Systems. In order to verify compliance with the provisions and obligations arising from this environmental standard, internal auditors checked more than 80 objects and external auditors checked 7 objects in 2016. No major deficiencies were found.
In connection with the plan to reduce energy consumption and the resulting CO_2 emissions, energy inspections at more than 60 of the Bank's buildings were carried out in 2016. The inspections concerned the correct time settings of equipment or temperature parameter settings. Based on the findings, measures were taken to optimise energy consumption. Other medium-sized buildings underwent hydraulic regulation balancing. One of the criteria in choosing new servers, if their replacement was required, was their low energy consumption. More than 600 MWh per year were saved this way.
In order to increase staff awareness of environmental protection, the Bank also included an environmental lecture in the initial training for new recruits. Employees also participated in the newly-launched and practical training in eco-friendly driving.

Objectives for 2017

Objectives for 2017

Slovenská sporiteľňa in 2017 wants to further strengthen its position of leadership in the retail segment. It wants to be an intuitive bank and continually deliver solutions that make our customers' lives easier. It will continue to place emphasis on digitalisation so that clients can enjoy the same quality when using communication and sales channels other than the branch network. Slovenská sporiteľňa depends on clients having a positive experience in each contact with the Bank.

Slovenská sporiteľňa will continue in its strategy to be the "bank of first choice" also for corporate clients. Streamlining processes and products to make them simpler and clearer from the customer's aspect, will contribute to strengthening the Bank's position in the corporate segment. The Bank wants to continue to deliver new digital solutions to clients and to raise client convenience in banking.

The efficient use of resources with regard to benefits will contribute to the Bank's profitability. Slovenská sporiteľňa wants to keep its operating cost-to-income ratio at a low level. The Bank's decisions will take into account the acceptable degree of risk.

Slovenská sporiteľňa, through its business activities, as well as through the activities of the Social Bank and Slovenská Sporiteľňa Foundation, wants to continue contributing to the prosperity of Slovak society.

Forecast economic and financial situation of Slovenská sporiteľňa

Slovenská sporiteľňa in 2017 expects year-on-year growth in the balance-sheet total of approximately 7.4%, in particular due to increased transaction volumes with clients, both in the area of loans granted, as well as in deposits taken. The expected overall increase in business with clients should contribute to market share growth and thereby further strengthen Slovenská sporiteľňa's position as leader in the domestic banking market. The planned growth in lending should mostly be funded through deposits taken and partially by way of debt security issues. The loans to deposits ratio at the end of 2017 is projected at 93.5%, confirming the Bank's long-term stable position in the field of liquidity and funds. In the field of capital parameters, not only does the Bank fulfil, but exceeds by a large margin all indicators and parameters required by the regulator.

Slovenská sporiteľňa expects a positive financial result at the end of 2017, which, though, will be reduced primarily due to one-off positive effects in 2016, namely proceeds from the sale of shares of the company Visa, totalling €27 million and from the sale of POS terminals, totalling €14.5 million. Net operating income should be lower on a year-on-year basis mainly due to a fall in net interest income. This will decrease due to low interest rates on the market because it is not possible to compensate it fully by volume growth. Despite strong regulation, fee & commission income should remain at about the same level as in 2016, thanks in particular to increased income from transactions and insurance. Development in revenues from trading may be highly volatile, since so many market factors are at work. Slovenská sporiteľňa's efficiency in cost management is confirmed by its cost-to-income ratio, which is projected at a level around 49% (excluding the levy to the Deposit Protection Fund).

The main risks and uncertainties that Slovenská sporiteľňa faces result primarily from legislative changes in the Slovak Republic and European Union in the field of banking, as well as from credit conditions in a low interest-rate environment, particularly where these interest rates remain low over a long-term, and also from the impact of global economic developments.

After the end of accounting period, for which this Annual report reports, no special issues of particular significance arose.

Statement of responsible persons

The responsible persons of Slovenská sporiteľňa, with its registered office at Tomášikova 48, 832 37 Bratislava, entered in the Commercial Register of District Court Bratislava I, section: Sa, file no.: 601/B, corporate registration no.: 00151653: Ing. Štefan Máj, Chairman of the Board of Directors and CEO, and Ing. Peter Krutil, Member of the Board of Directors and Deputy CEO, to the best of their knowledge hereby declare that the financial statements contained herein give a true and fair representation of assets, liabilities, financial situation and results of Slovenská sporiteľňa and companies consolidated by Slovenská sporitelňa, and that this Corporate Governance Report and Annual Report represent a true and fair view of the development and results of Slovenská sporiteľňa's business operations and position, including the companies included in its consolidation for 2016, together with a description of the key risks and uncertainties it faces.

Supervisory Board Report

The Supervisory Board of Slovenská sporiteľňa in performing its activities was governed by statutory provisions applicable in the Slovak Republic. It fulfilled tasks arising from the Bank's articles of association, took decisions on matters falling within its competence pursuant to the Bank's competence rules, and was governed by the Supervisory Board's internal rules of procedure.

In 2016, four ordinary meetings of the Supervisory Board were held, with five votes per rollam. The Supervisory Board discussed and adopted an opinion regarding the individual and consolidated financial statements, the proposal for profit distribution and the Board of Directors' report on the company's business activities and assets. In accordance with Slovak legislation the Supervisory Board also discussed and took a position regarding the extraordinary financial statements of Leasing Slovenskej sporiteľne, a.s. as at 31 October 2015 in connection with this company's merger with the parent company Slovenská sporiteľňa, which became its legal successor.
During the year, it paid due attention to monitoring the Bank's position in risk management and controlling the security and effectiveness of the risk management system through regular quarterly reports submitted by the Board of Directors. The Supervisory Board discussed and approved the risk management report, which, in accordance with law, was submitted by the head employee responsible for performing the risk management function.
Members of the Supervisory Board were regularly informed by the Bank's Board of Directors regarding its business, implementation of its business plan, the balance of the Company's assets, implementation of the Bank's major projects, equity investments, sale of part of the business and about other matters related to activities and development of the Company in pursuing its licensed banking activities. Within its competence, it approved the strategy and plans of the internal audit, falling within the purview of the Supervisory Board under the Bank's Organisational Code. Pursuant to the amendment to Act no. 483/2001 Coll. on banks, the Supervisory Board also examined compliance with the remuneration principles and implementation of the remuneration of identified individuals that have a significant impact on the Bank's risk.
The Supervisory Board in 2016 made personnel changes in the composition of the company's Board of Directors. Following acceptance of the resignation of Bernhard Spalt (board member) in connection with his acceptance of another position within the Erste Bank Group, Alexandra Habeler-Drabek was appointed to the position of the board member and deputy general director with effect from 1 January 2017.
In 2016 Alena Adamcová was elected by bank employees as a member of the Supervisory Board, effective from 2 November 2016, instead of the current Supervisory Board member Štefan Šipoš, whose function ended through the expiry of the term of office. On 29 December 2016 the General Assembly elected Ľudovít Ódor to be the new independent member of the Supervisory Board with the effect from 1 January 2017.

In 2016, the Supervisory Board worked with the support of advisory committees, namely the audit, credit, remuneration and nomination committees, established and operating according to their own statutes.
Pursuant to Act no. 423/2015 on statutory audit as well as Act no. 431/2002 Coll. on accounting as later amended, the Audit Committee of the Supervisory Board assessed reports concerning internal control and regularly familiarised itself with the level and effectiveness of internal audit. With representatives of the Company's external auditor the Committee discussed the annual financial statements, including the external auditor's opinion and the auditor's recommendations contained in the letter to the management. It notified the Bank's Supervisory Board of the outcome of the statutory audit and of the procedures through which the statutory audit contributed to the integrity of the financial statements. Within this process the Audit Committee set a deadline for the statutory auditor to submit an affidavit regarding its independence. An important part of the agenda were also reports on the Bank's activities in the area of compliance, fraud and reports on implementation of the programme of own activity against money laundering and terrorist financing. The Committee was also informed of on-site inspections undertaken at the Bank by the Regulator's bodies.
Decisions related to the Bank's lending business were made by the Credit Committee of the Supervisory Board. The decisions were made on an ad hoc basis and in accordance with the Bank's Competence Code.
The Remuneration Committee of the Supervisory Board considered, approved and inspected the remuneration principles for members of the Board of Directors as well as selected categories of employees having a specific impact on the Bank's risk. The primary focus was on the balancing of all risks related to the remuneration system so as to ensure long-term prudent management of the Company, including its liquidity, capital, etc. It also approved the key banking objectives and KPIs of board members and their evaluation for the preceding accounting period. In 2016 the Committee held for four ordinary meetings and one per rollam vote.
A Nomination Committee was established by the Supervisory Board as its advisory body in fulfilling its responsibilities relating to the nomination of new members of the Bank's Board of Directors.

The Supervisory Board discussed the audit of the consolidated and standalone balance sheet of Slovenská sporiteľňa as well as the related profit & loss statement as at 31 December 2016. The audit was carried out and verified by Ernst & Young Slovakia, in accordance with International Financial Reporting Standards as adopted by the EU. It confirmed that the financial statements give a true and fair view of the Bank's financial situation as at 31 December 2016 in all material regards and that it has no objections to them. Consequently, the Supervisory Board recommended the General Assembly to approve the financial statements for 2016, including the proposal for profit distribution.

Gernot Mittendorfer
Chairman

Slovenská sporiteľňa, a. s.

Consolidated Financial Statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the European Union
for the year ended 31 December 2016

and Independent Auditors' Report

Independent Auditors' Report to the Shareholder of Slovenská sporiteľňa, a.s.

Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

Independent Auditor's Report

Shareholders, Supervisory Board and Board of Directors of Slovenská sporiteľňa, a.s. and to the Audit Committee:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Slovenská sporiteľňa, a.s. and consolidated companies ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Loan loss provisions

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining loan loss provisions. The

We involved our internal valuation specialists to assist us in performing our audit procedures. We assessed the design and tested the operating

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

identification of impairment and the determination of the recoverable amount are an inherently uncertain processes involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

Due to the significance of loans and advances (representing 69% of total Group assets) and the related estimation uncertainty, this is considered a key audit matter.

The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. Our work covered impairment of both Retail receivables and Receivables from corporate counterparties. We paid particular attention to collective impairment methodologies for both portfolios, including the assessment of whether historic experience is appropriate when assessing the likelihood of incurred losses in the portfolios. In addition, we also focused on individually significant exposures that either continued to be, have become, or were at risk of being individually impaired.

Refer to Note 19 Loans and receivables to customers and section Credit Risk section Credit Risk in Note 37 Risk management for further details.

effectiveness of internal controls over the approval, recording and monitoring of loans and advances and controls over impairment calculations including the quality of underlying data and systems.

For loan loss provisions calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification focusing on loan cases with the most significant potential impact on the consolidated financial statements. We assessed the Group's assumptions on the expected future cash flows, including the value of realisable collateral and estimates of recovery on default based on our own understanding and available market information. For loan loss provisions calculated on a collective basis we evaluated the methodologies, inputs and assumptions used, including model validations and backtesting.

We also assessed whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk and are compliant with IFRS EU accounting requirements.

Fair value measurement of financial instruments

Fair value measurement and associated valuation adjustments can be a subjective area and more so for areas of the market reliant on model based valuation or with weak liquidity and price discovery.

Of the financial instruments that are carried at fair value in the Group's balance sheet, 97 % are classified as Level 1 or 2 as at 31 December 2016. This means they were valued using prices that

We involved our internal valuation specialists to assist us in performing our audit procedures. We assessed the design and tested the operating effectiveness of internal controls over the valuation, data integrity and independent price verification.

We performed additional procedures for areas of higher risk and estimation. Our audit procedures focused on the comparison of judgments made

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

were observable in the market or through models with market observable inputs, resulting in the valuation risk being low. However, it is important to ascertain that prices are liquid enough to be genuinely observable in the market. The remaining 3 % (EUR 32 million) of financial instruments are classed as Level 3, because certain pricing inputs to them are unobservable. The determination of these prices often involve exercise of judgement and the use of assumptions and estimates, and as such can produce significantly different estimates of fair value. In 2016, Level 3 instruments mainly comprised equity instruments issued by other financial corporations (19%), debt securities issued by credit institutions (59%), debt securities issued by non-financial corporations (21%) and derivatives (1%).

Due to the significance of fair valued financial instruments (representing 8% of total Group's assets) and the related estimation uncertainty, this is considered a key audit matter.

Refer also to Note 38 Fair value of assets and liabilities.

to market practice and reperformance of valuations on a sample basis.
In order to assess the liquidity of the prices for Level 1 and 2 instruments, we tested a selection of instruments to ensure that reliable observable quotes are available from sufficient number of contibutors. For the Level 3 portfolio, we performed additional procedures over a selection of investments, assessing the key inputs, assumptions and models used in the valuation.

We also performed our independent revaluation of selected sample of financial instruments and compared our results with the Group's valuation.

Finally, we also focused on whether the Group's disclosures in the consolidated financial statements in relation to the valuation of investments are compliant with the IFRS EU accounting requirements.

Information Technology (IT) systems and controls over financial reporting

A significant part of the Group's operations and financial reporting process is reliant on IT systems with automated processes and controls over the capture, storage and extraction of information.

A fundamental component of these controls is ensuring that appropriate user access and change management protocols exist and are being adhered to. These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an apropriate manner.

The IT environment of the Group is rather complex with a number of interdependent systems, interfaces and databases. The Group continues to invest in the improvement of IT systems and processes as well as development of new IT systems and their implementation further adds to the complexity of the IT infrastructure.
As our audit sought to place a high level of reliance on IT systems and application controls related to

We focused our audit on those IT systems and controls that are significant for the Group's financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved our IT audit specialists in our audit procedures.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We tailored our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Building a better
working world

financial reporting, a high proportion of the overall audit effort was in this area. appropriately authorised and also developed and implemented properly. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

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

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

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

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

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

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

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

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

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements including the presented information as well as whether the consolidated financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report

Management is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on Accounting. Our opinion on the consolidated financial statements expressed above does not apply to other information contained in the annual report.

In connection with audit of the consolidated financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with audited consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

The annual report was not available to us as at the date of issue of the auditor's report on the audit of the consolidated financial statements.

When we obtain the annual report, we will consider whether the Group's annual report contains information, disclosure of which is required by the Act on Accounting and based on procedures performed during the audit of consolidated financial statements, we will express our opinion considering whether:

- Information disclosed in the annual report, prepared for 2016, is consistent with the consolidated financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Building a better working world

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

7 February 2017
Bratislava, Slovak republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský, statutory auditor
SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

I. Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

Statement of Profit or Loss

EUR ths.	Notes	2015	2016
Net interest income	1	468 985	461 625
Net fee and commission income	2	121 446	121 717
Dividend income	3	858	1 307
Net trading and fair value result	4	8 787	12 552
Net result from equity method investments		2 732	1 850
Rental income from investment properties & other operating leases	5	1 908	881
Personnel expenses	6	(128 812)	(137 381)
Other administrative expenses	7	(92 651)	(93 744)
Depreciation and amortisation	8	(46 150)	(45 594)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	9	902	27 044
Net impairment loss on financial assets not measured at fair value through profit or loss	10	(58 041)	(48 235)
Other operating result	11	(33 406)	(16 075)
Pre-tax result from continuing operations		**246 558**	**285 947**
Taxes on income	12	(60 788)	(71 381)
Net result for the period		**185 770**	**214 566**
Net result attributable to non-controlling interests		**644**	**22**
Net result attributable to owners of the parent		**185 126**	**214 544**

Statement of Other Comprehensive Income

EUR ths.	2015	2016
Net result for the period	**185 770**	**214 566**
Other comprehensive income		
Remeasurement of net liability of defined pension plans	(325)	(124)
Total	(325)	(124)
Items that may be reclassified to profit or loss		
Available for sale reserve (including currency translation)	48 696	(17 879)
Gain/loss during the period	49 138	9 217
Reclassification adjustments	(442)	(27 096)
Deferred taxes relating to items that may be reclassified	(10 713)	4 993
Gain/loss during the period	(10 810)	(697)
Reclassification adjustments	97	5 690
Total	**37 983**	**(12 886)**
Total other comprehensive income	37 658	(13 010)
Total comprehensive income	**223 428**	**201 556**
Total comprehensive income attributable to non-controlling interests	**644**	**22**
Total comprehensive income attributable to owners of the parent	**222 784**	**201 534**

Earnings per Share

		2015	2016
Net result attributable to owners of the parent	IN EUR	185 126	214 544
Number of outstanding shares		212 000	212 000
Earnings per share	**IN EUR**	**873**	**1 012**

The notes on pages 79 to 172 are an integral part of these financial statements.

II. Consolidated Statement of Financial Position

as at 31 December 2016

EUR ths.	Notes	2015	2016
Assets			
Cash and cash balances	13	322 811	396 973
Financial assets - held for trading		84 414	44 814
Derivatives	14	84 414	44 814
Financial assets - at fair value through profit or loss	15	17 668	6 118
Financial assets - available for sale	16	1 211 611	1 063 321
Financial assets - held to maturity	17	2 490 694	2 640 662
Loans and receivables to credit institutions	18	121 600	89 946
Loans and receivables to customers	19	9 365 307	10 250 469
Derivatives - hedge accounting	20	7 418	7 705
Property and equipment	22	183 238	162 150
Investment properties	22	2 880	2 388
Intangible assets	23	86 971	71 955
Investments in subsidiaries and associates	21	24 603	30 467
Current tax assets	24	15	8
Deferred tax assets	24	30 849	34 030
Other assets	25	29 947	24 368
Total assets		**13 980 026**	**14 825 374**
Liabilities and equity			
Financial liabilities - held for trading		85 508	42 812
Derivatives	14	85 508	42 812
Financial liabilities measured at amortised cost	26	12 158 455	12 979 909
Deposits from banks	26	384 965	278 193
Deposits from customers	26	10 671 536	11 384 309
Debt securities issued	27	1 101 954	1 317 407
Derivatives - hedge accounting	20	42 915	52 389
Provisions	28	28 109	22 426
Current tax liabilities	24	7 196	4 013
Deferred tax liabilities	24	314	106
Other liabilities	29	118 048	161 615
Total equity		**1 539 481**	**1 562 104**
Equity attributable to non-controlling interests		2 994	36
Equity attributable to owners of the parent	30	1 536 487	1 562 068
Total liabilities and equity		**13 980 026**	**14 825 374**

The notes on pages 79 to 172 are an integral part of these financial statements.

III. Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

EUR ths.	Subscribed capital	Other capital instruments	Legal reserve fund	Other funds	Retained earnings	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 31 December 2014	**212 000**	**-**	**79 795**	**39 326**	**917 697**	**75 486**	**(386)**	**(333)**	**(16 606)**	**1 306 979**	**3 802**	**1 310 781**
Dividends paid	-	-	-	-	(143 196)	-	-	-	-	(143 196)	(16)	(143 212)
Changes in scope of consolidation (EGIT purchase of share)	-	-	-	-	-	-	-	-	-	-	(335)	(335)
Other changes	-	-	-	-	(80)	-	-	-	-	(80)	(1 101)	(1 181)
Other equity instruments AT1	-	150 000	-	-	-	-	-	-	-	150 000	-	150 000
Total comprehensive income	-	-	-	-	185 126	48 696	-	(325)	(10 713)	222 784	644	223 428
Net result for the period	-	-	-	-	185 126	-	-	-	-	185 126	644	185 770
Other comprehensive income	-	-	-	-	-	48 696	-	(325)	(10 713)	37 658	-	37 658
As of 31 December 2015	**212 000**	**150 000**	**79 795**	**39 326**	**959 547**	**124 182**	**(386)**	**(658)**	**(27 319)**	**1 536 487**	**2 994**	**1 539 481**
As of 31 December 2015	**212 000**	**150 000**	**79 795**	**39 326**	**959 547**	**124 182**	**(386)**	**(658)**	**(27 319)**	**1 536 487**	**2 994**	**1 539 481**
Dividends paid	-	-	-	-	(175 510)	-	-	-	-	(175 510)	(15)	(175 525)
Changes in scope of consolidation (Derop purchase of non-controlling interest)	-	-	-	-	-	-	-	-	-	-	(2 966)	(2 966)
Other changes	-	-	-	-	(443)	-	-	-	-	(443)	-	(443)
Total comprehensive income	-	-	-	-	214 544	(17 879)	-	(124)	4 993	201 534	22	201 556
Net result for the period	-	-	-	-	214 544	-	-	-	-	214 544	22	214 566
Other comprehensive income	-	-	-	-	-	(17 879)	-	(124)	4 993	(13 010)	-	(13 010)
As of 31 December 2016	**212 000**	**150 000**	**79 795**	**39 326**	**998 138**	**106 303**	**(386)**	**(782)**	**(22 326)**	**1 562 068**	**36**	**1 562 104**

The notes on pages 79 to 172 are an integral part of these financial statements. Further details are disclosed in the note 30.

During the year 2015 the Group has issued an investment certificate in amount of 150 mil. eur that is classified as equity instrument according to the standard IAS 32.

IV. Consolidated Statement of Cash Flows

for the year ended 31 December 2016

EUR ths.	2015	2016
Profit before income taxes	**246 558**	**285 947**
Adjustments for:		
Loss allowances for loans and advances, Provisions for off-balance sheet	61 118	46 928
Provisions for liabilities and other liabilities	3 330	6 746
Impairment of tangible and intangible assets net	(1 198)	(621)
Depreciation and amortization	46 150	45 594
Profit/(loss) on disposal of fixed assets	1 305	723
Transfer of interest for financing activity	18 672	17 364
Net gains/(losses) from investing activities	(104 205)	(111 343)
Impairment of investments in subsidiaries and associates	(860)	-
Cash flows from operations before changes in operating assets and liabilities	**270 869**	**291 339**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	86 520	(79 043)
Loans and advances to financial institutions	71 884	36 354
Loans and advances to customers	(1 340 900)	(928 777)
Financial assets at fair value through profit or loss and securities available for sale	58 771	138 692
Other assets	(3 481)	5 881
Increase/(decrease) in operating liabilities:		
Amounts owed to financial institutions	(355 720)	(6 743)
Amounts owed to customers	1 005 251	712 773
Increase/(decrease) in derivative financial instruments (net)	(6 055)	6 091
Provision for liabilities and other provisions	(7 673)	(7 732)
Other liabilities	12 390	37 867
Net cash flows provided by/(used in) operating activities before income tax	**(208 143)**	**206 701**
Income taxes paid	(84 038)	(72 375)
Net cash flows provided by/(used in) operating activities	**(292 181)**	**134 326**
Cash flows from investing activities		
Purchase of securities held to maturity	-	(287 175)
Proceeds form securities held to maturity	93 095	139 059
Interest received from the securities held to maturity	96 467	93 556
Dividends received from subsidiaries, associates and other investments	3 401	2 848
Purchase of share in subsidiaries and associates	(8 988)	(3 495)
Proceeds from sale of subsidiaries and associates	-	7 493
Purchase of intangible assets, property and equipment	(41 295)	(18 504)
Proceeds from sale of intangible assets, property and equipment	3 946	9 404
Net cash flows provided by/(used in) investing activities	**146 625**	**(56 814)**
Cash flows from financing activities		
Dividends paid	(143 196)	(175 510)
Interest paid on subordinated debt	(1 775)	(1 671)
Issue of the bonds	319 414	346 242
Repayment of the bonds and subordinated debt	(147 939)	(226 108)
Interest paid to the holders of the bonds	(16 334)	(20 404)
Other financing activities	150 000	-
Net cash flows provided by/(used in) financing activities	**160 171**	**(77 450)**
Effect of foreign exchange rate changes on cash and cash equivalents	1 005	(266)
Net increase/(decrease) in cash and cash equivalents	**15 621**	**(204)**
Cash and cash equivalents at beginning of period	**332 623**	**348 244**
Cash and cash equivalents at end of period	**348 244**	**348 040**
Operational cash flows from interest and dividends		
Interest paid	(43 084)	(41 715)
Interest received	434 090	413 605

The notes on pages 790 to 172 are an integral part of these financial statements.

Cash and cash equivalents include accounts with central Banks (note 13) and accounts with other credit institutions repayable on demand (note 18). The minimum mandatory reserves are excluded from cash and cash equivalents.

V. Notes to the Consolidated Financial Statement

A. GENERAL INFORMATION

Slovenská sporiteľňa, a. s. (hereafter 'the Bank' or 'Parent company') has its registered office at Tomášikova 48, 832 37 Bratislava, the Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653 and its tax identification number is 2020411536. The Bank is a universal Bank offering a wide range of Banking and financial services to commercial, financial and private customers, principally in the Slovak Republic.

As at 31 December 2016 the sole shareholder of the Bank was Erste Group Bank AG with the registered office located at Am Belvedere 1, 1100 Vienna, Austria. The financial statements of Erste Group Bank AG (the ultimate parent) will be available after their completion the austrian court Firmenbuchgericht Wien, Marxergasse 1a, 1030 Vienna.

The Board of Directors of the Parent company had five members as at 31 December 2016:
Ing. Štefan Máj (Chairman), Ing. Peter Krutil (Deputy Chairman), Mag. Bernard Spalt (Member), Ing. Richard Chomist (Member) a Ing. Zdeněk Románek (Member).

As at 31 December 2016 Mag. Bernard Spalt resigned his functution as the member of the Board of Directors and the deputy of the Chief Executive Officer as he had been nominated as a member of the Board of Directors in a Romanian bank Banca Comercială Română, which is the Erste group member. The Supervisory Board of the Bank has elected as a new member of the Board of Directors and a deputy of the Chief Executive Officer Mag. Alexandra Habeler-Drabek, who has overtaken all responsibilities of Mr. Spalt effectife from 1 January 2017.

The Chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The Deputy Chairman of the Board of Directors is the First Deputy of the Chief Executive Officer. Other members of the Board of Directors are the Deputies of the Chief Executive Officer.

The Supervisory Board of the Parent company had four members as at 31 December 2016:
Gernot Mittendorfer M.B.A. (Chairman), Mag. Jan Homan (Member), JUDr. Beatrica Melichárová (Member) and Ing. Alena Adamcová (Member).

During the year 2016, the nominant of employees Ing. Štefan Šipoš acted as a member of the Supervisory Board until his electoral term expired on 24 June 2016. Dr. Heinz Knotzer and Dr. Andrea Burgtorf, members of the Supervisory Board since the year 2015, resigned their membership on 12 October 2016. Effective from 2 November 2016 Ing. Alena Adamcová has become a new member of the Supervisory Board elected by employees of the Bank. Effective from 1 January 2017 Mag. Ľudovít Ódor has been nominated as an independent member of the Supervisory Board according to a decision of the shareholder.

The Bank is subject to the regulatory requirements of the National Bank of Slovakia and other regulatory bodies defined by the Slovak legislation.

Since 4 November 2014 the Bank operates under a direct supervision of the European Central Bank within a Single Supervision Mechanism.

These consolidated financial statements are statements of the Bank and its subsidiaries and associates (the Group) that are disclosed in note 21.

B. SIGNIFICANT ACCOUNTING POLICIES

1) Statement of compliance

Pursuant to the Article 17a of the Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 Banks are required to prepare separate financial statements, consolidated financial statements and annual report according to the special regulations – Regulation (EC) no. 1606/2002 of the European Parliament and of the Council on Application of International Accounting Standards. As a result, the financial statements prepared in accordance with International Financial Reporting Standards effectively replaced the financial statements prepared under Slovak Accounting Standards.

The consolidated financial statements of the Group for the year ended 31 December 2016 are prepared in accordance with International Financial Reporting Standards ('IFRS' or 'IAS') as adopted by the European Union ('EU') on the basis of the regulation no. 1606/2002.

IFRS as adopted by the EU do not currently differ from IFRS and interpretations as issued by the International Accounting Standards Board (IASB), except for certain standards issued but not yet effective and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Group has assessed that the standards not endorsed by the EU would not impact significantly the Group's separate financial statements if they were applicable as at the presented balance sheet date.

2) Basis of preparation

These consolidated financial statements have been approved by the Board of Director of the Bank and will be submitted for approval to the Supervisory Board and the General Assembly.

The Group's consolidated financial statements the prior period (the year ended 31 December 2015) were signed and authorised for issue on 16 February 2016.

In accordance with the applicable measurement models defined or allowed by IFRS, these consolidated financial statements were prepared on a cost basis (or amortised cost), except for financial assets available for sale, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, as well as financial and hedging derivatives, all of which were measured at fair value.

These consolidated financial statements were prepared using the going concern assumption that the Group will continue to operate in the foreseeable future.

These consolidated financial statements are presented in Euro, which is the functional currency of the Group. The measurement unit is thousands of Eur ('Eur ths.'), unless stated otherwise. The amounts in parentheses represent negative values. The tables in these consolidated financial statements and notes may contain rounding differences.

The comparative amounts presented in these consolidated financial statement are those presented in the Consolidated Statement of Financial Positions as at 31 December 2015 and the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015.

In the following notes, the Statement of financial position may be referred to as 'balance sheet' and the Statement of Profit or Loss may be referred to as 'income statement'.

3) Subsidiaries and associates

The Consolidated Financial Statements present the accounts and results of the Group.

Subsidiaries

All subsidiaries controlled by the Bank are consolidated in the Group financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2016.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with subsidiary (the investee) and has the ability to affect those returns through its power to govern the relevant activities of this company. Relevant activities of the company are those which most significantly affect the variable returns of an entity. In general, control is presumed when investor retains more than 50% share on voting rights.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable to the owners of the Bank. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Investments in associates and joint ventures

Investments in associates are accounted for using the equity method. Under the equity method, an interest in an associate is recognised on the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2016 and for the year then ended.

Investments in associates ('associates') represent entities over which the Group exercises significant influence. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control of those policies. In general, significant influence is presumed when investor retains more between 20% and 50% share on voting rights.

Joint ventures are joint arrangements under which the Group exercises control jointly with one or more venturers and the venturers have rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group is not involved in any joint venture.

Changes in the scope of consolidation during 2016 and 2015

The group structure of Slovenská sporiteľňa, a.s. is presented in the note 21. This note also provides information on acquisitions, sales, mergers and other transactions relating to the investments of the Bank in subsidiaries and associates undertaken during the years 2016 and 2015.

4) Accounting and measurement methods

Foreign currency translations

These financial statements are presented in Euro ('Eur'), which is the functional currency of the Group. The functional currency is the currency of the primary business environment in which an entity operates.

Transactions in foreign currencies are initially translated to Euro at the exchange rate effective as at the transaction date. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated to Euro at the exchange rate as at the balance sheet date. All resulting exchange differences are recognised in the income statement line item 'Net trading and fair value result'. Non-monetary items that are measured at historical costs in foreign currencies are translated to Euro using the exchange rates as at the dates of the initial transactions.

For foreign currency translation, the Group uses exchange rates quoted by the European Central Bank.

Financial instruments – recognition and measurement

Financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and financial liabilities, including derivative financial instruments, have to be recognised on the balance sheet and measured in accordance with their assigned categories.

With reference to an investment strategy, the Group uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost .

The categories of financial instruments relevant for measurement (as per IAS 39) are not necessarily presented separately on the balance sheet. Specific relationships between the balance sheet line items and particular categories of financial instruments are described in the note (x).

(i) Initial recognition and measurement of financial instruments

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, when an asset is delivered. Regular way trades are purchases or sales of financial assets that require delivery of an asset within the time frame generally established by a regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics, as well as on the management's intention for which the financial instruments were acquired.

Financial instruments are measured initially at their fair value including transaction costs. However, in case of financial instruments at fair value through profit or loss, transaction costs are not included in the initial measurement and are directly recognised in the income statement.

(ii) Cash and balances with central banks

Balances with central Banks include only claims (deposits) against central Banks, which are repayable on demand. Repayable on demand means that a deposit may be withdrawn at any time or with a term of notice of one business day (or 24 hours). Minimum mandatory reserves are also shown under this position.

(iii) Derivative financial instruments

Derivative financial instruments used by the Group include mainly interest rate and currency swaps, forward rate agreements, futures, interest rate and currency options and others. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. For presentation purposes derivatives are split into:

- derivatives – held for trading
- derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. These derivatives are presented on the balance sheet under the heading 'Financial assets / financial liabilities – held for trading', as a separate line item 'Derivatives'. This line item includes all types of non-hedging derivatives regardless of their internal classification, i.e. both derivatives held in trading book and banking book.

Changes in fair value (clean price) of derivatives – held for trading are recognised in the income statement line item 'Net trading and fair value result'.

Interest income/expense related to derivatives – held for trading is recognised in the income statement line item 'Net interest income' if held in the banking book or in the income statement line item 'Net trading and fair value result' if held in the trading book.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges complying the conditions of IAS 39. They are presented on the balance sheet line item 'Derivatives - hedge accounting', on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement line item 'Net trading and fair value result'. Interest income / expense related to derivatives in fair value hedges is recognised in the income statement line item 'Net interest income'.

Changes in fair value (dirty price) of derivatives in cash flow hedges is reported separately for the effective part, which is recognised in the other comprehensive income line item 'Cash flow hedge reserve' and for the ineffective part, which is recognized in the income statement line item 'Net trading and fair value result'.

Interest income / expense on derivatives in cash flow hedges is a part of dirty price measurement, which is split into effective and ineffective part as described abovereported in the line items mentioned above depending on the hedge effectiveness.

(iv) Financial assets and liabilities – held for trading

Financial assets and financial liabilities classified as held for trading comprise of derivatives is described in the note (iii) and other trading assets and liabilities.

Other trading assets and liabilities include debt securities, as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. They are presented on the balance sheet under the heading 'Financial assets / liabilities – held for trading' as a separate line item 'Other trading assets / liabilities'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and other trading liabilities are recognised in the income statement line item 'Net trading and fair value result'. Interest income / expenses related to debt instruments are reported in the income statement line item 'Net interest income'. Dividend income from equity instruments is reported in the income statement line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

(v) Financial assets or financial liabilities – at fair value through profit or loss

Financial assets or financial liabilities classified in this category have been designated at fair value at their initial recognition based on the management's decision.

The Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy of the Group, the performance of this portfolio is evaluated and regularly reported to the management.

Financial assets designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial assets - at fair value through profit or loss'. Changes in fair value are reported in the income statement line item 'Net trading and fair value result'. Interest earned on debt instruments is reported in the income statement line item 'Net interest income'. Dividend income on equity instruments is shown in the income statement line item 'Dividend income'.

The Group uses the fair value option also for some hybrid financial liabilities in the following cases:

- if such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- if the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk of financial liabilities designated at fair value through profit or loss is calculated in compliance with IFRS 7. It is calculated as a difference between the present value of the liability and its observed market price at the end of the reporting period. The rate used for discounting the liability is the sum of the observed interest rate at the end of the reporting period and the instrument-specific component of internal rate of return determined at the beginning of the period.

Financial liabilities designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial liabilities – at fair value through profit or loss', further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are reported in the income statement line item 'Net trading and fair value result'. Interest incurred is reported in the income statement line item 'Net interest income'.

(vi) Financial assets – available for sale

Financial assets available-for-sale include debt and equity securities, as well as interests in other entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in market conditions.

Financial assets available for sale are measured at fair value. and are disclosed on the balance sheet line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income line item 'Available for sale reserve' until the respective financial asset is disposed of or impaired. If these assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. In case of sale the reclassified cumulative gain or loss is reported in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'. In case of impairment the losses are reported in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Interest income on available-for-sale financial assets is reported in the income statement line item 'Net interest income'. Dividend income from available-for-sale financial assets is reported in the income statement line item 'Dividend income'.

Investments in non-quoted equity instruments are recorded at cost less impairment, if their fair value cannot be measured reliably. This is the case when there is no active market for such investments, the range of reasonable fair value estimates calculated by valuation models is significant and the probabilities of various estimates cannot be reasonably assessed.

(vii) Financial assets – held to maturity

Financial assets held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group intends and is able to hold until maturity following the approved investment strategy. These financial assets are reported on the balance sheet line item 'Financial assets – held to maturity'. After initial recognition, these securities are measured at amortised cost calculated with regard to any discount, premium and transaction costs, which are integral parts of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement line item 'Net interest income'. Losses arising from impairment of such financial assets are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Occasional realised gains or losses from selling these assets are recognised in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

(viii) Loans and receivables

The balance sheet line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Moreover, finance lease receivables accounted for using IAS 17 are presented on these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Group, upon initial recognition, designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment for other reasons than credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Interest income earned on loans and receivables is recognised in the income statement line item 'Net interest income'.

Impairment losses arising from loans and advances are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Finance lease receivables measurement is described in the note 'Leasing'.

(ix) Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are disclosed under the balance sheet line item 'Financial liabilities measured at amortised cost' and further broken down to the following categories: 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

Interest expense incurred by these financial liabilities is reported in the income statement line item 'Net interest income'. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported in the income statement line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

(x) Relationships between balance sheet line items, measurement methods and categories of financial instruments:

BALANCE SHEET POSITION	MEASUREMENT PRINCIPLE			FINANCIAL INSTRUMENT CATEGORY
	Fair value	At amortised cost	Other	
ASSETS				
Cash and cash balances		x	Nominal value	n/a / Loans and receivables
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets – at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets – available for sale	x			Available for sale financial assets
Financial assets – held to maturity		x		Held to maturity investments
Loans and receivables to credit institutions		x		Loans and receivables
thereof Finance lease		x		n/a
Loans and receivables to customers			IAS 17	Loans and receivables
thereof Finance lease				n/a
Derivatives - hedge accounting	x			n/a
LIABILITIES AND EQUITY				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities – at fair value through profit or loss
Other trading liabilities	x			Financial liabilities – at fair value through profit or loss
Financial liabilities – at fair value through profit or loss	x			Financial liabilities – at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost
Derivatives – hedge accounting	x			n/a

Furthermore, two additional classes of financial instruments not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable loan commitments.

Reclassifications of financial assets

IAS 39 allows various alternatives to reclassify financial assets between the categories of financial instruments and also imposes some restrictions regarding their reclassification. The Group makes applies a reclassification option only with held-to-maturity financial assets. If a significant credit deterioration of a held-to-maturity financial asset results in the change of the Group's intention and ability to hold the asset until maturity, it is reclassified to the category of available-for-sale financial assets. The Group also reclassifies financial assets held to maturity to be sold, in case they are sold close to their maturity. Such reclassifications are in compliance with IAS 39 ('tainting rule') and does not triggers automatic reclassification of the entire held-to-maturity portfolio.

Derecognition of financial assets and financial liabilities

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

- expiration of the contractual rights to receive cash flows from the asset; or
- transfer of the contractual rights to receive cash flows from the asset; or
- acceptance of an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and the Group either:
    - has transferred substantially all the risks and rewards connected with the ownership of the asset; or
    - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or expires.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Details on valuation techniques applied for fair value measurement and fair value hierarchy are disclosed in the note 38.

Impairment of financial assets and credit risk losses of contingent liabilities

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ('loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Group uses as a primary indicator of loss event the definition of default in accordance with the CRR (the Regulation EU no. 575/2013 of the European Parliament and of the Council).
Default, as a loss event, is deemed to have occurred when whatever of the following events had taken place:

- a client is unlikely to fully repay its credit obligations to the Group without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Group;
- whatever condition or obligation under the contract has been breached by a client, on the basis of which the Group is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client either in full or its part, charge late payment interests or claim satisfaction of the credit exposure from the means securing such credit obligation);
- the obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, indications of impairment are observable data indicating there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with defaults.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

(i) Financial assets at amortised cost

At first, the Group assesses individually significant loans and held-to-maturity securities, whether an objective evidence of impairment exists. If there is no objective evidence of impairment for an individually assessed financial asset, the Group includes that particulate asset into a group of financial assets with similar credit risk characteristics and assesses them for impairment collectively. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in the collective assessment of impairment.

If an impairment loss has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset takes into account also cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets measured at amortised cost are recognised as loss allowances which decrease the value of financial assets disclosed on the balance sheet. It means that the net carrying amount of a financial asset presented on the balance sheet is the difference between its gross carrying amount and the related cumulative loss allowance. This treatment is applicable for individual and portfolio loss allowances for loans and receivables.

In case of held-to-maturity financial assets accounting treatment and presentation differ based on the type of loss allowances.
Portfolio loss allowances covering incurred, but not identified impairment losses decrease the value of these financial assets on the balance sheet. Individual loss allowances covering identified impairment losses directly reduce the carrying amounts of these financial assets.

Reconciliation of changes in loss allowance accounts is presented in the notes 18 and 19. This reconciliation reflects only changes in loss allowances for loans and receivables and portfolio loss allowances for held-to-maturity financial assets.

Impairment losses and their reversals are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Loans together with the associated loss allowances are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by the Group.

If the amount of estimated impairment loss increases or decreases in a subsequent year, the previously recognised impairment loss is increased or reduced respectively by adjusting the allowance account.

(ii) Financial assets available-for-sale

In case of debt instruments classified as available for sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost.

The amount of impairment is the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. When impairment is identified, any amount of losses accumulated in the other comprehensive income line item 'Available for sale reserve' is reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

In cases of equity investments classified as available for sale, objective evidence of impairment includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline means that a market price is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is an objective evidence of impairment on equity investments, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. For the impaired equity investment, any amount of losses previously recognised in the other comprehensive income line item 'Available for sale reserve' has to be reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses on equity investments are not reversed through the income statement and the increases in the fair value after impairment are recognised directly in other comprehensive income ine item 'Available for sale reserve'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

For investments in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Contingent liabilities

Provisions for credit losses from contingent liabilities (particularly financial guarantees and loan commitments) are reported on the balance sheet line item 'Provisions'. The related expenses or their reversals are reported in the income statement line item 'Other operating result'.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements, also known as 'repo transactions', represent transactions where securities are sold under an agreement to repurchase them at a specified future date. The securities sold as a part of such transactions are not derecognised, i.e. remain on the balance sheet and continue in measurement applicable to the respective financial assets. The reason for this is that the Group retains substantially all risks and rewards related to the ownership of these securities, which are repurchased when the repo transaction ends. Moreover, the Group is the beneficiary of all coupons and other income payments received on the transferred securities over the repo transactions period. These payments are remitted to the Group or are reflected in the repurchase price.

Cash proceeds from the sold securities are recognised on the balance sheet together with a corresponding liability, which is recorded on the balance sheet line item 'Financial liabilities measured at amortised cost', further broken down to 'Deposits from banks' or 'Deposits from customers'. These financial liabilities reflect the transaction's economic substance as a loan to the Group with the obligation to return cash amount. The difference between the sale and repurchase prices is treated as an interest expense and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

Conversely, the securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the balance sheet in the respective line items as either 'Loans and receivables to credit institutions' or 'Loans and receivables to customers' reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as an interest income and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the lending duration. The transfer of securities to counterparties via securities lending does not result in derecognition. The Group, as a lender, retains substantially all risks and rewards related to the ownership of the transferred securities, because they are received at the end of the securities lending transaction. Moreover, the Group is the beneficiary of all coupons and other income payments received on the transferred securities over the securities lending period.

Conversely, the securities borrowed are not recognised on the balance sheet, unless they are sold to third parties. In this case, the obligation to return the securities is recorded under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

Embedded derivatives

In the normal course of business, the Group is involved in debt instruments containing structured features. The structured feature means that a derivative is embedded in a host debt instrument.

The embedded derivatives are separated from host debt instruments if:
- the embedded derivative meets the definition of derivative according IAS 39; and
- the economic characteristics of the derivative are not closely related to the economic characteristics and risks of the host debt instrument; and
- the hybrid instrument is not a financial asset or financial liability held for trading or designated at fair value through profit or loss.

The embedded derivatives, which are separated are accounted for as stand-alone derivatives and reported on the balance sheet under the heading 'Financial assets – held for trading' as a separate line item 'Derivatives'. They are embedded mainly in host issued debt instruments recognised as liabilities. The most typical examples are deposits and bonds issued that contain interest caps, floors or collars, as well as financial instruments linked to non-interest variables such as FX rates, equity and commodity prices and indices or third-party credit risk.

Hedge accounting

The Group utilises derivative instruments to manage its exposure to interest rate risk and foreign currency risk. At inception of a hedge transaction, the Group formally documents the relationship between a hedged item and a hedging instrument, including the nature of risk, the strategy and the objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows during the period attributable to the hedged risk for which the hedge is designated are expected to be offset by the fair value changes of the hedging instrument in a range of 80% to 125%. The hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. The Group defines specific conditions for particular types of hedges and for effectiveness testing in internal hedge policy.

(i) Fair value hedge

Fair value hedges are used to reduce market risk. For qualifying and designated fair value hedges, the change in fair value (clean price) of the hedging instrument is recognised in the income statement line item 'Net trading and fair value result'. The change in fair value of the hedged item attributable to the hedged risk is also recognised in the income statement line item 'Net trading and fair value result' and adjusts the carrying amount of the hedged item. Interest income and expense on hedging derivatives are recognised in the income statement line item 'Net interest income'.

The hedge relationship is terminated, when the hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. In this case, the fair value adjustment of the hedged item is amortised in the income statement line item 'Net interest income' until maturity of the financial instrument.

(ii) Cash flow hedge

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise the net interest income. For designated and qualifying cash flow hedges, the effective portion of gain or loss on the hedging instrument is recognised in the other comprehensive income line item 'Cash flow hedge'. The ineffective portion of gain or loss on the hedging instrument is recognised in the income statement line item 'Net trading and fair value result'. For quantification of the effective and ineffective portions, the derivative is considered including the interest component (dirty price). If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income to the corresponding income or expense line item of the income statement (mainly 'Net interest income'). In case of cash flow hedges, accounting treatment of the hedged items in not affected.

The hedge relationship is terminated, when the hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument previously recognised in other comprehensive income remains as separately reported 'Cash flow hedge' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and their net amount is presented on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The depreciation period and method are reviewed at least at each financial year-end and adjusted if necessary. Depreciation is recognised in the income statement line item 'Depreciation and amortisation'. Impairment losses on property and equipment is recognized in the income statement line item Other operating result'.
Land is not depreciated.

The estimated useful lives are as follows:

Type of property and equipment	Useful life in years 2016 and 2015
Own buildings and structures	30 years
Rented premises	10 years
Office furniture and equipment	4 – 6 years
Computer hardware	4 years
Passenger cars	4 years
Fixture and fittings	6 – 12 years

Property and equipment is derecognised on its disposal or when no future economic benefits are expected from its use. Gain or loss arising on disposal of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement line item 'Other operating result'.

Investment property

Investment property is a property (land and buildings or part of them) held for the purpose of earning rental income or for capital appreciation. If such a property is partially used by the Group, it is considered as investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where their future use is expected to be the same as for investment property, are also classified in this category.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet line item 'Investment properties'.

Depreciation of investment property is recognised in the income statement line item 'Depreciation and amortisation' and is calculated using the straight-line method over an estimated useful life. The useful live of investment property is identical to that of buildings reported under property and equipment. Rental income is recognised in the income statement line item 'Rental income from investment properties and other operating leases'.

Intangible assets

The Group`s intangible assets include mostly computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that future economic benefits attributable to it will flow to the Group.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement line item 'Depreciation and amortisation'. Intangible assets with infinite lives are not amortised.

The estimated useful lives are as follows:

Type of intangible assets	Useful life in years 2016 and 2015
Core banking system and related applications	8 years
Computer software	4 – 8 years

Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is performed at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of cash-generating unit ('CGU') to which the asset belongs. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of those from other assets or groups of assets.

When an asset is tested for impairment annually or if any indication of impairment exists, the Group estimates its recoverable amount. The recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of the asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

At each reporting date, assessment of non-financial assets is performed as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. However, impairment on goodwill cannot be reversed.

Impairments and their reversals are recognised in the income statement line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months from the classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported on the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the balance sheet line item 'Liabilities associated with assets held for sale'. Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements are classified as operating leases.

(i) The Group as a lessor

In the case of finance lease the Group recognises a receivable from the lessee on the balance sheet line items 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement line item 'Net interest income'.

In the case of an operating lease, the Group reports the leased asset on the balance sheet line items 'Property and equipment' or 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement line item 'Rental income from investment properties and other operating leases'.

(ii) The Group as a lessee

The Group has not entered into any leases meeting the conditions of finance lease.

Operating lease payments are recognised on a straight-line basis over the lease term in the income statement line item 'Other administrative expenses'.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reported on the balance sheet line item 'Provisions'. Expense or income related to provisions are reported in the income statement line item 'Other operating result'.

Defined employee benefit plans

Defined employee benefit plans operated by the Group are for pensions and working anniversary benefits. According to IAS 19 categorisation, perspective pension benefits qualify as post-employment defined benefits plans, whereas working anniversary benefits are other long-term employee benefits.

Obligations resulting from the defined employee benefit plans are reported on the balance sheet line item 'Provisions'. Future obligations are determined based on an actuarial expert opinion using the projected unit credit method. The calculation takes into account various assumptions known as at the balance sheet date, such as discount rates, expected rates of return on assets, future salary increases, future pension increases, fluctuation, mortality rates and retirement age.

The key assumptions used in actuarial calculations are disclosed in the note 28.

The employee benefit costs are determined by an actuarial valuation using the projected unit credit method as at the balance sheet date. They are measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the working anniversary benefits are charged to the income statement line item 'Personnel expenses'. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in the equity line item 'Remeasurement of net liability of defined pension plans' in the period in which they occur.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced by the extent that it is no longer probable that a sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that a future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date.

Deferred tax relating to the items recognised in the other comprehensive income is also recognised in the other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Dividends on ordinary shares

Dividends on ordinary shares are deducted from the equity when they are paid to the Bank's shareholders.

Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of guarantees and letters of credit. According to IAS 39, financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss incurred in case the specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Group is a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as a collateral when determining impairment of the guaranteed asset.

The Group as a guarantor recognises the financial guarantee as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium
received for a guarantee. If no premium is received at contract inception, the fair value of a financial guarantee is nil, as this is the price that would be paid to transfer the liability in an orderly transaction between market participants. Subsequent to initial recognition, the financial guarantee contract is reviewed whether a provision is required according IAS 37. Such provisions are recorded on the balance sheet line item 'Provisions' and the related income or expenses are recognised in the income statement line item 'Other operating result'.

The premium received for a financial guarantee issued is recognised on a straight-line basis over the life of the guarantee in the income statement line item 'Net fee and commission income'.

Fiduciary assets

The Group provides trust and other fiduciary services that result in holding or investing of assets on behalf of its clients. The assets held in a fiduciary capacity are not reported in these financial statements, as they are not the assets of the Group.

Recognition of income and expenses

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue can be measured reliably.

The description and recognition criteria of the income statement line items are as follows:

(i) Net interest income

Interest income or expense is recognised using the effective interest rate ('EIR') method. The calculation of EIR includes origination fees resulting from the lending business and transaction costs directly attributable to the instrument (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income on individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of impairment loss measurement.

Interest income includes interest income on cash balances, loans and receivables to credit institutions and customers, bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from banks and customers, debt securities issued and other financial liabilities in all categories.

Net interest income includes interest on non-derivative trading assets and liabilities, as well as on derivative financial instruments held in the banking book.

In addition, net interest cost on defined benefits obligations (pension and jubilee) is recognised in net interest income.

(ii) Net fee and commission income

The Group earns fee and commission income from a diverse range of services provided to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees, as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fees earned for providing transaction services are recognised upon completion of the underlying transaction. These fees include fees for arranging acquisition of securities and purchase or sale of a business.

(iii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

This line item includes dividend from shares and other equity-related securities in all portfolios, as well as income from other investments in companies classified as available for sale. It also contains dividends from subsidiaries, associates or joint ventures, which are not consolidated or not accounted for using the equity method due to their insignificance. Such non-consolidated subsidiaries, associates and joint ventures are presented on the balance sheet line item 'Other assets'.

(iv) Net trading and fair value result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments, as well as foreign exchange gains and losses.

In addition, net trading result also contains interest income or expense on derivative financial instruments held in the trading book. However, interest income or expenses on derivative financial instruments held in the banking book are reported in the income statement line item 'Net interest income'. Net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions.

(v) Net result from equity method investments

The line item contains result from associates and joint ventures recorded by applying the equity method (measured as investor's share of profit or loss in the associates and joint ventures).

However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item 'Other operating result'.

(vi) Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

(vii) Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies.

This line item also includes service costs for defined benefit obligations (pension and jubilee) and the actuarial remeasurements of jubilee obligations.

(viii) Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, expenditures for legal and other consultants. advertising and marketing, as well as sundry other administrative expenses.

Furthermore this line item contains deposit insurance fund contributions.

(ix) Depreciation and amortisation

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

(x) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

This line item includes selling and other derecognition gains or losses on loans and receivables, financial assets available-for-sale, financial assets held-to-maturity and financial liabilities measured at amortised cost. However, if such gains or losses relate to individually impaired financial assets, they are reported in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

(xi) Net impairment loss on financial assets not measured at fair value through profit or loss

Net impairment losses on financial assets comprise of impairment losses and reversals of impairment on loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Net impairment losses relate to allowances recognised on individual and portfolio (incurred but not reported) level.

In addition, direct write-offs and recoveries on written-off loans are reported on this line item.

(xii) Other operating result

Other operating result includes all income and expenses not directly attributable to the Group's ordinary activities.

This line item includes results on the sale, impairment losses or reversal of impairment related to non-financial assets, such as property and equipment and intangible assets. Any impairment losses on goodwill are presented as other operating result.

In addition, this line item includes gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, as well as the related impairment losses or their reversals.

Other operating result also contains expenses for allocations to provisions, income from their release and other taxes.

The significant items reported within other operating result are legally imposed levies related to the banking activities:

- banking tax, and
- contribution to the National Resolution Fund.

Renegotiated loans

The Group seeks to restructure loans, rather than to repossess collaterals, where possible. The restructuring involves extending of payment arrangements and/or agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR calculated before the modification of terms. These loans continue to be subject to individual or collective impairment assessment. The renegotiated loan is no longer considered past due. Management of the Group continually reviews renegotiated loans to ensure that all criteria are met and future payments are likely to occur.

Collateral repossessed

The Group's policy is to decide on a beneficial treatment of repossessed assets, whether it should be used for internal operations or should be sold. The assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured assets. The assets determined to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Group's policy.

Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, guarantees / letters of credit, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of a collateral is generally assessed, at a minimum, at inception and according to the Group's reporting schedule. To the extent possible, the Group uses active market data for valuation of the financial assets held as collaterals. Other financial assets, which do not have a readily determinable market value, are valued using models. Non-financial collaterals, such as real estates, are valued based on data provided by third parties, e.g. mortgage brokers, housing price indices, and other independent sources.

5) Significant accounting judgements, assumptions and estimates

When preparing these consolidated financial statements, management has applied a number of judgements, estimates and assumptions about recognition of assets, liabilities, income and expenses. The estimates and assumptions used are based on a historical experience and other factors, such as planning, forecasts and expectations of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these estimates and assumptions the actual results could lead to adjustments of particular line items of the financial statements in the future periods. The most significant uses of judgements, assumptions and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined by a variety of valuation techniques using mathematical models. Inputs to these models are derived from observable market data. Where observable market data is not available, a judgement is required to establish fair value. The disclosures for fair values of financial instruments, the fair value hierarchy and valuation models are presented in the note 38.

Impairment of financial assets

The Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. For determining an impairment loss it is required to assess whether there is an objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of the future cash flows.

The disclosures concerning impairment are provided in the note 37. The development of loan allowances is described in the notes 10, 18 and 19.

(i) Individual assessment of impairment

Loans and receivables to credit institutions, sovereigns and corporate customers are generally considered by the Group as individually significant and are analysed on an individual basis regardless materiality limits.

Loans and receivables to retail customers with exposures exceeding 200 ths. eur are generally considered by the Group as individually significant and are analysed on an individual basis.

For impairment classification, the Group uses expected loss threshold of 250 eur per client. Losses under this amount are considered to be immaterial.

Loans and receivables with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments and proceeds from collateral. Impairment amount is determined by the difference between the gross carrying amount of the loan and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

(ii) Portfolio assessment of impairment

For the purpose of collective assessment of impairment, the financial assets are grouped on the basis of the Group's internal credit rating system.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between the loss estimates and the actual loss experience.

Impairment of non-financial assets

The Group reviews its non-financial assets at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. Judgements and estimates are required to determine the value in use and the fair value less costs to sell, based on estimated discount rates, timing and the amount of future expected cash flows.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Recognition of provisions requires a judgement whether such an obligation exists. Furthermore, estimates are necessary with respect to the amount and timing of the future cash flows to determine the amount of provisions. Details of provisions are disclosed in the note 28.

Defined benefit obligation plans

The cost of the defined benefit obligation plans is determined using an actuarial valuation. This involves making assumptions about discount rates, expected rates of return on assets, future salary increases, future pension increases, fluctuation, mortality rates and retirement age. The assumptions used for the defined benefit obligation calculations and the related amounts are disclosed in the note 28.

Deferred tax assets

Deferred tax assets are recognised with respect of tax losses and deductible temporary differences. They are recorded to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. A judgement is required to determine the amount of deferred tax assets that can be recognised, based on likely timing and level of future taxable profits, together with future tax planning strategies. The disclosures concerning deferred taxes are in the notes 12 and 24.

6) Application of new and amended IAS / IFRS

The Group has adopted all the standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), as adopted by the European Union, which are valid for the current reporting period and relevant for its business. The following standards, interpretations and their amendments are applicable for the first time in the year 2016:

Effective standards and interpretations

The following standards and their amendments have become mandatory for the financial year 2016, endorsed by EU:

Amendments to IAS 1: Disclosure Initiative

Application of disclosure changes and clarifications did not result in significant changes in the presentation of the Group's financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. Application of these amendments did not have a significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 – 2014 Cycle

In September 2014, the IASB issued a set of amendments to various standards. Application of these amendments did not have a significant impact on the Group's financial statements.

Also adoption of the following amendments, which apply for the first time in 2016, did not have any impact on the accounting policies, financial position or performance of the Group:

Amendments to IFRS 11: Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 27: Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

Standards and interpretations not yet effective

(i) The following standards, amendments and interpretations are not yet endorsed by the EU:

Amendments to IAS 7: Disclosure Initiative (IASB effective date: 1 January 2017).

Amendments to IAS 7 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. Application of these amendments is not expected to have a significant impact on the Group´s financial statements.

IFRS 16 Leases (IASB Effective Date: 1 January 2019).

In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. The impact on the Group's financial statements will be analysed.

Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2017).

Amendments to IAS 12 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The impact on the Group´s financial statements will be evaluated, but it is not expected that these amendments will have a significant impact.

(ii) The following standards, amendments and interpretations are already endorsed by the EU:

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018)

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both of the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to financial assets that meet condition, but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income. The Group intends to use this election for some of its investments in equity instruments which are of a long-term nature and do not have quoted market price.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income. IFRS 9 provides an option to apply this requirement early, however the Group does not intend to make use of this option.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected credit losses. Lifetime expected credit losses are to be recognised for all instruments whose credit risk increases significantly after initial recognition. Furthermore the standard clarifies the rules for accounting for gains and losses resulting from modification of contractual conditions of financial assets.

The objective of the new hedge accounting model is to reflect in accounting actual risk management practices of entities hedging risks. For the Group, the following areas are expected to be relevant to achieve this objective: only the prospective effectiveness test is required and the retrospective effectiveness test with the 80 % 125 % corridor was abandoned; when options are used as hedging instruments, the volatility of the time value is recognised through OCI rather than profit or loss; the possibility of hedging synthetic items containing derivatives.

IFRS 9 provides an accounting policy choice in the area of hedge accounting. Thus, upon adoption of IFRS 9, entities can either (a) start with full application of the hedge accounting requirements of IFRS 9, (b) start with limited application of the hedge accounting requirements of IFRS 9 by continuing to apply IAS 39 to the specific case of fair value hedges of interest rate exposure of a portfolio of financial assets or financial liabilities, or (c) continue with full application of the hedge accounting requirements of IAS 39. The Group plans to implement the third choice. However, some actions are expected to be necessary in order to address additional disclosures that will be required based on IFRS 7 after adoption of IFRS 9.
Based on the accounting policy choice embedded into the transition requirements of IFRS 9, the Group will not restate comparative information upon initial application of IFRS 9. Instead, the one-off impact from initial application of IFRS 9 will be reflected in the opening equity as of the initial application date.

During the year 2016, the Group has completed the evelopment of business requirements documentation addressing the changes in group-level policies, procedures, processes and systems, assessed as necessary in preparation for transition to IFRS 9 on 1 January 2018. On this basis, the Group started the localization of the IFRS 9 requirements, in terms of adapting existing local solutions. As part of this effort, iterative financial impact studies (notably with regards to classification/measurement and impairment of financial assets but gradually also with regards to regulatory capital and ratios) continued in the Group and are planned be further refined throughout the first half of the year 2017. Starting with the second half of the year 2017 a fully-fledged parallel run of the "as is" IAS 39 and the "to be" IFRS 9 driven processes for classification, measurement, impairment and disclosure/reporting for financial instruments is planned. At the same time, Erste Group and the Group acknowledges that the above mentioned financial impact assessments and the simulated IFRS 9-driven outputs throughout the parallel run will bear an inherent degree of approximation, that is expected to reduce along with different IFRS 9-driven functionalities being implemented, tested and transferred from testing to the Group's operating systems.

On this basis, the Group upholds its previous expectations that this standard will not have a significant effect on balance sheet items and measurement methods for financial instruments.

In the area of classification and measurement, the Group identified that none of its loan portfolio will have to be measured at fair value through profit or loss, due to the contractual cash flow characteristics. On the other hand, some debt securities currently measured at fair value through other comprehensive income may be measured at amortised cost due to the 'held-to-collect contractual cash' flows business model applied to them.

In the area of expected credit loss modelling and ensuing impairment loss, the Group believes that one of the key drivers of the expected impact from adopting the new impairment model required by IFRS 9 is the assessment of significant increase in credit risk for exposures that are not identified as credit-impaired. In this respect, across portfolios and product types, quantitative indicators defined for assessing significant increase in credit risk will include adverse change in 1Y probability of default and days-past-due in excess of 35 days. Qualitative indicators will include specific early-warning-system risk type flag (adversely changing since initial recognition) and specific forbearance type flag (adversely changing since initial recognition). Some of the qualitative indicators (assignments of some specific flag types) will inherently rely on experienced credit risk judgment being exercised adequately and timely. The related credit risk controlling policies and procedures (most of them already in place, some of them in progress of being adapted in preparation for IFRS 9) will ensure the necessary governance framework. Besides the qualitative indicators defined on client level, it is planned to use and perform the assessment of significant increase in credit risk on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag. The portfolio triggers should cover the unexpected increase in credit risk on portfolio level. However, the exact definition of such portfolio triggers has yet to be stabilized. Also, the Group believes that another significant driver of the expected impact from adopting the IFRS 9 impairment model required by IFRS 9 is incorporation of forward-looking macro-economic information. In this respect, the Group has developed a methodology for lifetime probabilities of default calculation that requires the application of a macroeconomic overlay. That is, the probabilities of default are modified by using a macroeconomic function as estimated for stress testing purposes (i.e. function linking selected macroeconomic variables with probabilities of default). In consideration of these methodological requirements, credit loss allowances are expected to increase more than insignificantly for some non-defaulted exposures.

Also, the Group expects that the structure of the financial statements (both main components and explanatory notes) will be have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS 7, as triggered by IFRS 9. Such adaptions would also consider any new regulatory reporting requirements (notably FINREP related) which EU or national regulators may contemplate as part of preparing for initial application of IFRS 9 at the level of the wider European and national banking sector.

IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018)

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on the Group´s financial statements.

C. NOTES TO THE INCOME STATEMENT AND THE BALANCE SHEET

1) Net interest income

EUR ths.	2015	2016
Interest income		
Financial assets – at fair value through profit or loss	273	87
Financial assets – available for sale	30 071	28 637
Financial assets – held to maturity	100 418	95 446
Loans and receivables	402 051	394 925
Derivatives – hedge accounting, interest rate risk	(7 274)	(8 572)
Other assets	50	15
Total interest income	**525 589**	**510 538**
Interest expenses		
Financial liabilities measured at amortised cost	(57 311)	(49 672)
Derivatives – hedge accounting, interest rate risk	799	837
Other liabilities	(92)	(78)
Total interest expense	**(56 604)**	**(48 913)**
Net interest income	**468 985**	**461 625**

Interest income for the year 2016 includes the amount of 8.8 mil. eur relating to impaired financial assets (2015: 7.9 mil. eur).

2) Net fee and commission income

EUR ths.	2015	2016
Securities	8 054	7 585
Transfer orders	8 736	7 686
Other	(682)	(101)
Custody	215	238
Payment services	82 220	82 340
Card business	22 758	27 533
Other	59 462	54 807
Customer resources distributed but not managed	11 392	11 363
Collective investment	626	504
Insurance products	10 736	10 830
Other	30	29
Lending business	18 412	19 222
Guarantees given, guarantees received	3 751	2 865
Loan commitments given, loan commitments received	65	592
Other lending business	14 596	15 765
Other	1 153	969
Net fee and commission income	**121 446**	**121 717**

3) Dividend income

EUR ths.	2015	2016
Financial assets designated at fair value through profit or loss	443	629
Available-for-sale financial assets	415	564
Dividend income from equity investments	-	114
Total	**858**	**1 307**

4) Net trading and fair value result

The Group has adopted a business model of centralised financial markets trading in cooperation with its parent company. Within this model Erste Group Bank AG conducts all trading operations on a central trading book in order to manage effectively market risks from the group trading activities (i.e. transactions with retail, corporate and other institutional clients), with the exception of equity risk trading and transactions for the Group's liquidity management purposes.

Trading gains from the market positions of Erste Group Bank AG are distributed according to the approved rules to the local banks within the Erste group based on their financial results and are reported in the income statement line item 'Net trading result'. The basic principle underlying these rules is that Erste Group Bank AG absorbes potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. This business model of financial markets trading also includes reallocation of trading costs to the participating subsidiaries of Erste Group Bank AG based on their cost/income ratio.

EUR ths.	2015	2016
Net trading result	9 077	13 468
Securities and derivatives trading	7 018	7 964
Foreign exchange transactions	2 258	5 724
Results from Hedge Accounting	(199)	(220)
Result from financial assets and liabilities designated at fair value through profit or loss	(290)	(916)
Total	**8 787**	**12 552**

The line item 'Securities and derivatives trading' includes gains from the Erste Group Bank's market positions attributable to the Group.

5) Rental income from investment properties & other operating leases

EUR ths.	2015	2016
Investment properties	397	368
Other operating leases	1 511	513
Total	**1 908**	**881**

6) Personnel expenses

EUR ths.	2015	2016
Wages and salaries	(92 938)	(97 403)
Compulsory social security	(30 528)	(33 239)
Long-term employee provisions	(485)	(462)
Other personnel expenses	(4 861)	(6 277)
Total	**(128 812)**	**(137 381)**

As at 31 December 2016 the Group had 4 232 employees (2015: 4 205).

Average number of employees in the year 2016 was 4 248, thereof five members of the Board of Directors. In the year 2015 average number of employees was 4 231 with the same number of the Board of Directors members.

7) Other administrative expenses

EUR ths.	2015	2016
Deposit insurance contribution	(2 354)	(2 472)
IT expenses	(32 447)	(30 842)
Expenses for office space	(21 030)	(22 176)
Office operating expenses	(11 979)	(11 972)
Advertising/marketing	(14 483)	(14 213)
Legal and consulting costs	(3 798)	(3 556)
Sundry administrative expenses	(6 560)	(8 513)
Total	**(92 651)**	**(93 744)**

The Group is legally obliged to make a contribution to the Deposit Protection Fund. The amount of this annual contribution is calculated based on the Group's customer deposit liabilities. The contribution to the Deposit Protection Fund was paid in June 2016.

Expenses for audit and other advisory services provided by the audit company are disclosed in the line item 'Legal and consulting costs' and were as follows:

EUR ths.	2015	2016
Audit fees	(245)	(265)
Other services involving the issuance of a report	(398)	(405)
Tax consultancy fees	(41)	(75)
Other services	(123)	(126)
Total	**(807)**	**(871)**

8) Depreciation and amortisation

EUR ths.	2015	2016
Software and other intangible assets	(23 407)	(24 546)
Owner occupied real estate	(13 255)	(11 831)
Investment properties	(1 560)	(575)
Office furniture and equipment and sundry property and equipment	(7 928)	(8 642)
Total	**(46 150)**	**(45 594)**

9) Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net

EUR ths.	2015	2016
From sale of financial assets available for sale	442	27 004
From sale of financial assets held to maturity	446	25
From sale of loans and receivables	11	-
From repurchase of liabilities measured at amortised cost	3	15
Total	**902**	**27 044**

With reference to the purchase of shares of Visa Europe Ltd. by Visa INC. performed at 21 June 2016 the Group reclassified the actual amount of unrealized measurement of its investment classified as financial asset available for sale in the amount of 26.7 mil. eur from other comprehensive income to the position "Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net" (note 16).

Derecognition of the held-to-maturity financial assets relates to the sales close to maturity without breaching tainting rule as defined by IAS 39.

10) Net impairment loss on financial assets not measured at fair value through profit or loss

EUR ths.	2015	2016
Loans and receivables	(58 062)	(48 198)
Allocation to risk provisions	(342 744)	(320 691)
Release of risk provisions	273 051	264 986
Recoveries recorded directly to the income statement	11 631	7 507
Financial assets - held to maturity	21	(37)
Total	**(58 041)**	**(48 235)**

11) Other operating result

EUR ths.	2015	2016
Result from properties/movables/other intangible assets	1 052	83
Allocation to/release of other provisions	(455)	56
Allocation to/release of provisions for commitments and guarantees given	2 995	4 416
Levies on banking activities	(30 919)	(29 106)
Other taxes	(205)	(232)
Result from other operating expenses/income	(5 874)	8 708
Total	**(33 406)**	**(16 075)**

There are two significant items within other operating result for the year 2016 presented in the line item 'Levies on Banking activities':

- levy of selected financial institutions ('bank tax') in the amount of 25.1 mil. eur (2015: 23.6 mil. eur),
- contribution to the National Resolution Fund ('resolution fund') in the amount of 4.0 mil. eur (2015: 7.3 eur).

The Group is legally obliged to make a contribution to the National resolution fund ('Resolution fund'). The amount of this annual contribution is determined by the National authority for crisis resolution based on the Group's liabities and its risk profile. The contribution to the National resolution fund was paid in April 2016.

In respect to the extraordinary gain realized from the sale of the shares of Visa Europe Ltd. The Group decided to donate the amount of 2.6 mil. eur to Nadácia Slovenskej sporiteľne. This expense is disclosed in the line item "Result from other operating expenses/income".

In the year 2016 the Group realized an extraordinary gain in the amount of 14.5 mil. eur from the contribution of POS terminals and relating transactions business into the entity Global Payments, s.r.o. seated in Czech republic (note 16).

12) Taxes on income

The actual tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate valid in Slovak Republic due to the following items:

EUR ths.	2015	2016
Pre-tax profit/loss	246 558	285 947
Statutory tax rate	22%	22%
Income tax expense for the financial year at the domestic	54 244	62 909
Impact of decrease in tax rates	-	2 958
Impact of tax-exempt earnings of investments income and other tax-exempt	(10 982)	(13 018)
Tax increases due to non-deductible expenses, additional business tax and similar elements	19 527	19 364
Net impact of non-valued fiscal losses for the year	33	(29)
Tax losses carried forward obtained in connection with merger	(2 428)	(1 009)
Tax income not atributable to the reporting period	272	(326)
Other effects	121	532
Total	**60 788**	**71 381**

EUR ths.	2015	2016
Current tax expense/income	(68 278)	(69 863)
current period	(68 278)	(69 863)
Deferred tax expense/income	7 490	(1 518)
current period	7 490	(1 518)
Total	**(60 788)**	**(71 381)**

13) Cash and cash balances

EUR ths.	2015	2016
Cash on hand	321 939	317 057
Cash balances at central banks	872	79 916
Total	**322 811**	**396 973**

During the monthly period covering the date of 31 December 2016 the required average balance of minimum compulsory reserves was in the amount of 112.4 mil. eur and the actual average balance amounted 133.1 mil. eur representing 118.40% of the requirement.

During the monthly period covering the date of 31 December 2015 the required average balance of minimum compulsory reserves was in the amount of 105.6 mil. eur and the actual average balance amounted 116.2 mil. eur representing 110.07% of the requirement.

14) Financial assets – held for trading / Derivatives

EUR ths.	Notional value		Positive fair value		Negative fair value	
	2015	2016	2015	2016	2015	2016
Interest rate	1 238 955	1 148 509	17 699	15 899	20 334	15 206
Equity	77 114	75 453	1 541	416	1 541	416
Foreign exchange	408 140	408 886	37 752	23 597	36 385	22 383
Credit	50 000	50 000	4	50	-	-
Commodity	291 598	120 593	27 418	4 852	27 248	4 807
Total	**2 065 807**	**1 803 441**	**84 414**	**44 814**	**85 508**	**42 812**

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as a part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most cases requires margin deposits.

15) Financial assets - at fair value through profit or loss

Financial assets were designated as fair value through profit or loss at their initial recognition based on the intention of the Group to manage them on fair value basis.

EUR ths.	2015	2016
Equity instruments	10 993	6 118
Debt securities	6 675	-
Total	**17 668**	**6 118**

The amounts represent the maximum exposure to credit risk.

16) Financial assets - available for sale

EUR ths.	2015	2016
Equity instruments	51 796	35 387
Debt securities	1 159 815	1 027 934
General governments	972 722	841 430
Credit institutions	61 680	60 644
Non-financial corporations	125 413	125 860
Total	**1 211 611**	**1 063 321**

The carrying amounts detailed above represent the maximum exposure to credit risk.

As at 31 December 2016 financial assets available for sale measured at cost amounted of 0.7 mil. eur (2015: 0.7 mil. eur).

On 21 June 2016 Visa INC. bought shares of Visa Europe Ltd. In relation to this transaction the Group derecognized the value of its investment in Visa Europe Ltd. In the actual amount of

26.7 mil. eur (see note 9). The sale of the participation has been settled in cash amounting 19.4 mil. eur, together with recognition of Visa INC. shares in the amount of 5.7 mil. eur and recognition of a receivable from deferred payment in the amount of 1.6 mil. eur payable in three years time. As at 31 December 2016 the investment in Visa INC. was disclosed in the line item "Financial assets - available for sale" in the amount of 10.3 mil. eur.

On 1 June 2016 the Group acquired 24.6% share in associate company Global Payments, s.r.o. by contribution of POS terminals and relating transactions business (see note 11). Subsequently, the Group sold 51% of this share amounting 7.4 mil. eur to Global Payments – Caixa Acquisition Corporation S.à r.l. Consequently, the share of the Group in its associate Global Payments, s.r.o. decreased to 12.5% and was disclosed in the line item "Financial assets - available for sale" in the amount of 7.1 mil. eur.

On 8 September 2016 the Group provided a cash and non-cash contribution (in the form of an investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30.99% share in this company.

17) Financial assets – held to maturity

EUR ths.	Gross carrying amount		Collective allowances		Net carrying amount	
	2015	2016	2015	2016	2015	2016
General governments	2 451 290	2 577 372	(223)	(243)	2 451 067	2 577 128
Credit institutions	39 545	63 468	(17)	(36)	39 528	63 433
Non-financial corporations	101	101	(2)	(1)	99	101
Total	**2 490 936**	**2 640 941**	**(242)**	**(280)**	**2 490 694**	**2 640 662**

The amounts represent the maximum exposure to credit risk.

18) Loans and receivables to credit institutions

EUR ths.	Gross carrying amount		Collective allowances		Net carrying amount	
	2015	2016	2015	2016	2015	2016
Loans and advances						
Credit institutions	121 629	89 982	(29)	(36)	121 600	89 946
Total	**121 629**	**89 982**	**(29)**	**(36)**	**121 600**	**89 946**

The amounts represent the maximum exposure to credit risk.

As at 31 December 2016 the accounts in credit institutions repayable on demand (disclosed in the Statement of Cash Flows) amounted 31.0 mil. eur (2015: 26.3 mil. eur).

As at 31 December 2016 and at the end of the year 2015 the Bank had no reverse repo agreements.

Allowances for loans and receivables to credit institutions were as follows:

EUR ths.	2015	Allocations	Releases	2016
Collective allowances				
Loans and advances	(29)	(407)	399	(36)
Total	**(29)**	**(407)**	**399**	**(36)**

EUR ths.	2014	Allocations	Releases	2015
Collective allowances				
Loans and advances	(53)	(110)	135	(29)
Total	**(53)**	**(110)**	**135**	**(29)**

19) Loans and receivables to customers

EUR ths.	Gross carrying amount		Specific allowances		Collective allowances		Net carrying amount	
	2015	2016	2015	2016	2015	2016	2015	2016
Loans and advances to customers								
General governments	235 986	197 813	-	(1)	(449)	(252)	235 537	197 560
Other financial corporations	80 891	83 351	(55)	(7)	(303)	(257)	80 533	83 087
Non-financial corporations	2 208 759	2 201 388	(126 835)	(94 663)	(18 001)	(22 041)	2 063 923	2 084 684
Households	7 194 600	8 110 581	(148 580)	(159 027)	(60 706)	(66 416)	6 985 314	7 885 138
Total	**9 720 236**	**10 593 133**	**(275 470)**	**(253 698)**	**(79 459)**	**(88 966)**	**9 365 307**	**10 250 469**

Allowances for loans and receivables to customers were as follows:

EUR ths.	2015	Allocations	Use	Releases	Interest income from impaired loans	Other changes and exchange-rate (+/-)	2016	Recoveries of amounts previously written off	Amounts written off
Specific allowances									
Loans and advances to customers	(275 470)	(162 148)	59 149	115 958	8 813	-	(253 698)	7 507	-
Other financial corporations	(55)	(1)	-	49	-	-	(7)	-	-
Non-financial corporations	(126 835)	(66 652)	35 231	61 981	1 612	-	(94 663)	5 399	-
Households	(148 580)	(95 495)	23 918	53 928	7 201	-	(159 028)	2 108	-
Collective allowances									
Loans and advances to customers	(79 459)	(158 136)	-	148 629	-	-	(88 966)	-	-
General governments	(449)	(135)	-	331	-	-	(252)	-	-
Other financial corporations	(303)	(1 507)	-	1 554	-	-	(257)	-	-
Non-financial corporations	(18 001)	(38 385)	-	34 344	-	-	(22 041)	-	-
Households	(60 706)	(118 109)	-	112 400	-	-	(66 416)	-	-
Total	**(354 929)**	**(320 284)**	**59 149**	**264 587**	**8 813**	**-**	**(342 664)**	**7 507**	**-**

EUR ths.	2014	Allocations	Use	Releases	Interest income from impaired loans	Other changes and exchange-rate (+/-)	2015	Recoveries of amounts previously written off	Amounts written off
Specific allowances									
Loans and advances to customers	(264 508)	(191 096)	54 228	117 373	7 973	562	(275 470)	11 632	-
Other financial corporations	(516)	-	279	162	-	20	(55)	-	-
Non-financial corporations	(115 747)	(93 415)	20 393	60 249	1 661	25	(126 835)	(1 021)	-
Households	(148 245)	(97 681)	33 556	56 962	6 312	517	(148 580)	12 653	-
Collective allowances									
Loans and advances to customers	(83 486)	(151 538)	-	155 543	-	20	(79 459)	-	-
General governments	(454)	(259)	-	264	-	-	(449)	-	-
Other financial corporations	(395)	(1 456)	-	1 548	-	-	(303)	-	-
Non-financial corporations	(17 368)	(45 524)	-	44 870	-	20	(18 001)	-	-
Households	(65 269)	(104 299)	-	108 861	-	-	(60 706)	-	-
Total	**(347 994)**	**(342 634)**	**54 228**	**272 916**	**7 973**	**582**	**(354 929)**	**11 632**	**-**

The column item 'Recoveries recorded directly to the income statement' includes recoveries related to the amounts previously written off, as well as recoveries resulting from the official upgrades of customers to non-defaulted rating grades.

As at 31 December 2016, 15 largest customers accounted for 5.4% of the gross loan portfolio amounting 575.6 mil. eur (2015: 7.6%, 736.9 mil. eur).

Mandate loans

During the year 2016 the Group cooperated with 10 external companies (2015: 11 companies). Following mandate contracts the management and administration of certain non-performing receivables is outsourced. The Group maintains risks and rewards associated with the underlying exposures and shares part of recoveries with the external service providers.

As at 31 December 2016 the total amount of gross loans outsourced was 139.0 mil. eur (2015: 128.2 mil. eur).

Write off and sale of receivables

During the year 2016 the Group sold loan receivables in the amount of 56.8 mil. eur (2015: 51.4 mil. eur) for a consideration of 15.1 mil. eur (2015: 14.1 mil. eur) and used the corresponding allowances amounting 46.3 mil. eur (2015: 43.4 mil. eur).

In the year 2016 the Group has also written off loans with the amount of 23.4 mil. eur (2015: 19.2 mil. eur) and used the respective allowances amounting 23.2 mil. eur (2015: 18.4 mil. eur).

Finance Leases

Loans and advances to customers also include net investments in finance leases. The principal assets held under lease arrangements include cars and other technical equipment.

As at 31 December 2016 the accumulated allowance for uncollectible minimum lease payments receivable amounted 0.7 mil. eur (2015: 2.8 mil. eur).

EUR ths.	2015	2016
Gross investment in finance leases	**18 147**	**33 944**
Thereof:		
< 1 year	7 642	10 201
1-5 years	10 241	22 923
> 5 years	264	820
Unearned income	**(856)**	**(1 358)**
Net investment in finance leases	**17 291**	**32 586**
Thereof:		
< 1 year	7 205	9 578
1-5 years	9 826	22 192
> 5 years	260	816

20) Derivatives – hedge accounting

EUR ths.	Notional value		Positive fair value		Negative fair value	
	2015	2016	2015	2016	2015	2016
Fair value hedges	347 821	397 821	7 418	7 705	42 915	52 389
Interest rate	347 821	397 821	7 418	7 705	42 915	52 389
Total	**347 821**	**397 821**	**7 418**	**7 705**	**42 915**	**52 389**

Fair value hedge of assets

As at 31 December 2016 the Group held in its portfolio fixed rate bonds denominated in Eur with face value of 381.0 mil. eur (2015: 331.0 mil. eur). As the purchases of these bonds increased exposure to interest rate risk in the period from five to fifteen years, the Group entered into interest rate swap deals in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates.

During the year 2016 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Group recognised a net loss on the hedging instruments in the amount of 8.6 mil. eur (2015: net gain 7.1 mil. eur). On the other hand, a net gain on the hedged item attributable to the hedged risk amounted to 8.4 mil. eur (2015: net loss 7.1 mil. eur).

Fair value hedge of liabilities

In July 2007 the Group issued fixed rate mortgage bonds with maturity in July 2027 also disclosed in the note 27. At the same time the Group entered into interest rate swap deals in order to hedge interest rate risk. As at 31 December 2016 the notional value of these hedged mortgage bonds was 16.6 mil. eur (2015: 16.6 mil. eur).

During the year 2016 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Group recognised a net gain on the hedging instruments in the amount of 0.3 mil. eur (2015: net loss 0.9 mil. eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 0.3 mil. eur (2015: net gain 0.9 mil. eur).

21) Investment in subsidiaries and associates

The consolidated financial statements include subsidiaries and associates disclosed in this note.

Investment in subsidiaries

EUR ths.	Služby SLSP, s. r. o. 2015 2016	Realitná spoločnosť Slovenskej sporiteľne, a. s. (100% dcérska spoločnosť Služby SLSP, s. r. o.) 2015 2016	Laned, a. s. (100% dcérska spoločnosť Služby SLSP, s. r. o.) 2015 2016	Procurement Services SK, s.r.o.. 2015 2016
Place of business	Tomášikova 48, 832 01 Bratislava Slovak republic	Tomášikova 48, 832 10 Bratislava Slovak republic	Tomášikova 48, 832 71 Bratislava, Slovak republic	Tomášikova 48, 832 75 Bratislava, Slovak republic
Main business activity	Ancillary bank services	Real estate agency	SPE-Real estate company	Procurement
Ownership held	100%	100%	100%	51%
Voting rights held	100%	100%	100%	51%

Changes during the year 2016

On 1 April 2016 the subsidiary Erste Group IT SK, spol. s r.o. s was merged with the Bank.

The company s IT Solutions SK, spol. s r.o. in liquidation did not perform any economic activities in the years 2015 and 2016 and therefore zero values of assets and liabilities were presented. On 18 May 2016 an extraordinary general assembly of this company decided on liquidation finalisation and approved distribution of a liquidation residue among its shareholders. Slovenská sporiteľňa, a.s. as a shareholder with 23.5% share received a liquidation payment in the amount of 114 151.68 eur.

On 1 June 2016 the Group acquired 24.6% share in an associate Global Payments, s.r.o. seated in Czech republic by a contribution of POS terminals and related transactions business. Through this transaction the Group realized an extraordinary gain in the amount of 14.5 mil. eur (note 11).

Subsequently, the Group sold 51 % of this share amounting 7.4 mil. eur to the company Global Payments – Caixa Acquisition Corporation S.à r.l. As a result, the share of the Bank in the company Global Payments, s.r.o. decreased to 12.5% and was disclosed in the amount of 7.1 mil. eur in the line item "Financial assets - available for sale" (note 16).

On 8 September 2016 the Bank provided a cash and non-cash contribution (in the form of investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30.99% share in this company.

On 20 May 2016 the subsidiary Derop B.V. increased its capital funds, whereby the Bank's contribution as a 85% shareholder amounted 68 000.00 eur.

On 4 August 2016 the SLSP acquired the residual share (15%) of the subsidiary Derop B.V. and became its 100% shareholder. The purchase price was 2 977 683.00 eur.

On 28 October 2016 the subsidiary Služby SLSP, s.r.o. decreased its capital funds, whereby the Bank received the amount of 7 447 672.00 eur. By this amount the investment of Služby SLSP, s.r.o. was decreased.

On 30 December 2016 the subsidiary Derop B.V. was merged with the subsidiary Služby SLSP, s.r.o. In the scope of consolidation of SLSP still remain the comoany Laned, a.s. that has become a subsidiary of Služby SLSP, s.r.o. after merge its parent company Derop B.V..

Changes during the year 2015

In the year 2015 the Group has established a subsidiary Služby SLSP, s.r.o., which subsequently purchased 100% share in the former subsidiary Realitná spoločnosť Slovenskej sporiteľne, a.s. By this there was no change in consolidation method of Realitná spoločnosť Slovenskej sporiteľne, a.s., that is fully consolidated by SLSP.

In the year 2015 the Bank acquired remaining shares (49%) of the subsidiary Erste Group IT SK, spol. s r.o. and became its 100% shareholder.

In the year 2015 the subsidiary Leasing Slovenskej sporiteľne, a.s. was merged with the Bank.

Investment in associates

EUR ths.	Prvá stavebná sporiteľňa, a. s. („PSS") 2015	2016	Slovak Banking Credit Bureau 2015	2016	Holding Card Service, spol. s r. o. 2015	2016
Place of business	Bajkalská 30 829 48 Bratislava Slovak republic		Malý trh 2/A 811 08 Bratislava Slovak republic		Olbrachtova 1929/62 140 00 Praha 4 Czech republic	
Main business activity	Banking		Retail credit register		Equity release company	
Ownership held	9.98%		33.33%		30.99%	
Voting rights held	35.00%		33.33%		30.99%	
IFRS Classification (JV/A)	Pridružená spoločnosť		Pridružená spoločnosť		Pridružená spoločnosť	
Reporting currency	EUR		EUR		EUR	
Dividend income received	2 237	2 270	-	-	-	-
Impairment loss recognized (cumulative basis)	-	-	-	-	-	-
Impairment loss recognized (for the reporting year)	-	-	-	-	-	-
Loan commitments, financial guarantees and other commitments given	-	-	-	-	-	-
Investee's key financial information for the reporting year (as at reporting year-end)						
Cash and cash balances	338	250	282	318	-	13
Other current assets	2 615 059	2 701 401	0	38	-	-
Non-current assets	78 685	78 530	22	10	-	22 686
Current liabilities	2 413 589	2 514 494	142	211	-	-
Non-current liabilities	35 310	33 158	3	7	-	0
Operating Income	(42 265)	(41 210)	11	5	-	(9)
Post-tax result from continuing operations	23 542	17 644	3	(3)	-	(9)
Other comprehensive income	5 679	2 561	-	-	-	-
Total comprehensive income	29 221	20 205	3	(3)	-	(9)
Depreciation and amortization	(3 614)	(3 809)	(7)	(7)	-	(0)
Interest income	108 631	104 646	-	0	-	-
Interest expense	(48 922)	(49 547)	-	(0)	-	-
Tax expense/income	(6 927)	(6 396)	-	(0)	-	-

As at 31 December 2016 the Bank held 9.98% share of Prvá stavebná sporiteľňa, a.s. (2015: 9.98%). In accondance with a contract, the Bank acts on behalf of its parent company Erste Group Bank AG, which held 25.02% shares in PSS in both presented years. In the year 2004, following the approval of the National Bank of Slovakia, the Bank nominated a representative in the Supervisory Board of PSS, who replaced a representative of Erste Group Bank AG. Consequently the Bank has established significant influence in PSS and therefore the Bank's investment in PSS is presented as an associate.

22) Property, equipment and other assets

Cost

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 31. 12. 2014	**295 940**	**72 020**	**51 075**	**7 127**	**426 162**	**7 880**
Additions in current year	5 403	3 863	9 893	391	19 550	-
Disposals	(9 885)	(8 420)	(5 503)	(2 475)	(26 282)	(89)
Reclassification	296	-	(731)	1	(434)	(296)
Balance as of 31. 12. 2015	**291 754**	**67 463**	**54 734**	**5 044**	**418 996**	**7 495**
Additions in current year	5 140	3 336	4 665	196	13 336	-
Disposals	(21 624)	(4 221)	(414)	(5 239)	(31 498)	(461)
Reclassification	373	(1)	-	1	371	(373)
Balance as of 31. 12. 2016	**275 642**	**66 576**	**58 985**	**2**	**401 205**	**6 661**

Accumulated depreciation

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 31. 12. 2014	**(129 854)**	**(62 180)**	**(42 610)**	**(2 792)**	**(237 436)**	**(4 574)**
Amortisation and depreciation	(13 266)	(3 608)	(4 315)	(380)	(21 570)	(251)
Disposals	5 104	8 214	5 382	2 800	21 499	48
Impairment	(3 135)	-	-	-	(3 135)	(92)
Reversal of impairment (+)	4 347	-	-	-	4 347	77
Reclassification	(177)	-	714	-	537	177
Balance as of 31. 12. 2015	**(136 981)**	**(57 574)**	**(40 829)**	**(372)**	**(235 758)**	**(4 615)**
Amortisation and depreciation	(11 831)	(3 665)	(4 978)	(355)	(20 828)	(220)
Disposals	11 915	4 167	398	730	17 208	263
Impairment	(1 819)	-	-	-	(1 819)	-
Reversal of impairment	2 384	-	-	-	2 384	55
Reclassification	(244)	1	(0)	-	(243)	244
Balance as of 31. 12. 2016	**(136 576)**	**(57 070)**	**(45 409)**	**3**	**(239 055)**	**(4 272)**

Carrying amount

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 31. 12. 2015	**154 773**	**9 889**	**13 905**	**4 672**	**183 238**	**2 880**
Balance as of 31. 12. 2016	**139 067**	**9 506**	**13 575**	**5**	**162 150**	**2 388**

Cost of property and equipment, which are fully depreciated but still used by the Group as at 31 December 2016 amounted 87.3 mil. eur (2015: 81.3 mil. eur).

As at 31 December 2016 the Group owned property and equipment not yet put in use in the amount of 2.6 mil. eur (2015: 1.0 mil. eur).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

Investment properties

As at 31 December 2016 the carrying amount of investment properties was 2.4 mil. eur (2015: 2.9 mil. eur). Total rental income earned on this property for the year 2016 amounted 0.4 mil. eur (2015: 0.4 mil. eur) and is separately presented in the line item 'Rental income from investment properties & other operating leases'. Depreciation of rented property for the year 2016 amounted 0.2 mil. eur (2015: 0.3 mil. eur) and is presented in the line item 'Depreciation'.

Operating leases

Summary of future minimum lease payments under non-cancellable operating leases where the Group acts as lessee:

EUR ths.	2015	2016
< 1 year	7 254	7 596
1-5 years	14 551	15 785
> 5 years	1 224	1 989
Total	**23 029**	**25 370**

The Group does not act as a lessor in any non-cancellable operating lease transaction.

23) Intangible assets

Cost

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31. 12. 2014	**214 975**	**29 607**	**3 146**	**247 728**
Additions	3 498	16 754	146	20 397
Reclassification (+/-)	731	-	-	731
Balance as of 31. 12. 2015	**219 204**	**46 361**	**3 292**	**268 856**
Additions	5 333	4 816	91	10 240
Disposals	(3 809)	-	(217)	(4 026)
Balance as of 31. 12. 2016	**220 728**	**51 177**	**3 166**	**275 071**

Accumulated amortisation

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31. 12. 2014	**(152 330)**	**(2 750)**	**(2 684)**	**(157 764)**
Amortisation and depreciation	(18 924)	(4 282)	(201)	(23 407)
Reclassification (+/-)	(714)	-	-	(714)
Balance as of 31. 12. 2015	**(171 968)**	**(7 032)**	**(2 885)**	**(181 885)**
Amortisation and depreciation	(17 265)	(7 756)	(235)	(25 256)
Disposals	3 809	-	217	4 026
Balance as of 31. 12. 2016	**(185 424)**	**(14 788)**	**(2 903)**	**(203 116)**

Carrying amount

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31. 12. 2015	**47 236**	**39 329**	**407**	**86 971**
Balance as of 31. 12. 2016	**35 304**	**36 389**	**263**	**71 955**

Cost of intangible assets, which are fully depreciated but still used by the Group as at 31 December 2016 amounted 91.3 mil. eur (2015: 89.9 mil. eur).

As at 31 December 2016 the Group owned intagible assets not yet put in use in the amount of 5.9 mil. eur (2015: 3.4 mil. eur). During the year 2016 the Group put in use upgrade of the core banking system, which amounted 6.0 mil. eur (2015: 16.9 mil. eur).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

24) Tax assets and liabilities

The structure of tax assets and liabilities was as follows:

EUR ths.	Tax assets		Tax liabilities		Net variance		
	2015	2016	2015	2016	Through profit or loss	Through other comprehen-sive income	Total
Assets							
Financial assets available for sale	234	-	(27 160)	(22 033)	99	(4 993)	(4 894)
Loans and receivables	47 853	46 022	-	-	1 832	-	1 832
Tangible assets	-	-	(4 743)	(2 849)	(1 894)	-	(1 894)
Tax loss carried forward	1 956	1 910	-	-	46	-	46
Liabilities							
Liabilities measured at amortised cost	27	-	-	(5 146)	5 146	-	5 146
Provisions	3 566	2 414	-	-	1 151	-	1 151
Pensions and other post employment defined benefit obligations	994	985	-	-	9	-	9
Other	7 809	12 814	-	(106)	(4 899)	-	(4 899)
Gross deferred taxes	**62 439**	**64 145**	**(31 903)**	**(30 134)**	**1 490**	**(4 993)**	**(3 503)**
Net deferred taxes	30 849	34 030	(314)	(106)	1 517	-	1 517
Total current taxes	15	8	(7 196)	(4 013)	69 863	-	69 863
Total taxes	**30 864**	**34 037**	**(7 510)**	**(4 120)**	**71 380**	**(4 993)**	**71 380**

The Group applies conservative approach for the recognition of deferred tax assets and liabilities. Deferred tax liabilities are recognised in their full amount. Deferred tax assets are recognised only up to the amount, in which the Group expects realisation of tax benefits in the future.

Deferred tax assets and liabilities are offset in accordance with the Group's accounting policy.

25) Other assets

EUR ths.	2015	2016
Prepayments and accrued income	4 862	4 886
Sundry assets	25 085	19 482
Total	**29 947**	**24 368**

26) Financial liabilities measured at amortised costs

Deposits from banks

EUR ths.	2015	2016
Overnight deposits	5 058	3 157
Term deposits	278 351	147 764
Repurchase agreements	101 556	127 272
Total	**384 965**	**278 193**

Deposits from customers

EUR ths.	2015	2016
Overnight deposits	**5 122 007**	**6 047 519**
Non-savings deposits	5 122 007	6 047 519
General governments	52 825	88 624
Other financial corporations	166 469	221 394
Non-financial corporations	1 092 227	1 309 639
Households	3 810 486	4 427 862
Term deposits - Deposits with agreed maturity	**3 614 957**	**2 944 383**
Non-savings deposits	3 614 957	2 944 383
General governments	343 164	103 369
Other financial corporations	273 475	125 611
Non-financial corporations	441 263	286 093
Households	2 557 055	2 429 310
Deposits redeemable at notice	**1 934 572**	**2 392 407**
Households	1 934 572	2 392 407
General governments	**395 989**	**191 993**
Other financial corporations	**439 944**	**347 005**
Non-financial corporations	**1 533 490**	**1 595 732**
Households	**8 302 113**	**9 249 579**
Total	**10 671 536**	**11 384 309**

In the prior period, term deposits from banks included a subordinated debt from the parent, which amounted 100.0 mil. eur as at 31 December 2015. It was a kind of received loan, which would rank behind other liabilities in case of any financial difficulties of the Bank. This subordinated debt with a 10-years maturity was repaid on 21 December 2016.

As at 31 December 2016, no deposits from customers were collateralised by securities (neither at the year-end 2015).

As at 31 December 2016, no embedded derivatives were included in deposits from customers (neither at the year-end 2015).

27) Debt securities issued

EUR ths.	2015	2016
Subordinated liabilities	72 305	74 785
Subordinated issues and deposits	72 305	74 785
Other debt securities issued	1 029 649	1 242 622
Bonds / Certificates	137 738	139 311
Mortgage covered bonds	891 911	1 103 311
Total	**1 101 954**	**1 317 407**

Subordinated debt securities issued

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2015	2016
Subordinated Bonds	June 2011	June 2018	4,25%	700	10 000	EUR	6 771	6 850
Subordinated Bonds	June 2011	June 2018	4,90%	132	50 000	EUR	6 611	6 611
Subordinated Bonds	October 2011	October 2018	4,00%	543	10 000	EUR	5 134	5 222
Subordinated Bonds	December 2011	December 2018	4,00%	407	10 000	EUR	3 828	3 885
Subordinated Bonds	August 2010	August 2020	4,30%	10 000	1 000	EUR	11 984	12 456
Subordinated Bonds	August 2011	August 2021	4,30%	10 000	1 000	EUR	11 478	11 940
Subordinated Bonds	June 2012	June 2022	5,80%	11 000	1 000	EUR	12 326	13 005
Subordinated Bonds	November 2012	November 2022	4,30%	9 000	1 000	EUR	9 484	9 918
Subordinated Bonds	November 2011	November 2023	4,58%	4 250	1 000	EUR	4 689	4 897
Total							**72 305**	**74 785**

The interest rate shown above represents actual interest expense of the Group.

The bonds marked as 'Subordinated bonds*' include embedded derivatives which were separated and are disclosed on the balance sheet line item 'Financial liabilities – held for trading'. As at 31 December 2016 fair value of these derivatives amounted 0.9 mil. eur (2015: 1.5 mil. eur).

Other debt securities issued

All securities listed below are issued in book-entry form as bearer or registered securities with annual or semi-annual coupon payments. Their transferability is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to these securities. All securities are unsecured. The bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2016, debt securities issued included embedded derivatives (equity and commodities) in the amount of 0.4 mil. eur (2015: 1.5 mil. eur), which were separated and are disclosed in the line items 'Financial assets – held for trading' and 'Financial liabilities – held for trading'.

Bonds issued

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2015	2016
Mortgage Covered Bonds	July 2011	January 2016	-	-	1 000	EUR	2 485	-
Investment Certificates	January 2015	January 2016	-	-	10 000	NOK	564	-
Investment Certificates	February 2015	February 2016	-	-	1 000	EUR	402	-
Investment Certificates	February 2015	February 2016	-	-	5 000	NOK	193	-
Mortgage Covered Bonds	February 2014	February 2016	-	-	50 000	EUR	30 161	-
Mortgage Covered Bonds	February 2012	February 2016	-	-	1 000	EUR	8 914	-
Mortgage Covered Bonds	August 2011	February 2016	-	-	1 000	EUR	5 369	-
Mortgage Covered Bonds	March 2011	March 2016	-	-	1 000	EUR	14 829	-
Investment Certificates	March 2014	March 2016	-	-	1 000	EUR	41	-
Mortgage Covered Bonds	March 2006	March 2016	-	-	33 194	EUR	16 602	-
Investment Certificates	April 2015	April 2016	-	-	5 000	EUR	539	-
Investment Certificates	April 2015	April 2016	-	-	5 000	EUR	540	-
Investment Certificates	April 2015	April 2016	-	-	5 000	EUR	540	-
Investment Certificates	June 2015	June 2016	-	-	5 000	EUR	378	-
Investment Certificates	June 2015	June 2016	-	-	5 000	EUR	1 162	-
Investment Certificates	July 2015	July 2016	-	-	100 000	CZK	638	-
Mortgage Covered Bonds	January 2012	July 2016	-	-	1 000	EUR	6 257	-
Mortgage Covered Bonds	February 2013	August 2016	-	-	50 000	EUR	12 058	-
Investment Certificates	August 2013	August 2016	-	-	1 000	EUR	459	-
Mortgage Covered Bonds	August 2014	August 2016	-	-	50 000	EUR	10 007	-
Investment Certificates	September 2015	September 2016	-	-	100 000	CZK	372	-
Investment Certificates	September 2015	September 2016	-	-	5 000	EUR	549	-
Investment Certificates	September 2015	September 2016	-	-	5 000	EUR	285	-
Investment Certificates	September 2015	September 2016	-	-	100 000	EUR	560	-
Investment Certificates	October 2013	October 2016	-	-	1 000	EUR	546	-
Mortgage Covered Bonds	December 2011	December 2016	-	-	1 000	EUR	6 331	-
Mortgage Covered Bonds	June 2012	December 2016	-	-	1 000	EUR	2 768	-
Senior Unsecured Bonds	December 2013	December 2016	-	-	5 000	PLN	1 386	-
Investment Certificates	December 2015	December 2016	-	-	50 000	NOK	1 173	-
Mortgage Covered Bonds	July 2012	January 2017	2.88%	7 985	1 000	EUR	8 100	8 089
Investment Certificates	January 2016	January 2017	10.00%	200	50 000	NOK	-	1 214
Investment Certificates	February 2016	February 2017	10.00%	88	50 000	NOK	-	535
Senior Unsecured Bonds	March 2011	March 2017	3.65%	49	50 000	EUR	2 473	2 473
Mortgage Covered Bonds	April 2014	April 2017	0.85%	300	50 000	EUR	15 068	15 082
Mortgage Covered Bonds	May 2012	May 2017	3.30%	700	50 000	EUR	35 766	35 768
Senior Unsecured Bonds	May 2014	May 2017	3.00%	942	5 000	PLN	1 125	1 087
Mortgage Covered Bonds	June 2012	June 2017	2.92%	400	50 000	EUR	20 322	20 323
Investment Certificates	June 2016	June 2017	8.25%	359	1 000	EUR	-	392
Mortgage Covered Bonds	July 2014	July 2017	0.00%	1 120	50 000	EUR	56 063	56 000
Senior Unsecured Bonds	July 2014	July 2017	0.00%	20 576	100	EUR	2 537	2 054
Mortgage Covered Bonds	February 2011	August 2017	3.55%	51	50 000	EUR	2 586	2 586
Investment Certificates	October 2016	October 2017	9.10%	107	10 000	EUR	-	1 186
Mortgage Covered Bonds	October 2012	October 2017	1.95%	300	50 000	EUR	15 050	15 050
Mortgage Covered Bonds	February 2013	February 2018	1.75%	460	50 000	EUR	23 353	23 353
Investment Certificates	March 2016	March 2018	3.45%	1 260	1 000	EUR	-	1 339
Mortgage Covered Bonds	March 2015	March 2018	0.50%	250	100 000	EUR	25 102	25 102
Mortgage Covered Bonds	March 2014	March 2018	1.22%	400	50 000	EUR	20 197	20 197
Mortgage Covered Bonds	March 2015	March 2018	0.44%	100	100 000	EUR	10 035	10 035
Mortgage Covered Bonds	March 2016	March 2018	0.13%	620	100 000	EUR	-	62 005
Investment Certificates	March 2016	March 2018	3.05%	734	1 000	EUR	-	775
Mortgage Covered Bonds	March 2015	March 2018	0.08%	240	100 000	EUR	30 020	24 003
Mortgage Covered Bonds	August 2014	August 2018	0.50%	900	50 000	EUR	44 983	45 021
Mortgage Covered Bonds	September 2012	September 2018	2.85%	9 978	1 000	EUR	10 058	10 052
Investment Certificates	November 2015	November 2018	4.00%	570	1 000	EUR	647	621
Senior Unsecured Bonds	December 2012	December 2018	2.00%	2 017	1 000	EUR	2 032	2 020
Mortgage Covered Bonds	December 2013	December 2018	0.00233	600	50 000	EUR	30 005	30 003
Investment Certificates	December 2013	December 2018	5.00%	612	1000	EUR	680	658
Mortgage Covered Bonds	February 2015	February 2019	0.19%	500	100 000	EUR	50 084	50 038
Mortgage Covered Bonds	February 2013	February 2019	2.30%	4 952	1 000	EUR	5 008	4 994
Mortgage Covered Bonds	March 2016	March 2019	0.26%	60	100 000	EUR	-	6 004
Mortgage Covered Bonds	March 2013	March 2019	2.30%	4 928	1 000	EUR	4 966	4 962

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2015	2016
Investment Certificates	March 2014	March 2019	5.25%	514	5 000	PLN	726	617
Investment Certificates	March 2014	March 2019	4.00%	784	1 000	EUR	870	846
Investment Certificates	April 2016	April 2019	3.40%	639	1 000	EUR	-	697
Mortgage Covered Bonds	April 2013	April 2019	2.30%	4 952	1 000	EUR	4 981	4 977
Investment Certificates	July 2016	July 2019	2.80%	340	1 000	EUR	-	372
Mortgage Covered Bonds	August 2013	August 2019	2.00%	2 571	1 000	EUR	2 595	2 592
Mortgage Covered Bonds	August 2013	August 2019	2.00%	4 288	1 000	EUR	4 325	4 319
Senior Unsecured Bonds	September 2014	September 2019	1.07%	1 000	100 000	EUR	100 294	100 297
Mortgage Covered Bonds	September 2013	September 2019	2.00%	6 404	1 000	EUR	6 461	6 439
Senior Unsecured Bonds	September 2014	September 2019	1.50%	14 586	1 000	EUR	15 338	14 642
Mortgage Covered Bonds	October 2013	October 2019	2.00%	5 876	1 000	EUR	5 908	5 899
Mortgage Covered Bonds	November 2013	November 2019	2.00%	6 670	1 000	EUR	6 685	6 685
Senior Unsecured Bonds	December 2013	December 2019	1.50%	612	1 000	EUR	689	637
Mortgage Covered Bonds	December 2013	December 2019	2.05%	70	50 000	EUR	3 504	3 504
Mortgage Covered Bonds	December 2012	December 2019	2.50%	66	50 000	EUR	3 304	3 305
Mortgage Covered Bonds	June 2013	December 2019	2.00%	4 176	1 000	EUR	4 182	4 180
Mortgage Covered Bonds	December 2013	December 2019	2.00%	9 627	1 000	EUR	9 642	9 634
Mortgage Covered Bonds	July 2013	January 2020	2.00%	2 235	1 000	EUR	2 256	2 256
Investment Certificates	February 2016	February 2020	4.10%	131	5 000	EUR	-	755
Investment Certificates	February 2016	February 2020	4.20%	220	1 000	EUR	-	254
Mortgage Covered Bonds	March 2015	March 2020	1.25%	4 244	1 000	EUR	4 267	4 262
Mortgage Covered Bonds	June 2015	June 2020	1.20%	4 958	1 000	EUR	4 987	4 961
Investment Certificates	June 2016	June 2020	3.70%	400	1 000	EUR	-	453
Mortgage Covered Bonds	July 2015	July 2020	1.20%	4 990	1 000	EUR	5 026	5 016
Mortgage Covered Bonds	July 2015	July 2020	0.88%	500	100 000	EUR	50 063	50 090
Mortgage Covered Bonds	February 2014	August 2020	2.00%	9 947	1 000	EUR	10 040	10 027
Investment Certificates	August 2016	August 2020	3.00%	339	1 000	EUR	-	384
Mortgage Covered Bonds	August 2015	August 2020	1.20%	4 997	1 000	EUR	5 020	5 018
Mortgage Covered Bonds	September 2015	September 2020	1.20%	4 332	1 000	EUR	4 360	4 346
Mortgage Covered Bonds	October 2015	October 2020	1.20%	3 573	1 000	EUR	3 585	3 581
Mortgage Covered Bonds	November 2015	November 2020	0.63%	400	100 000	EUR	40 020	40 024
Mortgage Covered Bonds	November 2014	November 2020	0.88%	150	100 000	EUR	15 015	15 016
Mortgage Covered Bonds	May 2016	November 2020	0.19%	500	100 000	EUR	-	50 011
Mortgage Covered Bonds	November 2015	November 2020	1.20%	3 077	1 000	EUR	3 084	3 081
Mortgage Covered Bonds	February 2016	February 2021	0.50%	500	100 000	EUR	-	50 213
Mortgage Covered Bonds	March 2016	March 2021	1.05%	7 008	1 000	EUR	0	7 031
Mortgage Covered Bonds	March 2014	March 2021	2.00%	8 515	1 000	EUR	8 572	8 562
Mortgage Covered Bonds	April 2016	April 2021	1.05%	4 976	1 000	EUR	0	4 988
Mortgage Covered Bonds	April 2008	April 2021	5.00%	250	66 388	EUR	17 182	17 184
Mortgage Covered Bonds	May 2016	May 2021	1.00%	4 997	1 000	EUR	0	5 005
Mortgage Covered Bonds	May 2014	May 2021	1.90%	4 987	1 000	EUR	5 004	5 000
Mortgage Covered Bonds	June 2016	June 2021	0.00%	4 022	1 000	EUR	0	3 858
Mortgage Covered Bonds	June 2014	June 2021	1.75%	9 517	1 000	EUR	9 585	9 527
Mortgage Covered Bonds	July 2016	July 2021	0.90%	5 000	1 000	EUR	-	5 022
Mortgage Covered Bonds	July 2014	July 2021	1.55%	3 546	1 000	EUR	3 573	3 571
Mortgage Covered Bonds	August 2016	August 2021	0.80%	4 995	1 000	EUR	-	5 011
Mortgage Covered Bonds	August 2016	August 2021	0.75%	5 000	1 000	EUR	0	5 013
Mortgage Covered Bonds	September 2016	September 2021	0.70%	4 998	1 000	EUR	-	5 008
Mortgage Covered Bonds	October 2016	October 2021	0.65%	4 990	1 000	EUR	0	4 996
Mortgage Covered Bonds	November 2016	November 2021	0.25%	1 000	100 000	EUR	0	99 994
Mortgage Covered Bonds	December 2015	December 2021	0.63%	200	100 000	EUR	19 996	19 998
Mortgage Covered Bonds	December 2016	December 2021	0.65%	10 000	1 000	EUR	0	10 002
Senior Unsecured Bonds	December 2016	December 2021	0.65%	5 000	1 000	EUR	0	5 001
Mortgage Covered Bonds	February 2015	February 2022	0.88%	350	100 000	EUR	35 244	35 250
Mortgage Covered Bonds	March 2014	March 2022	2.00%	220	50 000	EUR	11 084	11 098
Mortgage Covered Bonds	August 2015	August 2022	1.00%	100	100 000	EUR	9 999	10 006
Mortgage Covered Bonds	January 2013	January 2025	3.10%	87	50 000	EUR	4 412	4 412
Mortgage Covered Bonds	August 2015	August 2025	1.38%	100	100 000	EUR	9 982	9 990
Mortgage Covered Bonds	March 2016	March 2026	1.00%	90	100 000	EUR	0	8 977
Mortgage Covered Bonds	July 2007	July 2027	4.95%	250	66 388	EUR	23 911	24 194
Mortgage Covered Bonds	June 2013	June 2028	3.00%	132	50 000	EUR	6 615	6 615
Mortgage Covered Bonds	February 2014	February 2029	2.80%	97	50 000	EUR	4 899	4 899
Total							**1 029 649**	**1 242 622**

28) Provisions

EUR ths.	2015	2016
Long-term employee benefits provisions	4 818	5 167
Pending legal issues and tax litigation	7 086	5 765
Commitments and guarantees given	15 906	11 494
Provisions for guarantees – off balance sheet (defaulted customers)	5 716	1 083
Provisions for guarantees – off balance sheet (non-defaulted customers)	10 190	10 411
Other provisions	298	-
Provisions	**28 109**	**22 426**

Long-term employee benefits provisions

The Parent has a defined employee benefit program under which all employees are entitled to a lump-sum payment upon working anniversaries or retirement. Number of employees as at the end 2016 and 2015 are detailed in the note 6.

The amount of long-term employee benefits provisions is calculated using an actuarial model based on the projected unit credit method. In the year 2016 the Group has performed an annual review of the long-term employee benefits provisions using updated data in order to recognize the provisions in appropriate amounts.

The amounts relating to long-term employee benefits provisions recognised on the balance sheet and the income statement were as follows:

EUR ths.	Pension obligations	Jubilee provisions	Total
Long-term employee benefits provisions as of 31 December 2014	**2 161**	**1 949**	**4 110**
Service cost	172	224	397
Interest cost	48	44	91
Payments	(59)	(135)	(194)
Components recognised in other comprehensive income (Remeasurements)			
Actuarial gains/losses arising from changes in demographic assumptions	167	76	243
Actuarial gains/losses arising from changes in financial assumptions	4	2	6
Actuarial gains/losses arising from changes from experience assumptions	154	11	165
Long-term employee benefits provisions as of 31 December 2015	**2 648**	**2 171**	**4 818**
Service cost	203	262	466
Interest cost	41	34	74
Payments	(101)	(168)	(269)
Components recognised in other comprehensive income (Remeasurements)			
Actuarial gains/losses arising from changes in demographic assumptions	(4)	(2)	(6)
Actuarial gains/losses arising from changes in financial assumptions	215	123	338
Actuarial gains/losses arising from changes from experience assumptions	(128)	(126)	(254)
Long-term employee provisions as of 31 December 2016	**2 873**	**2 294**	**5 167**

The actuarial calculation of working anniversary provisions used the following assumptions:

Assumptions for the actuarial calculation of pension obligations	2015	2016
Annual real discount rate	1.56%	0.65%
Annual real rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3.80% - 15.82%	4.16% - 16.40%
Retirement age	62 years	62 years

The actuarial calculation of pension provision used the following assumptions:

Assumptions for the actuarial calculation of jubilee provisions	2015	2016
Annual real discount rate	1.56%	0.65%
Annual real rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3.80% - 15.82%	4.16% - 16.40%
Retirement age	62 years	62 years

In the calculation of long-term employee benefits provisions official mortality tables published by the Statistical Office were used.

Provisions for legal issues

Provisions for legal issues relate to legal cases where the Group issued and which arose from normal banking activities.

Provisions for off-balance sheet

Provisions for off-balance sheet were created to cover losses incurred in unused loan commitments, guarantees and letters of credits. The amount of these provisions is estimated with respect to credit risk relating to affected items, as well as time value of money (i.e. current market interest rates are used for discounting).

Other provisions

In the past the Group provided a deposit product "winning pass books". There was a lottery semi-annually and the winners received prizes based on their deposit amounts as a form of yield. For the purpose of this lottery purpose the Group regularly allocated and used a provision. This product has been cancelled and the residual amount of the provision was released in the year 2016.

The movements of the above mentioned provisions were as follows:

EUR ths.	2015	Additions	Use	Release	Exchange-rate and other changes	2016
Pending legal issues and tax litigation	7 086	1 304	(1 265)	(1 360)	-	5 765
Provisions for contingent credit risk liabilities	15 906	28 316	-	(32 732)	4	11 494
Other provisions	298	(8 972)	6 467	2 207	-	0
Total	**23 290**	**20 648**	**5 202**	**(31 885)**	**4**	**17 259**

EUR ths.	2014	Additions	Use	Release	Exchange-rate and other changes	2015
Pending legal issues and tax litigation	7 001	1 128	(369)	(674)	-	7 086
Provisions for contingent credit risk liabilities	18 891	38 459	-	(41 453)	9	15 906
Other provisions	298	7 303	(7 303)	-	-	298
Total	**26 190**	**46 890**	**(7 672)**	**(42 127)**	**9**	**23 290**

29) Other liabilities

EUR ths.	2015	2016
Client settlement	37 028	74 544
Suppliers (including accruals)	42 948	43 847
Personnel balances and reserves, Social fund	30 678	35 081
State budget, social and health insurance, taxes	4 386	4 558
Other	3 008	3 586
Total	**118 048**	**161 615**

The development of social fund liability included in 'Other liabilities' was as follows:

EUR ths.	2015	2016
As at 1 January 2016	796	300
Additions	1 582	3 511
Withdrawals	(2 078)	(2 781)
As at 31 December 2016	**300**	**1 030**

30) Equity

Share capital

Authorised share capital was fully paid and consists of the following:

	2015	2016
Nominal value in EUR	1 000	1 000
Number of shares	212 000	212 000
TOTAL	**212 000 000**	**212 000 000**

The following table presents distribution of profits for the years 2015 (approved) and 2016 (proposal):

Dividends per share	2015	2016
Profit of the year	184 132	212 221
Distribution for Investment certificate 2015 SLSP AT1 PNC5	11 700	11 700
Dividends pay-out to the shareholder	163 810	190 495
Transfer to retained earnings	8 622	10 026
Number of shares EUR 1 000 EACH	212 000	212 000
Amount of dividends per EUR 1 000 share (EUR)	**773**	**899**

Dividends for the year 2015 were paid in April 2016 following the resolution of General Assembly of the Group dated 23. March 2016.

Other capital instruments

During the year 2015 the Group has issued an investment certificate in the amount of 150 mil. eur that is classified as equity instrument according to the standard IAS 32. This certificate is a perpetual instrument with the agreed interest rate of 7.8% p.a. paid semi-annually.

Legal reserve fund

According to Commercial Code all companies are required to create a legal reserve fund to cover adverse financial conditions in the future. The Group is obliged to contribute to the fund the amount, which is not less than 10% of its annual net profit until the cumulative amount of annual contributions reaches 20% of its share capital. As at 31 December 2016 Legal reserve fund amounted 79.8 mil. eur (2015: 79.8 mil. eur) and in both years exceeded the required 20% of the share capital. Legal reserve fund is not available for distribution to the shareholder.

Other funds

Other funds include only Statutory fund created from distributable profits to strengthen the Group's capital base. This fund is not available for distribution to the shareholder. Once the Group's share capital or legal reserve fund is increased, Statutory fund may be terminated and transferred back to the distributable profits with the approval of the Supervisory Board and of the General Assembly. As at 31 December 2016 Statutory fund amounted 39.1 mil. eur (2015: 39.1 mil. eur).

Revaluation reserves

Revaluation reserves represent the unrealised revaluation of securities available for sale. They are disclosed net of deferred tax effect. Revaluation reserves are not available for distribution to the shareholder. As at 31 December 2016 revaluation reserves were in the amount of 83.9 mil. eur (2015: 96.9 mil. eur).

31) Related-party transactions

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by the only shareholder Erste Group Bank AG, which directly owns 100% share on the voting rights of the Group. Further related parties include subsidiaries, which are under control of the Group and associates, over which the Group has significant influence. Moreover, other members of the Erste group are also related parties of the Group.

Number of transactions with related parties occur in the normal course of business. These transactions primarily include loans and deposits.

Assets and liabilities include accounting balances with related parties, as follows:

EUR ths.	Erste Group Bank		Companies under the control of Erste Group Bank		Associates	
	2015	2016	2015	2016	2015	2016
Assets						
Derivatives	23 706	7 271	313	156	-	-
Loans and advances with banks	2 622	17 084	18 688	13 782	-	-
Loans and advances with customers	-	-	48 793	40 639	-	-
Other assets – other	5 656	4 370	33	464	1	-
Total	**31 984**	**28 725**	**67 827**	**55 041**	**1**	**-**
Liabilities						
Derivatives held for trading	56 094	34 464	4	2	-	-
Deposits from banks	150 973	52 724	1 068	644	-	-
Deposits from customers	-	-	8 830	1 829	498	-
Debt securities issued	100 294	100 297	-	-	-	-
Derivatives – Hedge accounting	42 915	52 389	-	-	-	-
Other liabilities other	2 838	1 297	6 004	7 537	-	-
Total	**353 114**	**241 172**	**15 906**	**10 012**	**498**	**-**

Income and expenses include transactions with the related parties, as follows:

EUR ths.	Erste Group Bank		Companies under the control of Erste Group Bank		Associates	
	2015	2016	2015	2016	2015	2016
Interest income	(6 797)	(7 568)	1 420	1 250	-	-
Interest expense	(3 066)	(3 103)	(12)	(18)	(0)	(0)
Dividend income	-	-	274	347	2 237	2 384
Net fee and commisssion income	323	23	7 165	6 006	0	0
Gains/losses on financial assets and liabilities held for trading	30 177	1 020	3 892	-	-	-
General administrative expenses	(4 026)	(4 074)	(8 184)	(7 402)	-	-
Other operating result	603	625	826	2 559	5	2
Total	**17 214**	**(13 077)**	**5 381**	**2 741**	**2 242**	**2 386**

The amounts with Erste Group Bank AG reported in the line items 'Interest income' and Net trading and fair value result' represent results from derivative instruments used to close positions with the clients.

In the year 2015 the Group has issued investment certificates in the amount of 150 mil. eur, which were purchased by Erste Bank AG (note 30).

In December 2016 the Group repaid the subordinated debt with a 10-years maturity provided by the parent Erste Group Bank AG, which amounted 100.0 mil. eur as at 31 December 2015 (note 26).

The Group has received a guarantee from its parent company Erste Group Bank AG covering exposures towards subsidiaries and other group members. As at 31 December 2016 the guarantee was in the amount of 23.2 mil. eur (2015: 23.2 mil. eur).

The Group received guarantees from its parent company Erste Group Bank AG covering clients' exposures in the amount of 2.2 mil. eur as at the reporting date (2015: 0.0 mil. eur).

The Group has received guarantee from its sister company Česká spořitelna, a.s. covering credit exposures towards s_Autoleasing SK, s.r.o. , which is the Erste group member. As at 31 December 2016 the maximum amount of the guarantee 27.6 mil. eur (2015: 22.6 mil. eur).

The Group received guarantees from its sister company Česká spořitelna, a.s. covering clients' exposures in the amount of 1.2 mil. eur as at the reporting date (2015: 1.1 mil. eur).

The Group also received a guarantee from its sister company Erste Bank AD Podgorica covering client's exposure in the amount of 0.1 mil. eur as at the reporting date (2015: 0.1 mil. eur).

As at 31 December 2016 the Group owned a share in real estate fund Sporo realitny fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of 5.7 mil. eur (2015: 10.0 mil. eur).

The Group received dividends from its associates in the amount of 2.2 mil. eur (2015: 2.2 mil. eur).

Transactions with key management personnel

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2016 in form of short-term employee benefits amounted to 2.2 mil. eur (2015: 1.8 mil. eur). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

32) Off-balance Sheet items

In the normal course of business, the Group enters various contracts and transactions, which are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following information represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Loan comitments, guarantees and letters of credit

Bank guarantees and letters of credit are used by customers to cover their liabilities (payment and non-payment) against third parties, who are beneficiaries in these transactions. The primary purpose of these instruments is to ensure that funds are available to the customers as required.

Bank guarantee represents an irrevocable liability of the Group to pay the agreed amount in case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Group to pay the agreed amount to the seller based on the instruction of the buyer against the documents specified in the letter of credit documentation. The Group deals with letters of credit in accordance with the 'Unified Rules and Customs for Documentary Letter-of-credit' as published by the International Chamber of Commerce.

Guarantees and standby letters of credit are irrevocable assurances that the Group will make payments in the event when the customer cannot meet its obligations against a third party and therefore these carry the same credit risk as loans. Documentary and commercial letters of credit are written undertakings of the Group to provide a third party with the agreed amount on behalf of the customer under specific conditions. As these are collateralised by the underlying shipment of goods (or transfer of the right to use), they carry less credit risk than direct borrowings.

Loan commitment represent an unused portion of the authorised credit limit, which can be drawn in the form of loan, guarantee or letter of credit. In relation to loan commitments, the Group is exposed to credit risk and a potential loss equals to the total amount of the unused credit limits. However, most of the loan commitments are contingent upon maintaining specific credit standards by customers and therefore the likely amount of loss is less than the total amount of loan commitments.

The following table presents off-balance sheet credit exposures and also treasury commitments:

EUR ths.	2015	2016
Guarantees provided	251 344	286 301
Guarantees from letter of credit	1 918	7 562
Loan commitments and undrawn loans	889 929	1 109 595
Total	**1 143 192**	**1 403 458**

Assets pledged as collaterals

The following table presents assets pledged as collaterals for the Group's liabilities:

2016 EUR ths.	Carrying amount of transferred assets				Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Total	Repurchase agreements	Other associated liabilities
Available-for-sale financial assets	231 267	128 637	50 426	52 204	212 067	127 272	84 795
Loans and receivables	1 297 728	-	-	1 297 728	1 023 660	-	1 023 660
Held-to-maturity investments	58 764	-	9 991	48 773	47 114	-	47 114
Total	**1 587 759**	**128 637**	**60 418**	**1 398 704**	**1 282 841**	**127 272**	**1 155 569**

2015 EUR ths.	Carrying amount of transferred assets				Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Total	Repurchase agreements	Other associated liabilities
Available-for-sale financial assets	66 407	-	66 407	-	58 475	-	58 475
Loans and receivables	1 120 655	-	-	1 120 655	891 911	-	891 911
Held-to-maturity investments	112 347	102 423	9 924	-	110 294	101 556	8 738
Total	**1 299 409**	**102 423**	**76 331**	**1 120 655**	**1 060 680**	**101 556**	**959 124**

33) Collaterals

The Group holds collaterals against loans and advances to customers in form of real estates, securities, received bank guarantees and other credit enhancements. The fair values of collaterals are estimated based on their value at the time of borrowings and are regularly updated. In general, collaterals are not held against loans and advances to banks, except for securities held as a part of reverse repurchase activities, commented in the note 18.

Estimated fair values of collaterals and other credit enhancements related to loans to customers, granted financial guarantees, letter of credit and undrawn loan commitments were as follows:

EUR ths.	2015	2016
Real estates	7 514 967	9 029 796
Securities	215 426	25 976
Bank guarantees	109 820	117 965
Other	245 188	297 615
Total	**8 085 401**	**9 471 352**

34) Offsetting of financial assets and financial liabilities

2016 EUR ths.	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Assets							
Derivatives	44 814	-	44 814	-	-	-	44 814
Derivatives – hedge accounting	7 705	-	7 705	-	-	-	7 705
Total assets	**52 519**	**-**	**52 519**	**-**	**-**	**-**	**52 519**
Liabilities							
Derivatives	42 812	-	42 812	-	-	27 225	15 587
Derivatives – hedge accounting	52 389	-	52 389	-	-	25 033	27 357
Repurchase agreements	127 272	-	127 272	-	-	127 272	-
Total liabilities	**222 473**	**-**	**222 473**	**-**	**-**	**179 530**	**42 943**

2015 EUR ths.	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Assets							
Derivatives	84 414	-	84 414	-	-	-	84 414
Derivatives – hedge accounting	7 418		7 418				7 418
Total	**91 832**	**-**	**91 832**	**-**	**-**	**-**	**91 832**
Liabilities							
Derivatives	85 508	-	85 508	-	-	47 297	38 211
Derivatives – hedge accounting	42 915	-	42 915	-	-	19 916	22 998
Repurchase agreements	101 556	-	101 556	-	-	101 556	-
Total	**229 978**	**-**	**229 978**	**-**	**-**	**168 769**	**61 209**

35) Assets under administration

The Group provides custody, trustee, investment management and advisory services to third parties, which involves making decisions on purchase, sale and allocation related to a wide range of financial instruments. The assets held in a fiduciary capacity are not included in these financial statements.

As at 31 December 2016 the Group held assets for collective investment undertakings in the amount of 1 132.3 mil. eur (2015: 1 144.8 mil. eur).

As at 31 December 2016 the Group also held assets for customers other than collective investment undertakings in the amount of 4 238.1 mil. eur (2015: 4 637.1 mil. eur).

36) Segment reporting

The segment reporting of the Group is based on IFRS 8 - Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Group the function of the chief operating decision maker is executed by the Board of Directors. In addition, the Group's segment reporting follows the standards of the Erste group issued for the purpose to unify presentation, measurement and steering of the group.

Structural change and major principles

Following a strategic review related to the Group operating segments and method used for the capital allocation to segments, from 1 January 2016 changes were introduced in the segment reporting of SLSP to be aligned with the Group governance, while amounts for the year 2015 were adjusted as well.

SLSP Segment report represents the single source of truth for reporting of the SLSP segments' financial performance and serves as the basis for business steering of all individual segments as well as consolidated SLSP result. All the areas of SLSP group, directly or indirectly involved in business steering and/or reporting of business performance (e.g. Financial Controlling, Business Accounting, Reporting, Management Information Governance, Local Risk Management, ALM, Strategy & Quality management, Retail, Corporates and Markets, Communication), have to assure full alignment of the data used in their reporting in terms of segment structure, segment definitions, key ratios and measures to the current approved segment structure of SLSP group. It is the responsibility of the respective area to assure that the alignment is achieved. Segment reporting in SLSP has to be aligned with the Group segment reporting in terms of segment structure, segment definitions, key ratios and measures, and it has to fulfil local requirements of IFRS 8.

The SLSP segment structure in force serves as a basis for budgeting, forecasting, strategic discussions, setting and tracking of key performance indicators (KPIs).

Business segments

SLSP Segment reporting was aligned with Erste group segment principles in order to present the group structure in a transparent way reflecting internal steering and allocations of sources. The Group is divided into the following business segments:

- Retail,
- Corporates,
- Assets and Liabilities Management (ALM) and Local Corporate Centre (LCC),
- Group Markets (GM),

The Group applies account manager principle for the definition of segments / business lines. It means that each client has assigned one account manager from a particular segment / business line. Subsequently, profit or loss on business transactions with the client is allocated to that account manager.

Retail segment comprises the entire business with private individuals, free professionals and micros, which are in the responsibility of account managers from the retail network. Retail products and services, including current and savings accounts, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance and building society products) are offered via various distribution channels, such as branch network and digital banking. The Retail segment is divided into 8 regions, 51 areas and 287 branches (status as at 31 December 2016). In addition the Retail segment also includes the results of the associate Prvá stavebná sporiteľňa, a.s. (building society).

Corporates segment comprises services and business done with corporate customers of different turnover size including public sector and is divided into following areas:

- Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies with an annual turnover from 1 mil. Eur to 75 mil. eur.
- Local Large Corporates (LLC) are clients with a consolidated annual turnover threshold above 75 mil. eur which are not defined as Group Large Corporate customers according to the Group Large Corporate client list.
- Group Large Corporates (GLC) are large corporate customers/ client groups with substantial operations in core markets/ extended core markets of Erste Group with an indicative consolidated annual turnover of at least 500 mil. eur. GLC clients can be found on the Erste Group-wide GLC client list, which is maintained by the Group GLC. Group Large Corporates business covers the following customer types in principle: customers across the region with an annual turnover above 500 mil. eur, selected customers with an annual turnover below 500 mil. eur in case of multinational setup or strong capital markets service needs.
- Public sector consists of the following three sets of customers: public sector, public corporations and non-profit sector. Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. Public corporations includes all non-financial state companies and corporations with more than 50%

share of state or regional governments or municipals excluding stock exchange listed companies. Non-profit sector comprises the following private non-profit companies: central authorities of churches, country-wide labor unions, political parties and nationally significant foundations, private schools and humanitarian organizations.
- Commercial Real Estate (CRE) business covers investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale, asset management services and own development for business purpose.

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment comprises on the one side the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions. On the other side it also includes the local corporate center which comprises all non-core banking business activities such as non-profit servicing participations, intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets) which cannot be allocated to other business segments. Apart from that the Corporate Center includes the reconciliations to the accounting result. The segment comprises also free capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to all operating segments.

Group Markets (GM) segment comprises trading and markets services as well as business with financial institutions.
- Trading and Market services comprises all activities related to active risk taking and managing in regulatory trading books of SLSP group, additional to that the execution of trades against the market using the trading books of SLSP group for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.
- Financial institutions (FI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Measurement and reporting

The segment reporting of the Group, as well as internal management reporting is prepared in accordance with IFRS. It means, that accounting policies and measurement methods used in the segment reporting are the same as those applied in the separate financial statement.

The profit and loss statement presented in the segment report is based on the measures reported to the Board of Directors for the purpose of resource allocation and segments' performance assessment.

In line with the regular internal reporting prepared for the Board of Directors, total assets, total liabilities, as well as risk weighted assets and allocated equity are disclosed per segment.

The capital consumption per segment is regularly reviewed by the management to assess the performance of the segments. The average allocated equity is determined by credit risk, market risk and operational risk.

For measuring and assessing the profitability of segments, the Group also uses the rate of return on allocated equity, which is defined as the net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition the cost/income ratio is calculated for each segment, which is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties & other operating lease).

EUR ths.	Retail		Corporates	
	2015	2016	2015	2016
Net interest income	374 123	389 538	58 870	59 025
Net fee and commission income	106 366	99 562	15 871	15 115
Dividend income	-	-	-	-
Net trading and fair value result	3 181	3 154	2 101	4 681
Net result from equity method investments	2 732	1 851	-	-
Rental income from investment properties & other operating leases	-	-	1 123	-
General administrative expenses	(213 896)	(208 409)	(31 826)	(27 882)
thereof depreciation and amortization	(38 666)	(33 491)	(5 705)	(4 608)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	(3)	-
Net impairment loss on financial assets not measured at fair value through profit or loss	(30 224)	(43 969)	(28 518)	(4 894)
Other operating result	(16 782)	(19 023)	(1 544)	1 245
Levies on banking activities	(16 951)	(18 443)	(4 365)	(3 838)
Pre-tax result from continuing operations	**225 499**	**222 707**	**16 074**	**47 288**
Taxes on income	(49 610)	(48 996)	(3 536)	(10 403)
Net result for the period	175 889	173 711	12 537	36 885
Net result attributable to non-controlling interests	-	-	-	-
Net result attributable to owners of the parent	**175 889**	**173 711**	**12 537**	**36 885**
	-	-	-	-
Operating income	486 402	494 106	77 965	78 821
Operating expenses	(213 896)	(208 408)	(31 826)	(27 883)
Operating result	**272 505**	**285 697**	**46 139**	**50 938**
	-	-	-	-
Risk-weighted assets (credit risk, eop)	2 681 031	2 282 897	1 723 190	1 872 894
Average allocated capital	278 829	294 932	137 150	143 006
Cost/income ratio	44,0%	42,2%	40,8%	35,4%
Return on allocated capital	63,1%	58,9%	9,1%	25,8%
Total assets (eop)	7 046 995	7 978 059	2 477 667	2 467 913
Total liabilities excluding equity (eop)	8 709 426	9 671 795	1 347 691	1 277 327
Impairments and risk provisions	**-**	**-**	**-**	**-**
Net impairment loss on loans and receivables from credit institutions and customers	(30 224)	(43 968)	(28 518)	(4 894)
Net impairment loss on other financial assets not measured at fair value through profit and loss	-	-	-	-
Allocation/release of provisions for contingent credit risk liabilities	167	(581)	2 822	5 083
Net impairment loss on other non financial assets	-	-	-	-

Group Markets		ALM/LCC		Total SLSP group	
2015	2016	2015	2016	2015	2016
4 270	4 646	31 722	8 416	468 985	461 625
4 549	4 986	(5 340)	2 054	121 446	121 717
-	-	858	1 307	858	1 307
6 184	4 483	(2 679)	234	8 787	12 552
-	-	-	(1)	2 732	1 850
-	-	785	881	1 908	881
(4 258)	(3 870)	(17 633)	(36 558)	(267 613)	(276 719)
(369)	(184)	(1 410)	(7 311)	(46 150)	(45 594)
29	-	876	27 044	902	27 044
25	(8)	676	636	(58 041)	(48 235)
(2 476)	(1 681)	(12 604)	3 384	(33 406)	(16 075)
(2 482)	(1 594)	(7 121)	(5 231)	(30 919)	(29 106)
8 322	**8 556**	**(3 337)**	**7 396**	**246 558**	**285 947**
(1 831)	(1 882)	(5 811)	(10 100)	(60 788)	(71 381)
6 492	6 674	(9 148)	(2 704)	185 770	214 566
-	-	644	22	644	22
6 492	**6 674**	**(9 792)**	**(2 726)**	**185 126**	**214 544**
-	-	-	-	-	-
15 003	14 115	25 347	12 891	604 717	599 933
(4 258)	(3 870)	(17 633)	(36 558)	(267 613)	(276 719)
10 745	**10 245**	**7 715**	**(23 667)**	**337 104**	**323 213**
-	-	-	-	-	-
38 986	17 085	462 095	590 979	4 905 302	4 763 855
12 428	7 579	215 975	187 248	644 382	632 765
28,4%	27,4%	69,6%	283,6%	44,3%	46,1%
52,2%	88,1%	-4,5%	-1,5%	28,7%	33,9%
80 486	100 657	4 374 878	4 278 745	13 980 026	14 825 374
521 647	475 300	1 861 781	1 838 848	12 440 545	13 263 270
-	-	-	-	-	-
25	(8)	655	673	(58 062)	(48 197)
-	-	21	(37)	21	(37)
6	(87)	-	1	2 995	4 416
-	-	159	(681)	159	(681)

37) Risk management

Risk strategy and policy

The Group takes a prudent and responsible approach to risk and risk-adjusted approach to revenues. Risk appetite of the Group (the maximum level of risk that the Group is willing to undertake) is clearly defined, measurable and widely understood. The Group offsets its risk appetite with sufficient amount of internal capital to cover unexpected losses.

The Group prefers sustainability to short-term high-risk returns. The risk/return profile and the balance of risks follow this principle in order to generate sustainable and adequate return on capital.

Risk functions are independent from the commercial business lines. Risk management is centralized and the Group strives for an integrated risk management framework where all relevant risks are managed comprehensively and where dependencies between different risk types are accounted for.

The Group shall make sure that risk management is properly supported in terms of human, IT and other resources needed for comprehensive coverage of all major drivers of risk.

The primary risk management objective of the Group is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively. These policies must be periodically reviewed in order to ensure their appropriateness in terms of their performance and in terms of changing circumstances of the Group's operating environment.

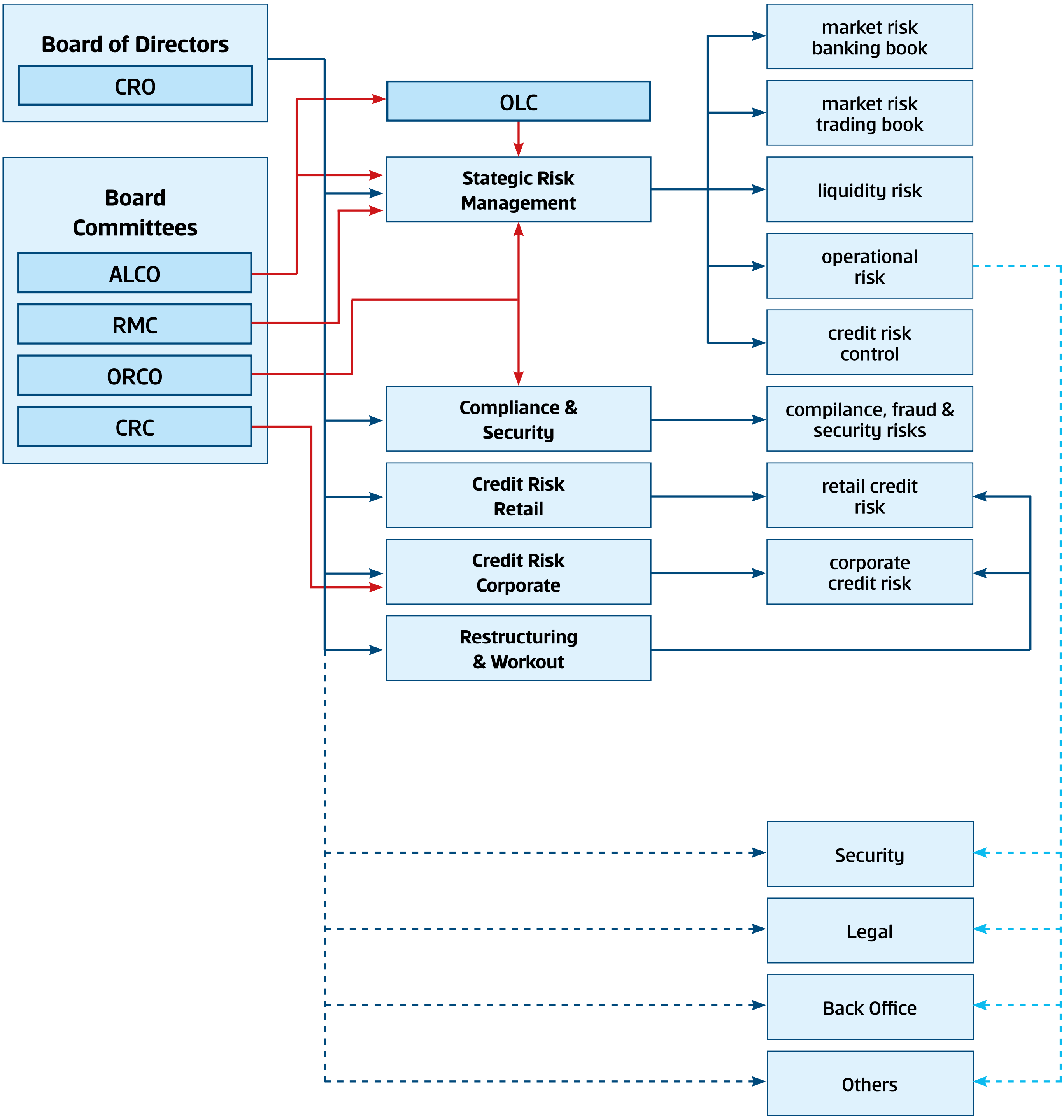
Risk taking is an inseparable part of the Group's operations and Group business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

Ultimately, risks should be quantified to the greatest possible extent (considering reasonable effort) and performance measurement of the Group should be risk weighted. Therefore, the model for calculation and allocation of economic capital is continuously being improved and the Group has established a internal capital management process (ICAAP).

The Group is also committed to follow the risk management provisions defined by both local and international laws and regulators.

Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the organizational structure of risk in the Group:



Risk management structure

The ultimate risk management body is the Board of Directors. However, it may delegate some of its authority for particular risk management areas to the respective committees. The Board of Directors also designates one of its members to serve as the Chief Risk Officer ('CRO').

Asset & Liability Committee ('ALCO') has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

Credit Risk Committee ('CRC') is the ultimate decision making body for corporate credit risk.

Operational Risk and Compliance Committee ('ORCO') is the authorized body to make decisions on operational risk strategies and procedures, risk appetite and tolerance levels, also decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, CRC and ORCO are composed of the members of the Board of Directors and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee ('OLC') governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the Group on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, BSM and Strategic Risk Management.
Risk Management Committee ('RMC') is a committee consisting of selected members of the Board of Directors and senior managers. It is responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, as well as for comprehensive stress testing.

The bottom (executive) level of the risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division carries out all activities concerning operative credit risk of corporate clients.
- Retail Credit Risk Management Division is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, early collection process and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), operational risk, liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models. Within operational risk, SRM coordinates activities of global scope of other relevant departments (blue/dashed lines in the chart above).
- Compliance & Security is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and for security (information and strategic security, business continuity management).
- Restructuring & Work out is responsible for effective debt recovery and write-off management. It is also responsible for monitoring, restructuring of receivables over-due, specific provisions and collateral management.

In the chart above, black lines show the assignment of different risk types to the respective units. Solid black lines show he areas directly subordinated to the Chief Risk Officer. Strategic Risk Management and Corporate Credit Risk Management may also report directly to their respective committees as shown by red/dotted lines.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in the Group's risk management strategy.

Comprehensive risk and capital management

Internal Capital Adequacy Assessment Process ('ICAAP') is a process in which all significant risks that the Group faces must be covered by internal capital (i.e. coverage potential). This means that all material risks are determined, quantified, AGgregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Group consists of the following steps:

- Risk materiality assessment
  - identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation
- Risk-bearing capacity calculation
  - calculation of the risk exposure for each particular material risk
  - aggregation of the individual risks into a single economic capital figure
  - calculation of internal capital (coverage potential)
  - relating economic to internal capital
- Stress testing
  - verification of economic capital figures via severe, yet plausible stress scenarios
- Capital management
  - management of consistency between economic and internal capital including forecasting

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the Group's management in pursuing its strategy.

Risk materiality assessment

The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both, quantitative and qualitative factors, which is conducted for each identified risk type the Group faces.

The output of the risk materiality assessment is the set of material risks, which have to be quantified and covered by capital. It also includes other risk management practices to control and mitigate the identified risks (material or non-material).

Risk-bearing capacity calculation

The risk-bearing capacity calculation ('RCC') is ultimately the tool to define capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are AGgregated into a capital requirement and compared to the coverage potential and the Group´s own funds. The integral forecast, risk appetite limit, as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of risk limit's utilization and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks) and in the context of Pillar 2, interest rate risks in the banking book, business and strategic risk, liquidity risk, residual credit risk, and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.9% confidence level. During the year 2016 the utilization of the economic capital was below 50%.

Other risks, namely credit concentration risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and/or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined with profit of the current year, considering subordinated liabilities and regulatory deductibles, as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the Group's operations.

Stress testing

Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99.9% confidence on one year horizon means an extreme loss that occurs once in 1000 years. At this levels the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the Group's positions, thus providing further assurance of internal capital adequacy. Should stress testing results show potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

Capital Management

Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so, and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the Group's business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure day-to-day adherence to the approved risk profile and capital levels.

Risk planning and forecasting

The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both, forward- and backward-looking component, focusing on portfolio and economic environment changes.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (both, Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Strategic Risk Management and Accounting and Controlling.

Credit risk

Credit risk, in broad terms, is the risk that a loss will be incurred if the Group's counterparty to a transaction does not fulfill its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the Group. It results from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk includes also sovereign, country, concentration, settlement, counterparty and dilution risks.

The Group shall follow the policy of long-term risk-adjusted profitability and the principle of adequate pricing (higher credit risk leads to higher risk premium).

The Group shall annually review its credit risk tolerance, and shall set priorities, i.e. quantitative and qualitative measures, for the next term with respect to the credit risk point of view.

Three fundamental layers of documents regulate the credit activity of the Group. Credit strategy, defined by the top management, introduces the overall orientation, areas of activity and strategic objectives of the Group. The credit policy sets out the principles, identifies operating procedures, and specifies framework responsibilities related to credit activities. Subordinated internal provisions take the form of detailed manuals or department-specific instructions or guidelines, describing precisely responsibilities to the lowest levels, any applicable deadlines, reports and other relevant contingencies of credit process and credit risk management.

The organization of the Group's credit activity is governed by the following principles::

- clear segregation of credit risk management function from business activities or delegation of these activities to business function with clearly defined split of responsibilities
- centralization of operative credit risk management – independent credit risk management divisions for both, corporate and retail segments
- flexibility and accuracy of credit process and quality of credit decisions
- personally assigned and clearly specified competences
- general application of four-eye principle in all critical lending processes (with justified exceptions)
- diversification of credit portfolio in order to keep the exposures within defined limits
- independent credit risk control function – Strategic Risk Management

Strategic Risk Management
Strategic Risk Management, more specifically its Credit Risk Models department, is the independent risk control unit in line with Basel Capital Accord. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the Group's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to CRR/CRD and model for economic capital. In addition to this, SRM has two other specific roles:

- credit exposures to banks, sovereigns and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally approved and monitored by SRM;
- credit lines of Treasury clients (approved by Credit Risk Corporate) are determined and monitored by SRM.

Retail Credit Risk Management Division
Retail Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). Furthermore, it monitors the development of credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limits documentation, as well as performs early collection.

Corporate Credit Risk Management Division
Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). Furthermore, it monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits, maintains deal and limits documentation for corporate clients.

Restructuring & Workout
Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring, restructuring of receivables overdue, specific provisions and collateral management.

Internal rating system

The Bank, as the first bank in Slovakia, reports capital adequacy using the "internal-ratings based" (IRB) approach to credit risk since July 2008. The approval by the Financial Market Authority of Austria and the National Bank of Slovakia indicated that the Bank's credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation, as well as into internal controls and reporting and that they play the essential role.

All material aspects of the rating and estimation processes shall be approved by the Board of Directors. Together with senior management, they shall possess a general understanding of the internal rating system and detailed comprehension of associated management reports.

Senior management, with main responsibility on the head of Strategic Risk Management, shall ensure on an ongoing basis that the rating systems are operating properly. Senior management shall be regularly informed by the credit risk control unit about the performance of the rating process, areas needing improvement and the status of efforts to improve previously identified deficiencies.

The rating system of the Group comprises all methods, processes, control mechanisms, data collection and IT systems supporting credit risk measurement, assigning exposures to risk grades and risk pools and quantification of risk parameters. The rating system consists of several rating methods and rating tools depending on obligor asset class and other obligor characteristics.

Internal rating is a cornerstone of a complex credit risk management system of the Group. It is a fundamental indicator of the probability of default of a client. The result of a rating assessment is the allocation of an obligor into a particular rating grade.

The internal rating is composed of hard and soft facts about the client and possibly also includes transformed selected external investment rating(s). The Group shall use comprehensive rating systems for evaluation of both retail and corporate clients. Obligors in a given asset class and rating method, which have similar probability of default should have the same rating grade. Rating scale should have sufficient discriminatory power to properly distinguish between various levels of credit risk. Distribution of obligors in a given rating grade should be such that the risk parameters quantification for that grade is sufficiently accurate.

Credit Risk Models department is responsible for development of scoring and rating models. Performance of the models, i.e. accuracy and selectivity of internal rating grades, is regularly monitored and reported. Full scope validation of the models is performed on an annual basis.

Assigned ratings shall be reviewed at least annually. Behavioural (batch) rating shall be used for retail exposures, other exposure classes shall be reviewed by Corporate Credit Risk Management Division. If new and important information about the obligor or exposure is available, the rating shall be updated too. It is possible to override a rating only based on information, which is not used by the rating tool, or was not considered during rating approval. All rating overrides shall be recorded and analysed.

The internal rating system shall be properly documented. Detailed principles and processes of the internal rating system shall be specified within internal guidelines.

Risk grades

The classification of credit assets into risk grades is based on the Group's internal ratings. The Group uses two internal risk scales for risk classification for customers that have not defaulted: risk scale of 8 risk grades (for retail) and 13 risk grades (for all other segments). Defaulted customers are classified into a separate risk grade.

Default definition

A default is deemed to have occurred with a client when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the Group without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Group;
- whatever condition or obligation under contract has been breached by client, on the basis of which the Group is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

The Group defines 5 default events:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 – defaulted forbearance
- E4 – exposure write-off
- E5 – bankruptcy

Credit Risk Control department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils EBA criteria and influences estimation of LLP, SRC, etc.

Maximum exposure to credit risk

Maximum exposure to the credit risk of financial assets is represented by their net carrying amount (carrying amount in the case of derivatives measured at fair value). Maximum exposure to credit risk for off balance sheet commitments (e.g. undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Group has to pay if the commitment is called on.

Information regarding exposure to credit risk arising from financial assets other than loans and off balance sheet commitments is detailed in individual notes.

The following table presents the maximum exposure to credit risk of loans and advances to customers, financial guarantees granted and undrawn loan commitment:

EUR ths.	2015	2016
Gross amount	**10 863 428**	**11 996 590**
On-balance sheet total	9 720 236	10 593 133
Off-balance sheet total	1 143 192	1 403 458
Gross amount	**10 863 428**	**11 996 590**
Retail (incl. micros)	7 658 542	8 662 816
Corporate and other classes	3 204 886	3 333 774
Allowance for impairment	**(370 835)**	**(354 158)**
Retail (incl. micros)	(228 493)	(241 134)
Corporate and other classes	(142 343)	(113 023)
Net amount	**10 492 592**	**11 642 432**
Retail (incl. micros)	7 430 049	8 421 682
Corporate and other classes	3 062 543	3 220 751

The following table presents total exposure according to the EBA definition:

2016 EUR ths.	Total exposure	There off		Non performing	
		Performing	Non performing	Of which: defaulted	Of which: impaired
On-balance sheet exposure	10 593 133	10 118 081	475 052	464 790	407 308
Off-balance sheet exposure	1 403 458	1 353 913	49 545	49 459	3 000
Total exposure	**11 996 590**	**11 471 994**	**524 597**	**514 249**	**410 307**

2015 EUR ths.	Total exposure	There off		Non performing	
		Performing	Non performing	Of which: defaulted	Of which: impaired
On-balance sheet exposure	9 720 236	9 180 241	539 995	530 427	458 260
Off-balance sheet exposure	1 143 192	1 120 091	23 100	23 088	21 606
Total	**10 863 428**	**10 300 332**	**563 095**	**553 516**	**479 866**

Loss allowances were structured as follows:

EUR ths.	2015	2016
Provisions for losses on loans and advances	354 929	342 664
Provissions for off-balance sheet items	15 906	11 494
Allowance for impairment	**370 835**	**354 158**

The following table presents total loss allowances and provisions according to the EBA definition:

2016 EUR ths.	Total loss allowances and provisions	There off		Non performing	
		Performing	Non performing	Of which: defaulted	Of which: impaired
Loss allowances on loans and advances	342 664	70 813	271 851	271 163	253 697
Provissions for off-balance sheet items	11 494	10 107	1 387	1 379	1 075
Allowance for impairment	**354 158**	**80 920**	**273 238**	**272 543**	**254 773**

2015 EUR ths.	Total loss allowances and provisions	There off		Non performing	
		Performing	Non performing	Of which: defaulted	Of which: impaired
Loss allowances on loans and advances	354 929	63 198	291 731	290 969	275 470
Provissions for off-balance sheet items	15 906	9 919	5 987	5 986	5 713
Total	**370 835**	**73 117**	**297 718**	**296 955**	**281 183**

The following table presents information on credit quality of loans and advances to customers, financial guarantees granted and undrawn loan commitments, classified as retail asset class:

EUR ths.	2015	2016
Total exposure		
Investment grade (1-5)	6 968 149	7 779 480
Subinvestment grade (6)	178 864	367 537
Subinvestment grade (7)	92 456	123 910
Subinvestment grade (8)	88 455	60 264
Non-performing loans (NPE)**	330 617	331 624
Gross amount	**7 658 541**	**8 662 816**
Allowance for impairment	(228 493)	(241 134)
Net amount	**7 430 048**	**8 421 682**
Collective assessment comprises		
0 days	7 129 180	8 123 510
1-30 days	167 941	173 572
31-60 days	19 617	21 891
61-90 days	11 015	12 059
90 days+ *	171	160

** Overdue amount is non material, i.e. less than 50 eur per client (materiality limit introduced in the year 2009).*

The following table presents information on credit quality of loans and advances to customers, financial guarantees granted and undrawn loan commitments, classified as corporate, institutional or sovereign asset class:

EUR ths.	2015	2016
Total exposure		
Investment grade (1-5)	2 802 276	2 879 394
Subinvestment grade (6)	107 731	165 716
Subinvestment grade (7)	26 763	24 820
Subinvestment grade (8)	35 638	70 871
Non-performing loans (NPE)**	232 477	192 973
Gross amount	**3 204 886**	**3 333 774**
Allowance for impairment	(142 343)	(113 023)
Net amount	**3 062 543**	**3 220 751**
Individually impaired		
Gross amount	**232 477**	**192 973**
Allowance for impairment	(118 551)	(85 448)
Net amount	**113 926**	**107 525**
Past due but not impairment		
Investment grade (1-5)	88 355	67 064
Subinvestment grade (6)	6 774	19 815
Subinvestment grade (7)	5 524	1 159
Subinvestment grade (8)	395	671
Non-performing loans (NPE)**	-	-
Gross amount	**101 048**	**88 709**
Allowance for impairment	(1 265)	(1 188)
Net amount	**99 783**	**87 521**
Past due but not impaired comprises:		
1-30 days	99 782	83 354
31-60 days	1 172	4 971
61-90 days	3	361
90 days+ *	91	23
Neither past due nor impaired		
Investment grade (1-5)	2 713 922	2 812 330
Subinvestment grade (6)	100 957	145 901
Subinvestment grade (7)	21 239	23 661
Subinvestment grade (8)	35 244	70 200
Non-performing loans (NPE)**	-	-
Gross amount	**2 871 361**	**3 052 092**
Allowance for impairment	(22 527)	(26 388)
Net amount	**2 848 833**	**3 025 704**

** Overdue amount is non material, i.e. less than 250 eur per client (materiality limit introduced in the year 2009).*

The Increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Group considers financial position and performance of counterparty, qualitative factors as well as general economic trends in particular industry and country.

Clients rated as 1 – 8 according to the Group's internal rating are not considered to be individually impaired.

Forbearance

In September 2014 the SLSP has implemented a forbearance definition based on the EBA definition. The forborne exposure can be identified in both, performing and non-performing portfolios:

- Performing forbearance – forborn loans for customers without financial difficulties
- Non-performing forbearance – forborn loans for customers, which defaulted after forbearance
- Defaulted forbearance – forborn loans for customers in default

The following table presents carrying amounts of renegotiated loans, which are exposures with performing forbearance status:

EUR ths.	2015	2016
Renegotiated loans	95 442	96 867
Total	**95 442**	**96 867**

Concentration risk

The following table presents summary of concentrations of financial assets (including derivatives), loan commitments and guarantees based on the debtors' industry:

2016 EUR ths.	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	555 738	544 415	-	-	-	-
Utilities & Renewable Energy	381 151	379 789	-	-	-	-
Construction and building materials	372 407	344 958	-	-	-	-
Automotive	82 001	80 679	-	-	-	-
Cyclical Consumer Products	195 863	186 526	-	-	-	-
Non-Cyclical Consumer Products	225 949	218 280	-	-	6 706	6 706
Machinery	157 977	148 610	-	-	-	-
Transportation	377 973	372 434	-	-	119 154	119 154
Telecommunications, Media, Technology and Paper & Packaging	70 611	69 799	-	-	-	-
Healthcare & Services	125 498	120 207	-	-	-	-
Hotels, Gaming & Leisure Industry	90 340	81 830	-	-	-	-
Real Estate	937 958	892 576	-	-	6 118	6 118
Public Sector	205 884	205 622	-	-	3 400 729	3 400 485
Financial Institutions	154 861	154 470	89 982	89 946	222 488	222 451
Private Households	8 062 326	7 842 214	-	-	-	-
Other	54	23	-	-	-	-
Total	**11 996 590**	**11 642 432**	**89 982**	**89 946**	**3 755 194**	**3 754 915**

2015 EUR ths.	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	459 244	448 038	-	-	-	-
Utilities & Renewable Energy	454 624	452 767	-	-	-	-
Construction and building materials	354 963	310 522	-	-	-	-
Automotive	54 339	52 759	-	-	-	-
Cyclical Consumer Products	216 992	204 859	-	-	-	-
Non-Cyclical Consumer Products	203 146	194 827	-	-	12 986	12 986
Machinery	148 271	142 193	-	-	6 641	6 641
Transportation	381 468	374 989	-	-	112 428	112 428
Telecommunications, Media, Technology and Paper & Packaging	51 533	50 457	-	-	-	-
Healthcare & Services	150 324	145 726	-	-	-	-
Hotels, Gaming & Leisure Industry	87 344	76 212	-	-	-	-
Real Estate	808 962	750 959	-	-	10 993	10 993
Public Sector	239 704	239 246	-	-	3 406 020	3 405 797
Financial Institutions	116 146	115 801	121 629	121 600	255 561	255 542
Private Households	7 136 296	6 933 198	-	-	-	-
Other	73	41	-	-	-	-
Total	**10 863 428**	**10 492 592**	**121 629**	**121 600**	**3 804 629**	**3 804 387**

The following table presents summary of concentrations of financial assets (including derivatives), loan commitments and guarantees based on asset classes:

EUR ths.	Gross		Net	
	2015	2016	2015	2016
Retail	7 658 542	8 662 816	7 430 049	8 421 682
Corporate	2 934 311	3 068 746	2 792 438	2 956 109
Institution	270 012	263 408	269 542	263 023
Sovereigns	563	1 620	562	1 618
Carrying amount	**10 863 428**	**11 996 590**	**10 492 592**	**11 642 432**

The following table presents a summary of the Group's credit risk to the Slovak Republic, companies controlled by the Slovak government, guarantees issued by the Slovak government, self-governing regions and similar exposures:

EUR ths.	Amount		Portion of total assets %	
	2015	2016	2015	2016
Cash and balances at the central bank	872	79 916	0,01%	0,54%
Loans and advances to customers	498 451	409 946	3,57%	2,77%
Securities portfolios	3 310 004	3 241 450	23,73%	21,86%
Deferred income tax asset	30 849	34 030	0,22%	0,22%
Total	**3 840 176**	**3 765 342**	**27,52%**	**25,40%**

The following table presents a breakdown of state debt securities held by the Bank per portfolio and type of security:

EUR ths.	2015	2016
Securities available for sale	**888 507**	**762 164**
Slovak government Eurobonds	888 507	762 164
Securities held to maturity	**2 421 497**	**2 479 286**
State bonds denominated in EUR	2 389 311	2 446 130
State bonds denominated in USD	32 186	33 156
Total	**3 310 004**	**3 241 450**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Standard & Poor's is A+ with stable outlook (since 1 August 2015).

Market risk

Market risk is the risk of losses in balance sheet and off-balance sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- risk identification – identify all risks inherent in the trading operations and in new products (new products check) and ensure these are subject to adequate procedures and controls before being introduced or undertaken
- risk measurement – calculation of risk exposure using sensitivities and value-at-risk
- limits management – comprehensive limit system and limit allocation in order to restrict the maximum risk exposure
- risk monitoring and reporting

The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

Methods and instruments employed

All positions of the Group, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model, and respective profit or loss is calculated.
The main tool to measure market risk exposure in the Group is sensitivity analysis and value-at-risk (VAR) which is complemented by back testing and stress testing programme.

VAR for trading book and investment portfolios of banking book estimates the maximum potential loss over 1-day holding period with 99% confidence interval and is based on historical simulation (2-years history window, equally weighted) while all positions are treated via full valuation in the calculation (i.e. no simplification of positions for the purpose of VAR). VAR is measured consistently across all portfolios (both banking and trading book) and relevant market factors.

In addition to that, a stressed value-at-risk measure is calculated whereby the above described model is repeatedly applied to a 1-year rolling window of historical rates within longer time span to come up with the most severe VAR measure over a current position.
VAR for the overall banking book uses 99% confidence interval, 10-day holding period, 6-year rolling window for the historical simulation and a decay factor of 0,99.

In order to validate the value-at-risk model, daily back testing routines are applied. In the procedure the real value of closing position of the previous trading day is computed first using relevant market rates of that day. The same closing position is then revalued using the closing market rates of the current day. The difference between the two values is the so-called hypothetical profit and loss, i.e. profit and loss that would have been obtained if the position remained unchanged during the last trading day. If this profit or loss figure exceeds the value-at-risk figure, an exception is recorded and documented. Back testing is conducted not only for the whole trading book, but also for each trading desk and additionally for each applicable risk factor (interest rate, FX rate, stock price, volatility, etc.).

VAR is subject to some model assumptions (e.g. historical simulation), hence stress testing is established in order to partially tackle these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

Furthermore, the application of the extreme value theory ('EVT') allows describing the influence of events with extreme low probability on the result of trading portfolio, and thus well supports other stress testing measures and the model itself. The Group uses EVT based on approximation of empirical market data (2-years history) by Pareto probability distribution function. From this function, it is possible to obtain maximum loss (i.e. EVT loss) with confidence level of 99.95% (compared to 99% VAR). It is measured on daily basis.

Overall market risk of the entire balance sheet is also measured using economic value of equity measure based on EBA guidelines – all positions of the Group are re-valued using an extreme (200 bp) up and down parallel shift of the yield curve and the resulting sensitivity is related to the available capital. Additional six non-parallel scenarios are also calculated.

Risk mitigation and reporting

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VAR, sensitivity, and stop-loss limits. Limits are structured according to individual sub-portfolios (separate limits are defined for derivative trades). Monitoring is performed daily by SRM.
Risk reporting is done daily for relevant management and monthly for ALCO.

Market risk measures

The following tables summarize the risk measures – Value at Risk of banking book and trading book:

EUR ths.	2015	2016
Trading book VAR	0.0	0.0
Banking book VAR – ALM portfolio	12.9	14.5
Banking book VAR – Corporate portfolio	1.8	1.8
Overall Banking book VAR (November 2015)	130.2	130.3
Overall Banking book sensitivity (200bp shock) (November 2015)	157.9	191.0

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

Liquidity risk

The liquidity risk is defined in the Group as the inability to meet the Group's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Groups will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Group.

Liquidity risk is within the authority of ALCO. The Local Operating Liquidity Committee ('L-OLC') is responsible for operational managing and analysing of the liquidity situation of the Group.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

Liquidity strategy

The primary goal of the funding strategy in the year 2016 was to cover the planned funding gap coming from the core business efficiently in terms of structure and costs vs. risk tolerance. This has been successfully achieved as the Group comfortably fulfills all regulatory and internal liquidity limits and keeps sufficient liquidity buffer composed mainly of government securities.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period (SPA) on weekly basis. This analysis determines the maximum period during which the Group can survive different crisis scenarios (severe market, idiosyncratic, or combined crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow.

Liquidity ratios defined by the regulator (LCR, NSFR and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO. Funding concentration risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Strategic Risk Management provides the reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the Group to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 2 months
- severe market crisis – over 2 months
- combined name and market crisis – over 1 month

The minimum volume of the liquidity buffer (counter-balancing capacity) is limited by 1.5 bn eur. The Group daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks, as well as unencumbered central bank eligible assets. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation.

Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR, NFSR, and local LCR ratios.

Funding Concentrations management - no client may account for more than 30 % of the total whole-sale funding. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess. Sum of top 10 biggest clients may not account for more than 50% of the total wholesale funding. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Regulatory Ratios

All regulatory ratios were well above the defined regulatory limits during the year 2016.

Internal Analysis

Counter-balancing capacity – the minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was around 4 bn eur throughout 2016 (well above the 1,5 bn limit).

As at 31 December 2016:

in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	306	-	-	-	-
Liquid assets	3 544	(32)	(11)	(421)	-
Counterbalancing capacity	**3 850**	**(32)**	**(11)**	**(421)**	**-**

As at 31 December 2015:

in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	300	-	-	-	-
Liquid assets	3 509	-	(107)	-	(121)
Counterbalancing capacity	**3 809**	**-**	**(107)**	**-**	**(121)**

Survival Period Horizont

During the year 2016 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 50 days but on average was about six months.

Funding concentrations

During the year 2016 both concentrations limits were fulfilled at all times.

Operational risk

Main objectives of effective system of operational risk management are:

- set up a Group-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- properly identify major drivers of operational risk
- develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- implement and update of insurarnce program
- define outsourcing and internal control system principles
- prepare ORCO meetings
- continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- provide quality reporting and documentation

Risk Identification

Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and/or severity of loss events.

Risk identification should be generally forward-looking. While it is inevitable to use historical loss data, they should be supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors should be translatable into quantitative measures.

The most significant sources of operational risk in the Group are:

- theft and fraud (both external and internal)
- legal risks
- human processing error
- data, infrastructure, and system related risks
- cyber crime
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

Internal Data

The Group shall maintain a central database of operational risk events and losses. This should be as comprehensive as possible in that it captures all material activities throughout the Group. Data collection is conducted via a web-based application EMUS which was upgraded in 2016. This application now provides more user friendly platform to deal with operational risk losses.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the Group. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the Group has an access right. Information on loss amounts, recoveries, date of event and other relevant descriptive information must be provided.

Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Financial Crime & Compliance, Card Services, Internal Services or Strategic Risk Management. Second stage is a data consistency check and is performed by Strategic Risk Management. Events should be categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process shall be covered by Strategic Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc.

External Data

As severe operational risk events are scarce, and may not have been captured in internal data collection, the Group shall also include adequate external event data in its risk identification system. These should cover infrequent severe events with relevance to the Group or financial industry. The Group should systematically incorporate external data into its risk measurement methodology. External data collection shall be coordinated with the Erste group efforts on this matter and will be conducted by Strategic Risk Management.

Scenario Analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Group shall include such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Strategic Risk Management.

Risk Mapping and Key Risk Indicators

The objective of this risk identification technique is to map the level of different operational risks across the Group and to set up a measurable framework known as key risk indicators ('KRI') that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Strategic Risk Management, with the help of respective senior or third level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the Group. The resulting map will have three dimensions, namely:

- risk category
- business line/product
- functional process level – where applicable, this provides depth for the business line/product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI should have the following properties:

- it should be easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;
- it should be effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

Risk Measurement

The Group measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both, frequency of loss and amount of loss, is modelled and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9% and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification process should be used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems should be used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.

The Group should be able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model should be validated through comparison to actual experience and appropriate corrections should be made. Design of the risk measurement model is within the responsibility of Erste Holding (for more details see the group AMA documentation). Modelling inputs are provided by Strategic Risk Management.

Managing Operational Risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Strategic Risk Management has a harmonization role and performs activities of global scope.

In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance,
- system of internal controls,
- outsourcing,
- risk acceptance,
- decrease of the extent or disposal of the risky activity.

Selection of the approach is by definition the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, the Board of Directors) for approval.
The following sub-sections give an overview of the main activities regarding operational risk management within the Group.

Operational Risk and Compliance Committee is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

SRM or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers, and other representatives.

System of Internal Controls

Each unit manager shall implement a system of internal controls ('ICS') within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc.

Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that should be covered by operative controls.

Internal control system shall consist of:

- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself
- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:

- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the Group's ICS in order to determine whether the Group is following enacted policies and procedures. Strategic Risk Management shall issue associated Internal Control System Policy giving detailed information on the system. However, SRM does not assume any coordination role in the implementation and execution of ICS by individual managers.

Insurance

In order to mitigate operational risk, the Group shall engage in a comprehensive insurance program. This should cover direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the Bank and its subsidiaries. The primary objective of the insurance program is to safeguard the Group against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Strategic Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which should, inter alia, cover procedures in case of insurance incident.

Outsourcing

Outsourcing is defined as long-term delegation of internal operation to external entity that specializes in that operation. In context of operational risk management, the primary focus is on outsourcing of banking operations.

Outsourcing should be governed by the following high-level principles:

- outsourcing of any banking operation must be approved by respective decision making body
- the Group neither relinquishes the responsibility for, nor does it get disposed of the risks brought along by such activity
- special attention is to be paid to legal and regulatory issues

General outsourcing policy is defined on Erste Holding level. Strategic Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These shall be documented in associated internal policy. All outsourced activities must strictly follow this policy.

Each outsourcing must have an outsourcing sponsor and an outsourcing manager (both coming from the Group) who are responsible for governance, correct functioning, operational risk, and other issues related to the outsourced activity.
Operational risk management related to outsourcing is within the responsibility of respective outsourcing sponsor and outsourcing manager. Strategic Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

38) Fair values of financial assets and liabilities

The best indication of a fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (Level 1 of the fair value hierarchy).

In case a market quote is used for a valuation, but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators), the instrument is classified as Level 2 of the fair value hierarchy. In case no market prices are available, the fair value is determined by using valuation models, which are based on observable market data. If all the significant inputs in a valuation model are observable, the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor using valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently, the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations typically credit spreads derived from both external sources (similar securities or issuers) and internal sources (risk parameters such as rating, PD or LGD) are used, besides observable parameters.

Financial instruments measured at fair value

All financial instruments of this category are measured at fair value on a recurring basis.

In the Group the measurement of fair value is primarily based on external sources of data (stock market prices or broker quotes in highly liquid market segments). The financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities, liquid OTC bonds and derivatives.

Description of the valuation models and inputs

The Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Securities

For plain vanilla debt securities (fixed and floating) the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instrument. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including also methods described for OTC-derivatives. All securities are valued using the bid/ask levels (depending whether asset or liability), i.e. more conservative then the mid level.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps, commodity swaps) are valued by standard valuation models. These models include discounting cash flow models, option models of Black-Scholes-type and Hull-White-type. Models are calibrated on quoted market data (including implied volatilities). Valuation model for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used. The Bank values derivatives at mid-market levels.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC-derivatives. For CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. The Group has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant products and portfolios. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Group's probability of default has been derived from the buy-back levels of the Group's issuances. Netting has only been considered for a few counterparties where the impact was material. For those netting has been applied for both CVA and DVA. The methodology and the calculation itself are carried out by Erste Holding.

For collateralised derivatives the effect of collateral received is considered and reduces the amount of CVA accordingly. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.
As at 31 December 2016 the cumulative CVA adjustment amounted 1.1 mil. eur (2015: 4.0 mil. eur) and the cumulative DVA adjustment amounted 0.8 mil. eur (2015: 1.0 mil. eur).

Description of the valuation process within Level 3

Level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions, among others. This involves estimation and expert judgment.

The responsibility for valuation of a position of measured at fair value is carried out by risk management unit which is independent from all trading, sales, or investment units.

Fair value hierarchy

The methods used to determine fair values with respect to the levels of fair value hierarchy were as follows:

EUR ths.	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
	2015	2016	2015	2016	2015	2016	2015	2016
ASSETS								
Financial assets held for trading	-	-	83 512	44 409	902	405	84 414	44 814
Derivatives held for trading	-	-	83 512	44 409	902	405	84 414	44 814
Financial assets designated at FV through profit or loss	-	-	6 641	-	11 027	6 118	17 668	6 118
Financial assets – available for sale	989 390	866 076	184 067	170 731	37 476	25 836	1 210 933	1 062 643
Derivatives – Hedge accounting	-	-	7 418	7 705	-	-	7 418	7 705
Total Assets	**989 390**	**866 076**	**281 638**	**222 845**	**49 405**	**32 359**	**1 320 433**	**1 121 280**
LIABILITIES								
Financial liabilities held for trading	-	-	85 508	42 524	-	288	85 508	42 812
Derivatives held for trading	-	-	85 508	42 524	-	288	85 508	42 812
Derivatives – Hedge accounting	-	-	42 915	52 389	-	-	42 915	52 389
Total Liabilities	**-**	**-**	**128 423**	**94 913**	**-**	**288**	**128 423**	**95 201**

Allocation of positions to the levels of fair value hierarchy and any changes between these levels are reflected at the end of the reporting period.

Changes in volumes of Level 1 and Level 2
There were no significant transfers between Level 1 and Level 2 of financial instruments measured at fair value on the balance sheet.

Movements in Level 3
The development of fair value of the securities for which valuation models are based on non-observable inputs was as follows:

EUR ths.	2015	Gains / Losses in profit or loss	Gains / Losses in other comprehensive income	Purchase	Sales / Settlements	Transfer into Level 3	Transfer out of level 3	2016
ASSETS								
Financial assets held for trading	902	(2 135)	-	-	(902)	31 295	(28 755)	405
Derivatives held for trading	902	(2 135)	-	-	(902)	31 295	(28 755)	405
Financial assets designated at fair value through Profit & Loss	11 027	(828)	-	-	(4 081)	-	-	6 118
Financial assets available for sale	37 476	738	2 370	5 740	(33 363)	34 700	(21 824)	25 836
Total	**49 405**	**(2 225)**	**2 370**	**5 740**	**(38 346)**	**65 995**	**(50 579)**	**32 359**
LIABILITIES								
Financial liabilities held for trading	-	-	-	-	-	288	-	288
Derivatives held for trading	-	-	-	-	-	288	-	288
Total	**-**	**-**	**-**	**-**	**-**	**288**	**-**	**288**

EUR ths.	2014	Gains / Losses in profit or loss	Gains / Losses in other comprehensive income	Purchase	Sales / Settlements	Transfer into Level 3	Transfer out of level 3	2015
ASSETS								
Financial assets held for trading	2 081	(40)	-	-	(2 319)	1 388	(207)	902
Derivatives held for trading	2 081	(40)	-	-	(2 319)	1 388	(207)	902
Financial assets designated at fair value through Profit & Loss	13 557	(21)	-	-	(2 509)	-	-	11 027
Financial assets available for sale	29 489	650	24 589	-	(654)	5	(16 603)	37 476
Total	**45 127**	**589**	**24 589**	**-**	**(5 482)**	**1 393**	**(16 810)**	**49 405**
LIABILITIES								
Financial liabilities held for trading	-	-	-	-	-	-	-	-
Derivatives held for trading	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Gains or losses on Level 3 financial instruments held at the end of the reporting period, which are included in the income statement were as follows:

EUR ths.	2015	2016
ASSETS		
Financial assets held for trading	(650)	405
Financial assets designated at FV through profit or loss	(327)	(1 377)
LIABILITIES		
Financial liabilities held for trading	-	(288)
Total	**(977)**	**(1 260)**

The volume of Level 3 financial instruments consists solely of a few positions in illiquid securities.

Fair value of financial instruments disclosed in the notes

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2016:

EUR ths.	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	396 973	396 973	-	-	-
Financial assets – held to maturity	2 640 662	3 117 560	3 025 219	58 830	33 510
Loans and receivables to credit institutions	89 946	90 293	-	-	90 293
Loans and receivables to customers	10 250 469	10 614 738	-	-	10 614 738
LIABILITIES					
Financial liabilities measured at amortised costs	12 979 909	12 978 080	-	373 849	12 604 231
Deposits from banks	278 193	280 776	-	-	280 776
Deposits from customers	11 384 309	11 339 577	-	-	11 339 577
Debt securities issued	1 317 407	1 357 727	-	373 849	983 878

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2015:

EUR ths.	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	322 811	322 811	-	-	-
Financial assets – held to maturity	2 490 694	2 992 288	2 951 504	40 681	103
Loans and receivables to credit institutions	121 600	121 793	-	-	121 793
Loans and receivables to customers	9 365 307	9 666 089	-	-	9 666 089
LIABILITIES					
Financial liabilities measured at amortised costs	12 158 455	12 152 217	-	1 134 150	11 018 067
Deposits from banks	384 965	379 633	-	-	379 633
Deposits from customers	10 671 536	10 638 434	-	-	10 638 434
Debt securities issued	1 101 954	1 134 150	-	1 134 150	-

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of securities issued and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, where available. Otherwise it is estimated by taking into consideration the actual interest rate environment and they are transferred to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads and these are allocated to Level 3.
The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities.

Fair value of non-financial assets

The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification.

Property, equipment and other assets
Property, equipment and other assets are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

Fair values of non-financial assets owned by the Group are based on valuation reports relying essentially on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets). Such measurements are disclosed as Level 2 of the fair value hierarchy.

If fair values of non-financial assets result from valuation models using expected future rental income method they are presented in Level 3 of the fair value hierarchy.

For non-financial assets owned by the Group the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenants and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

Investment property
Investment property is measured at fair value on recurring basis.

As at 31 December 2016 the estimated fair value of investment property was in amount of 2.3 mil. eur (2015: 2.8 mil. eur). The Group uses its own model for determining the fair value of investment property, which is based on discounting future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location. Such measurements are presented in Level 2 of the fair value hierarchy.

39) Current and non-current assets and liabilities

The classification of assets, liabilities and equity to current (due within one year) and non-current (due over one year) based on their remaining contractual maturity is shown in the following table:

EUR ths.	2015		2016	
	< 1 year	> 1 year	< 1 year	> 1 year
ASSETS				
Cash and cash balances	322 811	-	396 973	-
Financial assets – held for trading	25 372	59 042	6 753	38 061
Derivatives	25 372	59 042	6 753	38 061
Financial assets – at fair value through profit or loss	6 641	11 027	-	6 118
Financial assets – available for sale	129 441	1 082 170	34 976	1 028 345
Financial assets – held to maturity	107 120	2 383 574	445 846	2 194 816
Loans and receivables to credit institutions	121 600	-	89 946	-
Loans and receivables to customers	1 449 375	7 915 932	1 409 807	8 840 662
Derivatives – hedge accounting	-	7 418	-	7 705
Property and equipment	-	183 238	-	162 150
Investment properties	-	2 880	-	2 388
Intangible assets	-	86 971	-	71 955
Investments in subsidiaries and associates	-	24 603	-	30 467
Current tax assets	15	-	8	-
Deferred tax assets	-	30 849	-	34 030
Other assets	29 947	-	24 368	-
Total Assets	**2 192 322**	**11 787 704**	**2 408 677**	**12 416 697**
LIABILITIES				
Financial liabilities – held for trading	28 139	57 368	6 889	35 923
Derivatives	28 139	57 368	6 889	35 923
Financial liabilities measured at amortised cost	10 635 103	1 523 352	11 418 465	1 561 443
Deposits from banks	198 193	186 771	116 163	162 030
Deposits from customers	10 310 802	360 734	11 140 464	243 846
Debt securities issued	126 108	975 846	161 839	1 155 568
Derivatives – hedge accounting	-	42 915	-	52 389
Long term provisions	-	28 109	-	10 932
Provisions	-	28 109	-	11 494
Current tax liabilities	7 196	-	4 013	-
Deferred tax liabilities	-	314	-	106
Other liabilities	118 048	1	161 615	1
Total Liabilities	**10 788 487**	**1 652 058**	**11 590 981**	**1 672 289**

The following table details the Group's non-derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

2016 **EUR ths.**	**On demand and less then 1M**	**1 to 3M**	**3M to 1Y**	**1 to 5Y**	**Over 5Y**	**Total**
Financial liabilities measured at amortised cost						
Deposits from banks	11 027	84 778	20 414	80 078	84 442	280 739
Deposits from customers	8 954 535	711 914	1 481 666	245 157	-	11 393 272
Debt securities issued	9 470	5 221	152 481	1 007 501	199 009	1 373 682
Financial guarantees	2 051	37 518	63 466	176 908	6 358	286 301
Total	**8 977 084**	**839 431**	**1 718 027**	**1 509 644**	**289 809**	**13 333 994**

2015 **EUR ths.**	**On demand and less then 1M**	**1 to 3M**	**3M to 1Y**	**1 to 5Y**	**Over 5Y**	**Total**
Financial liabilities measured at amortised cost						
Deposits from banks	31 972	42 196	124 400	97 330	95 173	391 071
Deposits from customers	7 747 437	1 037 144	1 536 692	363 688	-	10 684 961
Debt securities issued	3 051	76 671	46 935	799 783	239 218	1 165 658
Financial guarantees	19 817	30 457	48 626	138 072	14 372	251 344
Total	**7 802 278**	**1 186 468**	**1 756 652**	**1 398 873**	**348 763**	**12 493 034**

40) Own funds and capital requirements

Regulatory Scope of Application

In the following Slovenská sporiteľňa, a.s. (SLSP) fulfills the disclosure requirements according to the Capital Requirements Regulation (CRR), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 1 January 2014, SLSP Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the Capital Requirements Regulation (CRR) and the Capital Requirement Directive (CRD IV) that were enacted in national law, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR and the aforementioned technical standards are fully applied by SLSP Group for regulatory purposes and for the disclosure of regulatory information.

SLSP Group fulfilled regulatory capital requirements in both years 2016 and 2015 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

Accounting Principles

The financial and regulatory figures published by SLSP Group are based on IFRS regulatory capital components. Eligible capital components derive from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation for items where the regulatory treatment is not equal to the accounting requirements.

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of SLSP Group is the 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements: Art. 436 (b) CRR

Scope of Consolidation

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II, chapter 2 Section 3 of the CRR.
The definition of entities to be consolidated for regulatory purposes are mainly defined in Article 4 (1) (3) and (16) to (27) CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR:

- Based on the CRR, mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the financial scope of consolidation.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 mil. or 1% of the total amount and off-balance sheet items of the parent company. SLSP Group makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts, SLSP Group does not make use of Article 19 (2) CRR and follows the requirements for the approval process as defined within this article. SLSP Group does not apply Article 19 (2) CRR for credit institutions and investment firms.

Consolidation methods

Main differences between the financial consolidation method and the regulatory consolidation method, considering regulatory adjustments

- For the calculation of consolidated own funds, SLSP Group generally applies the same consolidation methods as used for accounting purposes. The difference applies only to Article 18 (4) CRR, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. SLSP Group does not apply proportional consolidation for any entity.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the balance sheet according to IFRS. The amounts that are used as the basis for the calculation of own funds are recalculated based on the definition of the regulatory scope of consolidation pursuant to the CRR. The difference between the IFRS balance sheet and the regulatory balance sheet is the difference in the scope of consolidation. Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. SLSP Group did not make use of Article 84 CRR.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity Tier 1 of SLSP Group

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art, 56 (c) and 59 CRR and Tier 2 items according to Art, 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR.
For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability arising from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% risk weight (RW) according to Article 48 (4) CRR.

At the reporting date, SLSP Group did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of SLSP Group and therefore are considered in RWAs.

The following table shows threshold calculations according to Articles 46 and 48 CRR:

EUR ths.	2015	2016
Non significant investments in financial sector entities		
Threshold (10% of CET1)	103 911	106 939
Holdings in CET1	678	678
Holdings in AT1	-	-
Holdings in T2	-	-
Distance to threshold	**103 233**	**106 261**
Significant investments in financial sector entities		
Threshold (10% of CET1)	103 911	106 939
Holdings in CET1	1 097	30 421
Distance to threshold	**102 814**	**76 519**
Deferred tax assets		
Threshold (10% of CET1)	103 911	106 939
Deferred tax assets that are dependent on future profitability and arise from temporary differences	30 819	32 260
Distance to threshold	**73 092**	**74 679**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	183 403	188 748
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	31 916	62 681
Distance to threshold	**151 487**	**126 067**

Presentation of the scope of consolidation

The following table shows list of subsidiaries and associates, accounting treatment within the scope and classification according to CRR:

Entity Name	Accounting treatment IFRS	Accounting treatment CRR scope	Classification
LANED a.s.	fully consolidated	fully consolidated	Ancillary service undertaking
Realitná spoločnosť Slovenskej sporiteľne, a.s.	fully consolidated	fully consolidated	Ancillary service undertaking
Služby SLSP, spol. s r. o.	fully consolidated	fully consolidated	Ancillary service undertaking
Prva stavebna sporitelna, a.s.	at equity method	at equity method	Credit institutions
Slovak Banking Credit Bureau, s.r.o.	at equity method	at equity method	Ancillary service undertaking
Holding Card Service, spol. s r. o.	at equity method	at equity method	Financial institution
Procurement Services SK, s.r.o.	fully consolidated	not consolidated according to article 19 CRR	Ancillary service undertaking

The following tables shows changes within the fully consolidated entities within the regulatory scope of consolidation:

	2015	New	Deconsolidated	Merged	Reclassification	2016
Credit institutions	-	-	-	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	1	-	-	1	-	-
Ancillary service undertakings, investment firms and asset management companies	4	-	-	1	-	3
Total	**5**	**-**	**-**	**2**	**-**	**3**

	2014	New	Deconsolidated	Merged	Reclassification	2015
Credit institutions	-	-	-	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	2	-	-	1	-	1
Ancillary service undertakings, investment firms and asset management companies	4	-	-	-	-	4
Total	**6**	**-**	**-**	**1**	**-**	**5**

As of 31 December 2016 the number of companies consolidated pursuant to IFRS was 7. As of 31 December 2016 the number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR) was 6.

In April 2016 Erste Group IT SK, spol. s r.o. (fully consolidated subsidiary) merged with its mother company Slovenska sporiteľňa, a.s. In December 2016 Derop B.V. (fully consolidated subsidiary) merged with its mother company Slovenska sporiteľňa, a.s. LANED a.s. (former subsidiary of Derop B.V.) is from December 2016 subsidiary of the Služby SLSP, spol. s r. o.

Three entities are part of the regulatory scope of consolidation consolidated at equity method which is equal to their treatment in the IFRS scope of consolidation. These entities are Prvá stavebná sporiteľňa, a.s. , Slovak Banking Credit Bureau, s.r.o., Holding Card Service, spol. s r. o.

There were no other changes within the fully consolidated entities within the regulatory scope of consolidation in the year 2016.

Balance sheet reconciliation

Disclosure requirements: Art. 437 (1) (a) CRR

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation as at 31 December 2016:

EUR ths.	IFRS	Effects - scope of consolidation	CRR
Assets			
Cash and cash balances	396 973	0	396 973
Financial assets – held for trading	44 814	0	44 814
Derivatives	44 814	0	44 814
Financial assets – at fair value through profit or loss	6 118	0	6 118
Financial assets – available for sale	1 063 321	0	1 063 321
Financial assets – held to maturity	2 640 662	0	2 640 662
Loans and receivables to credit institutions	89 946	0	89 946
Loans and receivables to customers	10 250 469	0	10 250 469
Derivatives - hedge accounting	7 705	0	7 705
Property and equipment	162 150	0	162 150
Investment properties	2 388	0	2 388
Intangible assets	71 955	0	71 955
Investments in associates and joint ventures	30 467	-2 406	28 061
Current tax assets	8	-8	0
Deferred tax assets	34 030	-43	33 986
Other assets	24 368	-105	24 263
Total assets	**14 825 374**	**-2 562**	**14 822 812**
Liabilities and equity			
Financial liabilities – held for trading	42 812	0	42 812
Derivatives	42 812	0	42 812
Financial liabilities measured at amortised costs	12 979 909	250	12 980 159
Deposits from banks	278 193	0	278 193
Deposits from customers	11 384 309	250	11 384 559
Debt securities issued	1 317 407	0	1 317 407
Derivatives – hedge accounting	52 389	0	52 389
Provisions	22 426	0	22 426
Current tax liabilities	4 013	0	4 013
Deferred tax liabilities	106	0	106
Other liabilities	161 613	-333	161 280
Total equity	**1 562 104**	**-2 479**	**1 559 626**
Equity – attributable to non-controlling interests	37	-37	0
Equity – attributable to owners of the parent	1 562 068	-2 442	1 559 626
Total liabilities and equity	**14 825 374**	**-2 562**	**14 822 812**

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation as at 31 December 2015:

EUR ths.	IFRS	Effects - scope of consolidation	CRR
Assets			
Cash and cash balances	322 811	0	322 811
Financial assets – held for trading	84 414	0	84 414
Derivatives	84 414	0	84 414
Financial assets – at fair value through profit or loss	17 668	0	17 668
Financial assets – available for sale	1 211 611	0	1 211 611
Financial assets – held to maturity	2 490 694	0	2 490 694
Loans and receivables to credit institutions	121 600	0	121 600
Loans and receivables to customers	9 365 307	0	9 365 307
Derivatives - hedge accounting	7 418	0	7 418
Property and equipment	183 238	0	183 238
Investment properties	2 880	0	2 880
Intangible assets	86 971	0	86 971
Investments in associates and joint ventures	24 603	120	24 723
Current tax assets	15	-15	0
Deferred tax assets	30 849	-30	30 819
Other assets	29 947	-64	29 883
Total assets	**13 980 026**	**11**	**13 980 037**
Liabilities and equity			
Financial liabilities – held for trading	85 508	0	85 508
Derivatives	85 508	0	85 508
Financial liabilities measured at amortised costs	12 158 455	188	12 158 643
Deposits from banks	384 965	0	384 965
Deposits from customers	10 671 536	188	10 671 724
Debt securities issued	1 101 954	0	1 101 954
Derivatives – hedge accounting	42 915	0	42 915
Provisions	28 109	0	28 109
Current tax liabilities	7 196	0	7 196
Deferred tax liabilities	314	0	314
Other liabilities	118 048	-242	117 806
Total equity	**1 539 481**	**66**	**1 539 547**
Equity – attributable to non-controlling interests	2 994	-26	2 968
Equity – attributable to owners of the parent	1 536 487	92	1 536 579
Total liabilities and equity	**13 980 026**	**11**	**13 980 037**

Further details regarding entities within the different scopes of consolidation are disclosed in table "Presentation scope of consolidation".

Total equity

The following table shows equity items according to IFRS and CRR scope of consolidation and how they are affecting regulatory own funds.

Total equity as at 31 December 2016:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Subscribed capital		212 000	-	212 000	-	212 000
Capital reserve		118 899	0	118 899	(0)	118 899
AT1 capital instruments and the related share premium accounts	a	150 000	(0)	150 000	0	150 000
Retained earnings	b	783 595	(2 344)	781 252	0	781 252
Other comprehensive income (OCI)	c	82 807	29	82 836	(0)	82 836
Cash flow hedge reserve	g	-	-	-	(0)	(0)
Available for sale reserve		106 303	(0)	106 303	-	106 303
unrealized gains according to Art. 35 CRR	h	107 002	(0)	107 002	-	107 002
unrealized losses according to Art. 35 CRR		(699)	-	(699)	-	(699)
other		-	-	-	-	-
Currency translation		(386)	29	(357)	-	(357)
Remeasurement of net liability of defined pension plans		(783)	(0)	(783)	-	(783)
Deferred tax		(22 327)	0	(22 327)	-	(22 327)
Profit or loss attributable to equity holders of the parent		214 544	(127)	214 417	(214 417)	-
Other		222	-	222	(222)	-
Equity attributable to the owners of the parent		1 562 067	(2 442)	1 559 626	(214 639)	1 344 986
Equity attributable to non-controlling interests	d	37	(37)	-	-	-
Total equity		1 562 104	(2 478)	1 559 626	(214 639)	1 344 986

Total equity as at 31 December 2015:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Subscribed capital		212 000	-	212 000	-	212 000
Capital reserve		118 899	0	118 899	(0)	118 899
AT1 capital instruments and the related share premium accounts	a	150 000	(0)	150 000	0	150 000
Retained earnings	b	774 422	78	774 500	(22 965)	751 535
Other comprehensive income (OCI)	c	95 817	(1)	95 816	(37 562)	58 255
Cash flow hedge reserve	g	-	(0)	(0)	(0)	(0)
Available for sale reserve		124 182	(0)	124 182	(49 069)	75 113
unrealized gains according to Art. 35 CRR	h	124 544	(0)	124 544	(47 338)	77 205
unrealized losses according to Art. 35 CRR		(362)	-	(362)	(1 730)	(2 092)
other		-	-	-	-	-
Currency translation		(386)	(1)	(387)	387	-
Remeasurement of net liability of defined pension plans		(659)	0	(659)	325	(333)
Deferred tax		(27 320)	0	(27 320)	10 795	(16 525)
Profit or loss attributable to equity holders of the parent		185 126	(21)	185 105	(185 105)	-
Other		222	-	222	(222)	-
Equity attributable to the owners of the parent		1 536 487	56	1 536 543	(245 854)	1 290 689
Equity attributable to non-controlling interests	d	2 994	(26)	2 968	(2 968)	-
Total equity		1 539 481	30	1 539 511	(248 822)	1 290 689

Further details regarding the development of IFRS equity are disclosed under “Group Statement of Changes in Total Equity”.

Intangible assets

The following table shows intangible assets according to IFRS and CRR scope of consolidation and amount of deduction of regulatory own funds.

Intangible assets as at 31 December 2016:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Intangible assets	e	71 955	-	71 955	-	71 955
Intangible assets	e	71 955	-	71 955	-	71 955

Intangible assets as at 31 December 2015:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Intangible assets	e	86 971	-	86 971	-	86 971
Intangible assets	e	86 971	-	86 971	-	86 971

Details regarding the development of intangible assets are disclosed under "Intangible assets" (note 23).".

Deferred taxes

The following table shows deferred taxes according to IFRS and CRR scope of consolidation.

Deferred taxes as at 31 December 2016:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR / Own Funds
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		1 726	-	1 726
related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions	f	-	-	-
related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions		-	-	-
Deferred tax assets that rely on future profitability and arise from temporary differences		32 304	(43)	32 260
Deferred tax assets		34 030	(43)	33 986

Deferred taxes as at 31 December 2015:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR / Own Funds
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		-	-	-
related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions	f	-	-	-
related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions		-	-	-
Deferred tax assets that rely on future profitability and arise from temporary differences		30 819	-	30 819
Deferred tax assets		30 819	-	30 819

Based on the threshold definition according to Article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for SLSP Group at the year end 2016. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Details regarding deferred tax assets are disclosed under “Tax assets and liabilities” (note 24).

Subordinated liabilities

The following table shows subordinated liabilities according to IFRS and CRR scope of consolidation.

Subordinated liabilities as at 31 December 2016:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		74 785	-	74 785	(26 720)	48 065
Tier 2 capital instruments (including related share premium) issued by the parent company	k	74 785	-	74 785	(26 720)	48 065
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party	l	-	-	-	-	-
instruments issued by subsidiaries	m	-	-	-	-	-
Hybrid issues	i	-	-	-	-	-
Subordinated liabilities		74 785	-	74 785	(26 720)	48 065

Subordinated liabilities as at 31 December 2015:

EUR ths.	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		172 334	-	172 334	(97 318)	75 016
Tier 2 capital instruments (including related share premium) issued by the parent company	k	172 334	-	172 334	(97 318)	75 016
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party	l	-	-	-	-	-
instruments issued by subsidiaries	m	-	-	-	-	-
Hybrid issues	i	-	-	-	-	-
Subordinated liabilities		172 334	-	172 334	(97 318)	75 016

Details regarding subordinated liabilities are disclosed under “Financial liabilities measured at amortised costs” (note 26).

Own funds development

The following table shows own funds development between the start and the end of the period:

EUR ths.	2015	2016
CET1 as of 1 Jan	**929 741**	**1 039 108**
Changes in retained earnings	39 387	29 717
Changes in accumulated other comprehensive income	0	24 967
Changes in minority interest	(3 794)	-
Changes in prudential filters	2 201	945
Changes in regulatory deductions	2 993	13 290
goodwill	-	-
other intangibles	2 993	15 016
Other	68 580	(38 632)
CET1 as of 31 Dec	**1 039 108**	**1 069 395**
		-
Additional Tier 1 development		-
AT1 as of 1 Jan	**-**	**150 000**
Net increase/decrease in AT1	150 000	-
Changes in regulatory deduction	-	-
Other	-	-
AT1 as of 31 Dec	**150 000**	**150 000**
		-
Tier 2 development		-
T2 as of 1 Jan	**113 823**	**91 047**
Net decrease in T2	(25 899)	(26 951)
Changes in regulatory deduction	-	-
IRB Excess and SA credit risk adjustments	3 123	11 337
T2 as of 31 Dec	**91 047**	**75 433**
		-
Total own funds	**1 280 155**	**1 294 828**

Transitional provisions

The Transitional Provisions are not applied by SLSP Group.

Own funds template

Disclosure requirements: Art. 437 (1) (d) (e) CRR

SLSP Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

The table below presents the composition of the regulatory capital based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. There are no transitional provisions that would affect the calculation of the own funds. The table is presenting own funds according to Basel 3 fully loaded regime.

The following table shows Own funds disclosure template according to Article 5 in Commission implementing regulation (EU) No 1423/2013.

EUR ths.		Regulation (EU) No 575/2013 article reference	Reference to reconciliati-on tables	2015	2016
Common equity tier 1 (CET1) capital: instruments and reserves					
1	Common equity tier 1 (CET1) capital: instruments and reserves	26 (1), 27, 28, 29, EBA list 26 (3)	a	212 000	212 000
	thereof ordinary shares	EBA list 26 (3)	a	212 000	212 000
2	Retained earnings	26 (1) (c)	b	870 434	900 151
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	26 (1)		57 869	82 836
3a	Fund for general banking risk	26 (1) (f)	c	-	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	486 (2)		-	-
	Public sector capital injections grandfathered until Jan 18	483 (2)		-	-
5	Minority interests (amount allowed in consolidated CET1)	84, 479, 480	d	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	26 (2)		-	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**			**1 140 303**	**1 194 987**

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments					
7	Additional value adjustments (negative amount)	34, 105		(5 668)	(4 428)
8	Intangible assets (net of related tax liability) (negative amount)	36 (1) (b), 37, 472 (4)	e	(86 971)	(71 955)
9	Empty Set in the EU			-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	36 (1) (c), 38, 472 (5)	f	-	(1 726)
11	Fair value reserves related to gains or losses on cash flow hedges	33 (a)	g	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	36 (1) (d), 40, 159, 472 (6)		-	-
13	Any increase in equity that results from securitised assets (negative amount)	32 (1)		-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	33 (b)		1 047	752
15	Defined-benefit pension fund assets (negative amount)	36 (1) (e), 41, 472 (7)		-	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	36 (1) (f), 42, 472 (8)		-	-
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	36 (1) (g), 44, 472 (9)		-	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		-	-
20	Empty Set in the EU			-	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	36 (1) (k)		-	-
20b	of which: qualifying holdings outside the financial sector (negative amount)	36 (1) (k) (i), 89 to 91		-	-
20c	of which: securitisation positions (negative amount)	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		-	-
20d	of which: free deliveries (negative amount)	36 (1) (k) (iii), 379 (3)		-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		-	-
22	Amount exceeding the 15% threshold (negative amount)	48 (1)		-	-
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	36 (1) (i), 48 (1) (b), 470, 472 (11)		-	-
24	Empty Set in the EU			-	-
25	of which: deferred tax assets arising from temporary differences	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		-	-
25a	Losses for the current financial year (negative amount)	36 (1) (a), 472 (3)		-	-
25b	Predpokladané daňové poplatky súvisiace s položkami CET1 (negative amount)	36 (1) (l)		-	-

	EUR ths.	Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			-	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			-	-
	unrealised loss	467		-	-
	unrealised gain	468	h	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	481		-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	36 (1) (j)		-	-
	CET1 other deductions			(9 603)	(48 235)
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**			**(101 195)**	**(125 592)**
29	**Common Equity Tier 1 (CET1) capital**			**1 039 108**	**1 069 395**

Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	51, 52		150 000	150 000
31	of which: classified as equity under applicable accounting standards			150 000	150 000
32	of which: classified as liabilities under applicable accounting standards			-	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	486 (3)	i	-	-
	Public sector capital injections grandfathered until 1 January 2018	483 (3)		-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	85, 86, 480		-	-
35	of which: instruments issued by subsidiaries subject to phase out	486 (3)		-	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**			**150 000**	**150 000**

Additional Tier 1 (AT1) capital: regulatory adjustments

37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	52 (1) (b), 56 (a), 57, 475 (2)		-	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	56 (b), 58, 475 (3)		-	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	56 (c), 59, 60, 79, 475 (4)		-	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	56 (d), 59, 79, 475 (4)		-	-
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)			-	-

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		-	-
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc			-	-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	477, 477 (3), 477 (4) (a)		-	-
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc			-	-
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	467, 468, 481		-	-
	Of which: ... possible filter for unrealised losses	467		-	-
	Of which: ... possible filter for unrealised gains	468		-	-
	Of which: ...	481		-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	56 (e)		-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**			**-**	**-**
44	**Additional Tier 1 (AT1) capital**			**150 000**	**150 000**
45	**Tier 1 capital (T1 = CET1 + AT1)**			**1 189 108**	**1 219 395**

Tier 2 (T2) capital: Instruments and provisions

46	Capital instruments and the related share premium accounts	62, 63	k	75 016	48 065
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	486 (4)		-	-
	Public sector capital injections grandfathered until 1 January 2018	483 (4)		-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	87, 88, 480	l	-	-
49	of which: instruments issued by subsidiaries subject to phase out	486 (4)	m	-	-
50	Credit risk adjustments	62 c) & (d)		16 031	27 369
51	**Tier 2 (T2) capital before regulatory adjustments**			**91 047**	**75 433**

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
Tier 2 (T2) capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	63 (b) (i), 66 (a), 67, 477 (2)		-	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	66 (b), 68, 477 (3)		-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	66 (c), 69, 70, 79, 477 (4)		-	-
54a	Of which new holdings not subject to transitional arrangements			-	-
54b	OF which holdings existing before 1 January 2013 and subject to transitional arrangements			-	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	66 (d), 69, 79, 477 (4)		-	-
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			-	-
56a	Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		-	-
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc			-	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	475, 475 (2) (a), 475 (3), 475 (4) (a)		-	-
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc			-	-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	467, 468, 481		-	-
	Of which: ... possible filter for unrealised losses	467		-	-
	Of which: ... possible filter for unrealised gains	468		-	-
	Of which: ...	481		-	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**			**-**	**-**
58	**Tier 2 (T2) capital**			**91 047**	**75 433**
59	**Total capital (TC = T1 + T2)**			**1 280 155**	**1 294 828**

	EUR ths.	Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
	Total risk-weighted assets				
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			-	-
	Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		-	-
	Of which: ... items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		-	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		-	-
60	**Total risk-weighted assets**			**5 853 099**	**6 019 843**
	Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	92 (2) (a), 465		17.8%	17.8%
62	Tier 1 (as a percentage of total risk exposure amount)	92 (2) (b), 465		20.3%	20.3%
63	Total capital (as a percentage of total risk exposure amount)	92 (2) (c)		21.9%	21.5%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	CRD 128, 129, 130		146 327	210 694
65	of which: capital conservation buffer requirement			146 327	150 496
66	of which: countercyclical buffer requirement			-	-
67	of which: systemic risk buffer requirement			-	-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	CRD 131		-	60 198
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	CRD 128		13.3%	13.3%
69	[non-relevant in EU regulation]			-	-
70	[non-relevant in EU regulation]			-	-
71	[non-relevant in EU regulation]			-	-

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
Capital ratios and buffers					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		678	678
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (i), 45, 48, 470, 472 (11)		1 097	30 421
74	Empty Set in the EU			-	-
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	36 (1) (c), 38, 48, 470, 472 (5)		30 819	32 260
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	62		-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	62		-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	62		16 031	34 600
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	62		16 031	27 369
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements	484 (3), 486 (2) & (5)		-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	484 (3), 486 (2) & (5)		-	-
82	Current cap on AT1 instruments subject to phase out arrangements	484 (4), 486 (3) & (5)		-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	484 (4), 486 (3) & (5)		-	-
84	Current cap on T2 instruments subject to phase out arrangements	484 (5), 486 (4) & (5)		-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	484 (5), 486 (4) & (5)		-	-

41) Events after the reporting period

Since 31 December 2016 up to the date of issue of these consolidated financial statements there were no events identified that would require adjustments or disclosure.

These consolidated financial statements were signed and authorised for issue by the Board of Directors of the Bank on 7 February 2017.

Ing. Štefan Máj
Chairman of the Board of Directors and
Chief Executive Officer

Ing. Peter Krutil
Deputy Chairman of the Board of Directors
First Deputy of Chief Executive Officer

Slovenská sporiteľňa, a.s.

Separate Financial Statements
prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2016

Independent Auditors' Report to the Shareholder of Slovenská sporiteľňa, a.s.

EY
Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

Independent Auditor's Report

Shareholders, Supervisory Board and Board of Directors of Slovenská sporiteľňa, a.s. and to the Audit Committee:

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Slovenská sporiteľňa, a.s. ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss, other comprehensive income, changes in equity and 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 separate financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate financial statements section of our report. We are independent of the Bank in accordance with the Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Statutory Audit") related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the financial statements, and we have fulfilled other requirements of these provisions related to ethics. 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

Loan loss provisions

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining loan loss provisions. The identification of impairment and the determination of the recoverable amount are an inherently

We involved our internal valuation specialists to assist us in performing our audit procedures. We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans and advances

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

Building a better working world

uncertain processes involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

Due to the significance of loans and advances (representing 69% of total Bank assets) and the related estimation uncertainty, this is considered a key audit matter.

The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. Our work covered impairment of both Retail receivables and Receivables from corporate counterparties. We paid particular attention to collective impairment methodologies for both portfolios, including the assessment of whether historic experience is appropriate when assessing the likelihood of incurred losses in the portfolios. In addition, we also focused on individually significant exposures that either continued to be, have become, or were at risk of being individually impaired.

Refer to Note 19 Loans and receivables to customers and section Credit Risk in Note 37 Risk management for further details.

and controls over impairment calculations including the quality of underlying data and systems.

For loan loss provisions calculated on an individual basis, we tested the assumptions underlying the impairment identification and quantification focusing on loan cases with the most significant potential impact on the separate financial statements. We assessed the Bank's assumptions on the expected future cash flows, including the value of realisable collateral and estimates of recovery on default based on our own understanding and available market information. For loan loss provisions calculated on a collective basis we evaluated the methodologies, inputs and assumptions used, including model validations and backtesting.

We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk and are compliant with IFRS EU accounting requirements.

Fair value measurement of financial instruments

Fair value measurement and associated valuation adjustments can be a subjective area and more so for areas of the market reliant on model based valuation or with weak liquidity and price discovery.

Of the financial instruments that are carried at fair value in the Bank's balance sheet, 97 % are classified as Level 1 or 2 as at 31 December 2016. This means they were valued using prices that were observable in the market or through models with market observable inputs, resulting in the valuation risk being low. However, it is important to ascertain that prices are liquid enough to be genuinely observable in the market. The

We involved our internal valuation specialists to assist us in performing our audit procedures. We assessed the design and tested the operating effectiveness of internal controls over the valuation, data integrity and independent price verification.

We performed additional procedures for areas of higher risk and estimation. Our audit procedures focused on the comparison of judgments made to market practice and reperformance of valuations on a sample basis.

In order to assess the liquidity of the prices for Level 1 and 2 instruments, we tested a selection of

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

EY
Building a better working world

remaining 3 % (EUR 32 million) of financial instruments are classed as Level 3, because certain pricing inputs to them are unobservable. The determination of these prices often involve exercise of judgement and the use of assumptions and estimates, and as such can produce significantly different estimates of fair value. In 2016, Level 3 instruments mainly comprised equity instruments issued by other financial corporations (19%), debt securities issued by credit institutions (59%), debt securities issued by non-financial corporations (21%) and derivatives (1%).

Due to the significance of fair valued financial instruments (representing 8% of total Bank's assets) and the related estimation uncertainty, this is considered a key audit matter.

Refer also to note 38 Fair value of assets and liabilities.

instruments to ensure that reliable observable quotes are available from sufficient number of contibutors. For the Level 3 portfolio, we performed additional procedures over a selection of investments, assessing the key inputs, assumptions and models used in the valuation.

We also performed our independent revaluation of selected sample of financial instruments and compared our results with the Bank's valuation.

Finally, we also focused on whether the Bank's disclosures in the separate financial statements in relation to the valuation of investments are compliant with the IFRS EU accounting requirements.

Information Technology (IT) systems and controls over financial reporting

A significant part of the Bank's operations and financial reporting process is reliant on IT systems with automated processes and controls over the capture, storage and extraction of information.

A fundamental component of these controls is ensuring that appropriate user access and change management protocols exist and are being adhered to. These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an apropriate manner.

The IT environment of the Bank is rather complex with a number of interdependent systems, interfaces and databases. The Bank continues to invest in the improvement of IT systems and processes as well as development of new IT systems and their implementation further adds to the complexity of the IT infrastructure.

As our audit sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort was in this area.

We focused our audit on those IT systems and controls that are significant for the Bank's financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved our IT audit specialists in our audit procedures.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We tailored our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorised and also developed and implemented properly. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Building a better working world

Responsibilities of Management and Those Charged with Governance for the Separate financial statements

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

In preparing the separate 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 Separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements including the presented information as well as whether the separate financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.

EY
Building a better working world

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 separate 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

Management is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on Accounting. Our opinion on the separate financial statements expressed above does not apply to other information contained in the annual report.

In connection with audit of the separate financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with audited separate financial statements or our knowledge obtained in the audit of the separate financial statements, or otherwise appears to be materially misstated.

The annual report was not available to us as at the date of issue of the auditor's report on the audit of the separate financial statements.

When we obtain the annual report, we will consider whether the Bank's annual report contains information, disclosure of which is required by the Act on Accounting and based on procedures performed during the audit of separate financial statements, we will express our opinion considering whether:

- Information disclosed in the annual report, prepared for 2016, is consistent with the separate financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

Additionally, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Company and its situation, obtained in the audit of the separate financial statements.

7 February 2017
Bratislava, Slovak republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský, statutory auditor
SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

I. Separate Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

Statement of Profit or Loss

EUR ths.	Notes	2015	2016
Net interest income	1	469 081	461 988
Net fee and commission income	2	121 139	121 719
Dividend income	3	3 844	3 592
Net trading and fair value result	4	8 875	12 573
Rental income from investment properties	5	401	367
Personnel expenses	6	(117 080)	(133 399)
Other administrative expenses	7	(110 816)	(104 434)
Depreciation and amortisation	8	(40 864)	(41 371)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	9	902	27 044
Net impairment loss on financial assets not measured at fair value through profit or loss	10	(58 338)	(48 235)
Other operating result	11	(32 971)	(17 007)
Pre-tax result from continuing operations		**244 173**	**282 837**
Taxes on income	12	(60 041)	(70 616)
Net result for the period		**184 132**	**212 221**
Net result attributable to owners of the parent		**184 132**	**212 221**

Statement of Other Comprehensive Income

EUR ths.	2015	2016
Net result for the period	**184 132**	**212 221**
Items that may not be reclassified to profit or loss		
Remeasurement of net liability of defined pension plans	(325)	(124)
Total	**(325)**	**(124)**
Items that may be reclassified to profit or loss		
Available for sale reserve	48 342	(17 480)
Gain/loss during the period	48 783	9 616
Reclassification adjustments	(442)	(27 096)
Deferred taxes relating to items that may be reclassified	(10 634)	4 905
Gain/loss during the period	(10 733)	(785)
Reclassification adjustments	98	5 690
Total	**37 708**	**(12 575)**
Total other comprehensive income	**37 383**	**(12 699)**
Total comprehensive income	**221 514**	**199 522**
Total comprehensive income attributable to owners of the parent	**221 514**	**199 522**

Earnings per Share

	2015	2016
Net result attributable to owners of the parent (in eur ths.)	184 132	212 221
Number of outstanding shares (in pcs.)	212 000	212 000
Earnings per share (in eur)	**869**	**1 001**

The notes on pages 185 to 277 are an integral part of these financial statements.

II. Separate Statement of Financial Position

as at 31 December 2016

EUR ths.	Notes	2015	2016
Assets			
Cash and cash balances	13	322 811	396 973
Financial assets - held for trading		84 414	44 814
Derivatives	14	84 414	44 814
Financial assets - at fair value through profit or loss	15	17 668	6 118
Financial assets - available for sale	16	1 211 611	1 063 321
Financial assets - held to maturity	17	2 490 694	2 640 662
Loans and receivables to credit institutions	18	121 583	89 906
Loans and receivables to customers	19	9 414 716	10 296 363
Derivatives - hedge accounting	20	7 418	7 705
Property and equipment	22	111 947	99 289
Investment properties		2 880	2 388
Intangible assets	23	86 971	71 955
Investments in subsidiaries and associates	21	21 399	23 041
Deferred tax assets	24	29 739	34 166
Other assets	25	27 214	24 262
Total assets		**13 951 065**	**14 800 963**
Liabilities and equity			
Financial liabilities - held for trading		85 508	42 812
Derivatives	14	85 508	42 812
Financial liabilities measured at amortised cost		12 164 938	12 984 978
Deposits from banks	26	384 965	278 193
Deposits from customers	26	10 678 019	11 389 378
Debt securities issued	27	1 101 954	1 317 407
Derivatives - hedge accounting	20	42 915	52 389
Provisions	28	28 067	22 426
Current tax liabilities		5 925	4 007
Other liabilities	29	115 948	160 982
Total equity		**1 507 764**	**1 533 369**
Equity attributable to owners of the parent	30	1 507 764	1 533 369
Total liabilities and equity		**13 951 065**	**14 800 963**

The notes on pages 185 to 277 are an integral part of these financial statements.

III. Separate Statement of Changes in Equity

for the year ended 31 December 2016

EUR ths.	Subscribed capital	Other capital instruments	Legal reserve fund	Other funds	Retained earnings	Available for sale reserve	Remeasurement of net liability of defined pension plans	Deferred tax	Total equity
As at 1 January 2015	**212 000**	**-**	**79 795**	**39 326**	**883 923**	**75 113**	**(333)**	**(16 525)**	**1 273 298**
Dividends paid	-	-	-	-	(143 196)	-	-	-	(143 196)
Merger of subsidiary (Leasing SLSP)	-	-	-	-	6 148	-	-	-	6 148
Other capital instruments (AT1)	-	150 000	-	-	-	-	-	-	150 000
Total comprehensive income	-	-	-	-	184 132	48 342	(325)	(10 635)	221 514
Net result for the period	-	-	-	-	184 132	-	-	-	184 132
Other comprehensive income	-	-	-	-	-	48 342	(325)	(10 635)	37 382
As at 31 December 2015	**212 000**	**150 000**	**79 795**	**39 326**	**931 007**	**123 455**	**(658)**	**(27 160)**	**1 507 764**
As at 1 January 2016	**212 000**	**150 000**	**79 795**	**39 326**	**931 007**	**123 455**	**(658)**	**(27 160)**	**1 507 764**
Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNC5	-	-	-	-	(175 510)	-	-	-	(175 510)
Merger of subsidiary (EGIT SK)	-	-	-	-	1 593	-	-	-	1 593
Other capital instruments (AT1)	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	212 221	(17 480)	(124)	4 905	199 522
Net result for the period	-	-	-	-	212 221	-	-	-	212 221
Other comprehensive income	-	-	-	-	-	(17 480)	(124)	4 905	(12 699)
As at 31 December 2016	**212 000**	**150 000**	**79 795**	**39 326**	**969 311**	**105 975**	**(782)**	**(22 255)**	**1 533 369**

The notes on pages 185 to 277 are an integral part of these financial statements. Further details are disclosed in the note 30.

In the last quarter of the year 2015 the Bank has issued an investment certificate in the amount of 150 mil. eur classified as equity instrument according to the standard IAS 32.

IV. Separate Statement of Cash Flows

for the year ended 31 December 2016

EUR ths.	2015	2016
Profit before income taxes	**244 173**	**282 837**
Adjustments for:		
Loss allowances for loans and advances, Provisions for off-balance sheet	59 530	46 929
Provisions for liabilities and other liabilities	4 740	6 587
Impairment of tangible and intangible assets net	(1 198)	(621)
Depreciation and amortization	40 864	41 371
Profit/(loss) on disposal of fixed assets	1 363	723
Transfer of interest for financing activity	17 941	16 502
Net gains/(losses) from investing activities	(104 410)	(112 105)
Impairment of investments in subsidiaries and associates	(860)	(2 319)
Cash flows from operations before changes in operating assets and liabilities	**262 142**	**279 905**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	86 524	(79 044)
Loans and advances to financial institutions	71 855	36 346
Loans and advances to customers	(1 325 117)	(927 422)
Financial assets at fair value through profit or loss and securities available for sale	58 418	142 360
Other assets	(3 616)	6 220
Increase / (decrease) in operating liabilities:		
Amounts owed to financial institutions	(355 717)	(6 743)
Amounts owed to customers	994 130	711 358
Increase/(decrease) in derivative financial instruments (net)	(6 029)	6 092
Provision for liabilities and other provisions	(7 673)	(7 732)
Other liabilities	6 299	38 056
Net cash flows provided by / (used in) operating activities before income tax	**(218 783)**	**199 399**
Income taxes paid	(83 330)	(71 493)
Net cash flows provided by / (used in) operating activities	**(302 113)**	**127 906**
Cash flows from investing activities		
Purchase of securities held to maturity	-	(287 175)
Proceeds form securities held to maturity	93 095	139 059
Interest received from the securities held to maturity	96 467	93 582
Dividends received from subsidiaries, associates and other investments	2 986	2 400
Purchase of share in subsidiaries and associates	(1 046)	(3 052)
Proceeds from sale of subsidiaries and associates	-	17 235
Purchase of intangible assets, property and equipment	(39 303)	(22 708)
Proceeds from sale of intangible assets, property and equipment	3 560	9 404
Net cash flows provided by / (used in) investing activities	**155 759**	**(51 255)**
Cash flows from financing activities		
Dividends paid	(143 196)	(175 510)
Repayment of subordinated debt	(5 099)	(100 000)
Interest paid on subordinated debt	(1 775)	(1 671)
Issue of the bonds	319 414	346 242
Repayment of the bonds	(142 840)	(126 108)
Interest paid to the holders of the bonds	(15 531)	(19 542)
Other financing activities	**150 000**	**-**
Net cash flows provided by / (used in) financing activities	**160 973**	**(76 588)**
Effect of foreign exchange rate changes on cash and cash equivalents	1 005	(266)
Net increase / (decrease) in cash and cash equivalents	**15 624**	**(204)**
Cash and cash equivalents at beginning of period	**332 620**	**348 244**
Cash and cash equivalents at end of period	**348 244**	**348 040**
Operational cash flows from interest and dividends	**-**	**-**
Interest paid	(43 897)	(36 876)
Interest received	434 172	410 384

The notes on pages 185 to 277 are an integral part of these financial statements.

Cash and cash equivalents include accounts with central banks (note 13) and accounts with other credit institutions repayable on demand (note 18). The minimum mandatory reserves are excluded from cash and cash equivalents.

V. Notes to the Separate Financial Statements

A. GENERAL INFORMATION

Slovenská sporiteľňa, a.s. (hereafter 'the Bank') has its registered office at Tomášikova 48, 832 37 Bratislava, Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653 and its tax identification number is 2020411536. The Bank is a universal Bank offering a wide range of banking and financial services to commercial, financial and private customers, principally in the Slovak Republic.

As at 31 December 2016 the sole shareholder of the Bank was Erste Group Bank AG with the registered office located at am Belvedere 1, 1100 Vienna, Austria. The financial statements of Erste Group Bank AG (the ultimate parent) will be available after their completion the Austrian court Firmenbuchgericht Wien, Marxergasse 1a, Vienna 1030.

The Board of Directors of the Bank had five members as at 31 December 2016:
Ing. Štefan Máj (Chairman), Ing. Peter Krutil (Deputy Chairman), Mag. Bernard Spalt (Member), Ing. Richard Chomist (Member) and Ing. Zdeněk Románek (Member).

As at 31 December 2016 Mag. Bernard Spalt resigned his functution as the member of the Board of Directors and the deputy of the Chief Executive Officer as he had been nominated as a member of the Board of Directors in a Romanian bank Banca Comercială Română, which is the Erste group member. The Supervisory Board of the Bank has elected as a new member of the Board of Directors and a deputy of the Chief Executive Officer Mag. Alexandra Habeler-Drabek, who has overtaken all responsibilities of Mr. Spalt effectife from 1 January 2017.

The Chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The Deputy Chairman of the Board of Directors is the First Deputy of the Chief Executive Officer. Other members of the Board of Directors are the Deputies of the Chief Executive Officer.

The Supervisory Board of the Bank had four members as at 31 December 2016:
Gernot Mittendorfer M.B.A. (Chairman), Mag. Jan Homan (Member), JUDr. Beatrica Melichárová (Member) and Ing. Alena Adamcová (Member).

During the year 2016, the nominant of employees Ing. Štefan Šipoš acted as a member of the Supervisory Board until his electoral term expired on 24 June 2016. Dr. Heinz Knotzer and Dr. Andrea Burgtorf, members of the Supervisory Board since the year 2015, resigned their membership on 12 October 2016. Effective from 2 November 2016 Ing. Alena Adamcová has become a new member of the Supervisory Board elected by employees of the Bank. Effective from 1 January 2017 Mag. Ľudovít Ódor has been nominated as an independent member of the Supervisory Board according to a decision of the shareholder.

The Bank is subject to the regulatory requirements of the National Bank of Slovakia and other regulatory bodies defined by the Slovak legislation.

Since 4 November 2014 the Bank operates under a direct supervision of the European Central Bank within a Single Supervision Mechanism.

B. SIGNIFICANT ACCOUNTING POLICIES

1) Statement of compliance

Pursuant to the Article 17a of the Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 Banks are required to prepare separate financial statements, consolidated financial statements and annual report according to the special regulations – Regulation (EC) no. 1606/2002 of the European Parliament and of the Council on Application of International Accounting Standards. As a result, the financial statements prepared in accordance with International Financial Reporting Standards effectively replaced the financial statements prepared under Slovak Accounting Standards.

These separate financial statements for the year ended 31 December 2016 are prepared in accordance with International Financial Reporting Standards ('IFRS' or 'IAS') as adopted by the European Union ('EU') on the basis of the regulation no. 1606/2002.

IFRS as adopted by the EU do not currently differ from IFRS and interpretations as issued by the International Accounting Standards Board (IASB), except for certain standards issued but not yet effective and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Bank has assessed that the standards not endorsed by the EU would not impact significantly these separate financial statements if they were applicable as at the presented balance sheet date.

2) Basis of preparation

These separate financial statements do not include consolidation of assets, liabilities and operational results of subsidiaries. As required by the law, the Bank issued Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2016, which were signed and authorised for issue by the Board of Directors of the Bank on 7 February 2016 and are available at its registered office or on the web page.

These separate financial statements have been approved by the Board of Director of the Bank and will be submitted for approval to the Supervisory Board and the General Assembly.

The Bank's separate and consolidated financial statements for the prior period (the year ended 31 December 2015) were signed and authorised for issue on 16 February 2016.

In accordance with the applicable measurement models defined or allowed by IFRS, these separate financial statements were prepared on a cost basis (or amortised cost), except for financial assets available for sale, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, as well as financial and hedging derivatives, all of which were measured at fair value.

These separate financial statements are based on the going concern assumption that the Bank will continue to operate in the foreseeable future.

These separate financial statements are presented in Euro, which is the functional currency of the Bank. The measurement unit is thousands of Eur ('Eur ths.'), unless stated otherwise. The amounts in parentheses represent negative values. The tables in these separate financial statements and notes may contain rounding differences.

The comparative amounts presented in these financial statement are those presented in the Separate Statement of Financial Positions as at 31 December 2015 and the Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015. In the following notes, the Statement of financial position may be referred to as 'balance sheet' and the Statement of Profit or Loss may be referred to as 'income statement'.

3) Subsidiaries and associates

These separate financial statements present accounts and results of the Bank only.

Subsidiaries

The Bank holds controlling interests in the subsidiaries described in the note 21. In these separate financial statements the subsidiaries are recognised at cost, less any impairment losses.

Subsidiaries are recognized on the balance sheet from the date when control is obtained until the date when control is lost. Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with the subsidiary (the investee) and has the ability to affect those returns through its power to govern the relevant activities of this company. Relevant activities of the company are those which most significantly affect the variable returns of an entity. In general, control is presumed when investor retains more than 50 % share on voting rights.

Investments in associates and joint ventures

The Bank has significant influence in the associates described in the note 21. In these separate financial statements the investments in associates are recognised at cost, less any impairment losses.

Investments in associates ('associates') represent entities over which the Bank exercises significant influence. Significant influence is the power to participate in financial and operating policy decisions of the investee but is not control or joint control of those policies. In general, significant influence is presumed when investor retains more between 20% and 50% share on voting rights.

Joint ventures are joint arrangements under which the Bank exercises control jointly with one or more venturers and the venturers have rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Bank is not involved in any joint venture.

Acquisitions, sales and mergers during the year 2016 and 2015

The group structure of Slovenská sporiteľňa, a.s. is presented in the note 21. This note also provides information on acquisitions, sales, mergers and other transactions relating to the investments of the Bank in subsidiaries and associates undertaken during the years 2016 and 2015.

4) Accounting and measurement methods

Foreign currency translations

These financial statements are presented in Euro ('Eur'), which is the functional currency of the Bank. The functional currency is the currency of the primary business environment in which an entity operates.

Transactions in foreign currencies are initially translated to Euro at the exchange rate effective as at the transaction date. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated to Euro at the exchange rate as at the balance sheet date. All resulting exchange differences are recognised in the income statement line item 'Net trading and fair value result'. Non-monetary items that are measured at historical costs in foreign currencies are translated to Euro using the exchange rates as at the dates of the initial transactions.

For foreign currency translation, the Bank uses exchange rates quoted by the European Central Bank.

Financial instruments – recognition and measurement

Financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and financial liabilities, including derivative financial instruments, have to be recognised on the balance sheet and measured in accordance with their assigned categories.

With reference to an investment strategy, the Bank uses the following categories of financial instruments:
- financial assets or financial liabilities at fair value through profit or loss
- financial assets available for sale
- financial assets held to maturity
- loans and receivables
- financial liabilities measured at amortised cost

The categories of financial instruments relevant for measurement (as per IAS 39) are not necessarily presented separately on the balance sheet. Specific relationships between the balance sheet line items and particular categories of financial instruments are described in the note 21.

(i) Initial recognition and measurement of financial instruments

Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, when an asset is delivered. Regular way trades are purchases or sales of financial assets that require delivery of an asset within the time frame generally established by a regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics, as well as on the management's intention for which the financial instruments were acquired.

Financial instruments are measured initially at their fair value including transaction costs. However, in case of financial instruments at fair value through profit or loss, transaction costs are not included in the initial measurement and are directly recognised in the income statement.

(ii) Cash and cash balances

Balances with central banks include only claims (deposits) against central banks, which are repayable on demand. Repayable on demand means that a deposit may be withdrawn at any time or with a term of notice of one business day (or 24 hours). Minimum mandatory reserves are also shown under this position.

(iii) Derivative financial instruments

Derivative financial instruments used by the Bank include mainly interest rate and currency swaps, forward rate agreements, futures, interest rate and currency options and others. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- derivatives – held for trading
- derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. These derivatives are presented on the balance sheet under the heading 'Financial assets / liabilities – held for trading', as a separate line item 'Derivatives'. This line item includes all types of non-hedging derivatives regardless of their internal classification, i.e. both derivatives held in trading book and banking book.

Changes in fair value (clean price) of derivatives – held for trading are recognised in the income statement line item 'Net trading and fair value result'.

Interest income/expense related to derivatives – held for trading is recognised in the income statement line item 'Net interest income' if held in the banking book or in the income statement line item 'Net trading and fair value result' if held in the trading book.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges complying the conditions of IAS 39. They are presented on the balance sheet line item 'Derivatives - hedge accounting', on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement line item 'Net trading and fair value result'. Interest income / expense related to derivatives in fair value hedges is recognised in the income statement line item 'Net interest income'.

Changes in fair value (dirty price) of derivatives in cash flow hedges is reported separately for the effective part, which is recognised in the other comprehensive income line item 'Cash flow hedge' and for the ineffective part, which is recognized in the income statement line item 'Net trading and fair value result'. Interest income / expense on derivatives in cash flow hedges is a part of dirty price measurement, which is reported in the line items mentioned above depending on the hedge effectiveness.

.

(iv) Financial assets and liabilities – held for trading

Financial assets and financial liabilities classified as held for trading comprise of derivatives is described in the note (iii) and other trading assets and liabilities.

Other trading assets and liabilities include debt securities, as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. They are presented on the balance sheet under the heading 'Financial assets / liabilities – held for trading' as a separate line item 'Other trading assets / liabilities'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and other trading liabilities are recognised in the income statement line item 'Net trading and fair value result'. Interest income / expenses related to debt instruments are reported in the income statement line item 'Net interest income'. Dividend income from equity instruments is reported in the income statement line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

(v) Financial assets or financial liabilities – at fair value through profit or loss

Financial assets or financial liabilities classified in this category have been designated at fair value at their initial recognition based on the management's decision.

The Bank uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy of the Bank, the performance of this portfolio is evaluated and regularly reported to the management.

Financial assets designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial assets - at fair value through profit or loss'. Changes in fair value are reported in the income statement line item 'Net trading and fair value result'. Interest earned on debt instruments is reported in the income statement line item 'Net interest income'. Dividend income on equity instruments is shown in the income statement line item 'Dividend income'.

The Bank uses the fair value option also for some hybrid financial liabilities in the following cases:

- if such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- if the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk of financial liabilities designated at fair value through profit or loss is calculated in compliance with IFRS 7. It is calculated as a difference between the present value of the liability and its observed market price at the end of the reporting period. The rate used for discounting the liability is the sum of the observed interest rate at the end of the reporting period and the instrument-specific component of internal rate of return determined at the beginning of the period.

Financial liabilities designated at fair value through profit or loss are recognised on the balance sheet line item 'Financial liabilities – at fair value through profit or loss', further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are reported in the income statement line item 'Net trading and fair value result'. Interest incurred is reported in the income statement line item 'Net interest income'.

(vi) Financial assets – available for sale

Financial assets available-for-sale include debt and equity securities, as well as interests in other entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in market conditions.

Financial assets available for sale are measured at fair value and are disclosed on the balance sheet line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income line item 'Available for sale reserve' until the respective financial asset is disposed of or impaired. If these assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. In case of sale the reclassified cumulative gain or loss is reported in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'. In case of impairment the losses are reported in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Interest income on available-for-sale financial assets is reported in the income statement line item 'Net interest income'. Dividend income from available-for-sale financial assets is reported in the income statement line item 'Dividend income'.

Investments in non-quoted equity instruments are recorded at cost less impairment, if their fair value cannot be measured reliably. This is the case when there is no active market for such investments, the range of reasonable fair value estimates calculated by valuation models is significant and the probabilities of various estimates cannot be reasonably assessed.

(vii) Financial assets – held to maturity

Financial assets held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank intends and is able to hold until maturity following the approved investment strategy. These financial assets are reported on the balance sheet line item 'Financial assets – held to maturity'. After initial recognition, these securities are measured at amortised cost calculated with regard to any discount, premium and transaction costs, which are integral parts of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement line item 'Net interest income'. Losses arising from impairment of such financial assets are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Occasional realised gains or losses from selling these assets are recognised in the income statement line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

(viii) Loans and receivables

The balance sheet line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Moreover, finance lease receivables accounted for using IAS 17 are presented on these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank may not recover substantially all of its initial investment for other reasons than credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Interest income earned on loans and receivables is recognised in the income statement line item 'Net interest income'.

Impairment losses arising from loans and advances are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Finance lease receivables measurement is described in the note 'Leasing'.

(ix) Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are disclosed under the balance sheet line item 'Financial liabilities measured at amortised cost' and further broken down to the following categories: 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

Interest expense incurred by these financial liabilities is reported in the income statement line item 'Net interest income'. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported in the income statement line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

(x) Relationships between balance sheet line items, measurement methods and categories of financial instruments:

BALANCE SHEET POSITION	MEASUREMENT METHOD			FINANCIAL INSTRUMENT CATEGORY
	Fair value	At amortised cost	Other	
ASSETS				
Cash and cash balances		x	Nominal value	n/a / Loans and receivables
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets - available for sale	x			Available for sale financial assets
Financial assets - held to maturity		x		Held to maturity investments
Loans and receivables to credit institutions		x		Loans and receivables
thereof Finance lease			IAS 17	n/a
Loans and receivables to customers		x		Loans and receivables
thereof Finance lease			IAS 17	n/a
Derivatives - hedge accounting	x			n/a
LIABILITIES				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities - at fair value through profit or loss
Other trading liabilities	x			Financial liabilities - at fair value through profit or loss
Financial liabilities - at fair value through profit or loss	x			Financial liabilities - at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost
Derivatives - hedge accounting	x			n/a

Furthermore, two additional classes of financial instruments not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable loan commitments.

Reclassification of financial assets

IAS 39 allows various alternatives to reclassify financial assets between the categories of financial instruments and also imposes some restrictions regarding their reclassification. The Bank makes applies a reclassification option only with held-to-maturity financial assets. If a significant credit deterioration of a held-to-maturity financial asset results in the change of the Bank's intention and ability to hold the asset until maturity, it is reclassified to the category of available-for-sale financial assets. The Bank also reclassifies financial assets held to maturity to be sold, in case they are sold close to their maturity. Such reclassifications are in compliance with IAS 39 ('tainting rule') and does not triggers automatic reclassification of the entire held-to-maturity portfolio.

Derecognition of financial assets and financial liabilities

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

- expiration of the contractual rights to receive cash flows from the asset; or
- transfer of the contractual rights to receive cash flows from the asset; or
- acceptance of an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and the Bank either:
  - has transferred substantially all the risks and rewards connected with the ownership of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or expires.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Details on valuation techniques applied for fair value measurement and fair value hierarchy are disclosed in the note 38.

Impairment of financial assets and credit risk losses of contingent liabilities

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset ('loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Bank uses as a primary indicator of loss event the definition of default in accordance with the CRR (the Regulation EU no. 575/2013 of the European Parliament and of the Council). Default, as a loss event, is deemed to have occurred when whatever of the following events had taken place:

- a client is unlikely to fully repay its credit obligations to the Bank without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Bank;
- whatever condition or obligation under the contract has been breached by a client, on the basis of which the Bank is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client either in full or its part, charge late payment interests or claim satisfaction of the credit exposure from the means securing such credit obligation);
- the obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, indications of impairment are observable data indicating there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with defaults.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

(i) Financial assets at amortised cost

At first, the Bank assesses individually significant loans and held-to-maturity securities, whether an objective evidence of impairment exists. If there is no objective evidence of impairment for an individually assessed financial asset, the Bank includes that particulate asset into a group of financial assets with similar credit risk characteristics and assesses them for impairment collectively. Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in the collective assessment of impairment.

If an impairment loss has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset takes into account also cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets measured at amortised cost are recognised as loss allowances which decrease the value of financial assets disclosed on the balance sheet. It means that the net carrying amount of a financial asset presented on the balance sheet is the difference between its gross carrying amount and the related cumulative loss allowance. This treatment is applicable for individual and portfolio loss allowances for loans and receivables.

In case of held-to-maturity financial assets accounting treatment and presentation differ based on the type of loss allowances. Portfolio loss allowances covering incurred, but not identified impairment losses decrease the value of these financial assets on the balance sheet. Individual loss allowances covering identified impairment losses directly reduce the carrying amounts of these financial assets.

Reconciliation of changes in loss allowance accounts is presented in the notes 18 and 19. This reconciliation reflects only changes in loss allowances for loans and receivables and portfolio loss allowances for held-to-maturity financial assets.

Impairment losses and their reversals are recognised in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Loans together with the associated loss allowances are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by the Bank.

If the amount of estimated impairment loss increases or decreases in a subsequent year, the previously recognised impairment loss is increased or reduced respectively by adjusting the allowance account.

(ii) Financial assets available for sale

In case of debt instruments classified as available for sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. The amount of impairment is the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. When impairment is identified, any amount of losses accumulated in the other comprehensive income line item 'Available for sale reserve' is reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

In cases of equity investments classified as available for sale, objective evidence of impairment includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose, 'significant' decline means a market price below 80 % of the acquisition cost and 'prolonged' decline means that a market price is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is an objective evidence of impairment on equity investments, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. For the impaired equity investment, any amount of losses previously recognised in the other comprehensive income line item 'Available for sale reserve' has to be reclassified to the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'. Impairment losses on equity investments are not reversed through the income statement and the increases in the fair value after impairment are recognised directly in other comprehensive income line item 'Available for sale reserve'. Impairment losses and their reversals are recognised directly against the affected financial assets presented on the balance sheet.

For investments in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Contingent liabilities

Provisions for credit losses from contingent liabilities (particularly financial guarantees and loan commitments) are reported on the balance sheet line item 'Provisions'. The related expenses or their reversals are reported in the income statement line item 'Other operating result'.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements, also known as 'repo transactions', represent transactions where securities are sold under an agreement to repurchase them at a specified future date. The securities sold as a part of such transactions are not derecognised, i.e. remain on the balance sheet and continue in measurement applicable to the respective financial assets. The reason for this is that the Bank retains substantially all risks and rewards related to the ownership of these securities, which are repurchased when the repo transaction ends. Moreover, the Bank is the beneficiary of all coupons and other income payments received on the transferred securities over the repo transactions period. These payments are remitted to the Bank or are reflected in the repurchase price.

Cash proceeds from the sold securities are recognised on the balance sheet together with a corresponding liability, which is recorded on the balance sheet line item 'Financial liabilities measured at amortised cost', further broken down to 'Deposits from banks' or 'Deposits from customers'. These financial liabilities reflect the transaction's economic substance as a loan to the Bank with the obligation to return cash amount. The difference between the sale and repurchase prices is treated as an interest expense and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

Conversely, the securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the balance sheet in the respective line items as either 'Loans and receivables to credit institutions' or 'Loans and receivables to customers' reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is treated as an interest income and is accrued in the income statement line item 'Net interest income' over the life of the agreement.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the lending duration. The transfer of securities to counterparties via securities lending does not result in derecognition. The Bank, as a lender, retains substantially all risks and rewards related to the ownership of the transferred securities, because they are received at the end of the securities lending transaction. Moreover, the Bank is the beneficiary of all coupons and other income payments received on the transferred securities over the securities lending period.

Conversely, the securities borrowed are not recognised on the balance sheet, unless they are sold to third parties. In this case, the obligation to return the securities is recorded under the heading 'Financial liabilities – held for trading' as a separate line item 'Other trading liabilities'.

Embedded derivatives

In the normal course of business, the Bank is involved in debt instruments containing structured features. The structured feature means that a derivative is embedded in a host debt instrument.

The embedded derivatives are separated from host debt instruments if:

- the embedded derivative meets the definition of derivative according IAS 39; and
- the economic characteristics of the derivative are not closely related to the economic characteristics and risks of the host debt instrument; and
- the hybrid instrument is not a financial asset or financial liability held for trading or designated at fair value through profit or loss.

The embedded derivatives, which are separated are accounted for as stand-alone derivatives and reported on the balance sheet under the heading 'Financial assets – held for trading' as a separate line item 'Derivatives'. They are embedded mainly in host issued debt instruments recognised as liabilities. The most typical examples are deposits and bonds issued that contain interest caps, floors or collars, as well as financial instruments linked to non-interest variables such as FX rates, equity and commodity prices and indices or third-party credit risk.

Hedge accounting

The Bank utilises derivative instruments to manage its exposure to interest rate risk and foreign currency risk. At inception of a hedge transaction, the Bank formally documents the relationship between a hedged item and a hedging instrument, including the nature of risk, the strategy and the objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows during the period attributable to the hedged risk for which the hedge is designated are expected to be offset by the fair value changes of the hedging instrument in a range of 80% to 125%. The hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. The Bank defines specific conditions for particular types of hedges and for effectiveness testing in internal hedge policy.

(i) Fair value hedge

Fair value hedges are used to reduce market risk. For qualifying and designated fair value hedges, the change in fair value (clean price) of the hedging instrument is recognised in the income statement line item 'Net trading and fair value result'. The change in fair value of the hedged item attributable to the hedged risk is also recognised in the income statement line item 'Net trading and fair value result' and adjusts the carrying amount of the hedged item. Interest income and expense on hedging derivatives are recognised in the income statement line item 'Net interest income'.

The hedge relationship is terminated, when the hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. In this case, the fair value adjustment of the hedged item is amortised in the income statement line item 'Net interest income' until maturity of the financial instrument.

(ii) Cash flow hedge

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise the net interest income. For designated and qualifying cash flow hedges, the effective portion of gain or loss on the hedging instrument is recognised in the other comprehensive income line item 'Cash flow hedge'. The ineffective portion of gain or loss on the hedging instrument is recognised in the income statement line item 'Net trading and fair value result'. For the quantification of effective and ineffective portions, cash flows attributable to the hedged risk are considered (both, from the hedged item and the hedging instrument). If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income to the corresponding income or expense line item of the income statement (mainly 'Net interest income'). In case of cash flow hedges, accounting treatment of the hedged items in not affected.

The hedge relationship is terminated, when the hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. In this case, the cumulative gain or loss on the hedging instrument previously recognised in other comprehensive income remains as separately reported 'Cash flow hedge' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and their net amount is presented on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle them on a net basis or to realise the asset and settle the liability simultaneously.

21 Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The depreciation period and method are reviewed at least at each financial year-end and adjusted if necessary. Depreciation is recognised in the income statement line item 'Depreciation and amortisation'. Impairment losses on property and equipment is recognized in the income statement line item Other operating result'. Land is not depreciated.

The estimated useful lives are as follows:

Type of property and equipment	Useful life in years 2015 and 2016
Own buildings and structures	30 years
Rented premises	10 years
Office furniture and equipment	4 – 6 years
Computer hardware	4 years
Passenger cars	4 years
Fixture and fittings	6 – 12 years

Property and equipment is derecognised on its disposal or when no future economic benefits are expected from its use. Gain or loss arising on disposal of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement line item 'Other operating result'.

Investment property

Investment property is a property (land and buildings or part of them) held for the purpose of earning rental income or for capital appreciation. If such a property is partially used by the Bank, it is considered as investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where their future use is expected to be the same as for investment property, are also classified in this category.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet as a separate line item 'Investment properties'.

Depreciation of investment property is recognised in the income statement line item 'Depreciation and amortisation' and is calculated using the straight-line method over an estimated useful life. The useful live of investment property is identical to that of buildings reported under property and equipment. Rental income is recognised in the income statement line item 'Rental income from investment properties'.

Intangible assets

The Bank`s intangible assets include mostly computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that future economic benefits attributable to it will flow to the Bank.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement line item 'Depreciation and amortisation'. Intangible assets with infinite lives are not amortised.

The estimated useful lives are as follows:

Type of intangible assets	Useful life in years 2015 and 2016
Core banking system and related applications	8 years
Computer software	4 - 8 years

Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is performed at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of cash-generating unit ('CGU') to which the asset belongs. CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of those from other assets or groups of assets.

When an asset is tested for impairment annually or if any indication of impairment exists, the Bank estimates its recoverable amount. The recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of the asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

At each reporting date, assessment of non-financial assets is performed as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. However, impairment on goodwill cannot be reversed.

Impairments and their reversals are recognised in the income statement line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months from the classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported on the balance sheet as a separate line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the balance sheet as a separate line item 'Liabilities associated with assets held for sale'. Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements are classified as operating leases.

(i) The Bank as a lessor

In the case of finance lease, the Bank recognises a receivable from the lessee on the balance sheet line items 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement line item 'Net interest income'. The Bank provides finance lease since the merger with its former subsidiary Leasing Slovenskej sporiteľne, a.s. in the year 2015.

In the case of an operating lease, the Bank reports the leased asset on the balance sheet line items 'Property and equipment' or 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement line item 'Rental income from investment properties'. With respect to regulatory restrictions the Bank does not provide operating lease.

(ii) The Bank as a lessee

The Bank has not entered into any leases meeting the conditions of finance lease.

Operating lease payments are recognised on a straight-line basis over the lease term in the income statement line item 'Other administrative expenses'.

Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reported on the balance sheet line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments), as well as provisions for litigation and restructuring. Expense or income related to provisions are reported in the income statement line item 'Other operating result'.

Defined employee benefit plans

Defined employee benefit plans operated by the Bank are for pensions and working anniversary benefits. According to IAS 19 categorisation, perspective pension benefits qualify as post-employment defined benefits plans, whereas working anniversary benefits are other long-term employee benefits.

Obligations resulting from the defined employee benefit plans are reported on the balance sheet line item 'Provisions'. Future obligations are determined based on an actuarial expert opinion using the projected unit credit method. The calculation takes into account various assumptions known as at the balance sheet date, such as discount rates, expected rates of return on assets, future salary increases, future pension increases, fluctuation, mortality rates and retirement age.

The key assumptions used in actuarial calculations are disclosed in the note 28.

The employee benefit costs are determined by an actuarial valuation using the projected unit credit method as at the balance sheet date. They are measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the working anniversary benefits are charged to the income statement line item 'Personnel expenses'. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in the equity line item 'Remeasurement of net liability of defined pension plans' in the period in which they occur.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and carried forward unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced by the extent that it is no longer probable that a sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that a future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date.

Deferred tax relating to the items recognised in the other comprehensive income is also recognised in the other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Dividends on ordinary shares

Dividends on ordinary shares are deducted from the equity when they are paid to the Bank's shareholders.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of guarantees and letters of credit. According to IAS 39, financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss incurred in case the specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Bank is a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as a collateral when determining impairment of the guaranteed asset.

The Bank as a guarantor recognises the financial guarantee as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. If no premium is received at contract inception, the fair value of a financial guarantee is nil, as this is the price that would be paid to transfer the liability in an orderly transaction between market participants. Subsequent to initial recognition, the financial guarantee contract is reviewed whether a provision is required according IAS 37. Such provisions are recorded on the balance sheet line item 'Provisions' nad the related income or expenses are recognised in the income statement line item 'Other operating result'. The premium received for a financial guarantee issued is recognised on a straight-line basis over the life of the guarantee in the income statement line item 'Net fee and commission income'.

Fiduciary assets

The Bank provides trust and other fiduciary services that result in holding or investing of assets on behalf of its clients. The assets held in a fiduciary capacity are not reported in these financial statements, as they are not the assets of the Bank.

Recognition of income and expenses

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Bank and the amount of revenue can be measured reliably.

The description and recognition criteria of the income statement line items are as follows:

(i) Net interest income

Interest income or expense is recognised using the effective interest rate ('EIR') method. The calculation of EIR includes origination fees resulting from the lending business and transaction costs directly attributable to the instrument (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income on individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of impairment loss measurement.

Interest income includes interest income on cash balances, loans and receivables to credit institutions and customers, bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from banks and customers, debt securities issued and other financial liabilities in all categories.

Net interest income includes interest on non-derivative trading assets and liabilities, as well as on derivative financial instruments held in the banking book.

In addition, net interest cost on defined benefits obligations (pension and jubilee) is recognised in net interest income.

(ii) Net fee and commission income

The Bank earns fee and commission income from a diverse range of services provided to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees, as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fees earned for providing transaction services are recognised upon completion of the underlying transaction. These fees include fees for arranging acquisition of securities and purchase or sale of a business.

(iii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

This line item includes dividend from shares and other equity-related securities in all portfolios, as well as income from other investments in companies classified as available for sale. It also contains dividends from subsidiaries, associates or joint ventures, which are not consolidated or not accounted for using the equity method due to their insignificance. Such non-consolidated subsidiaries, associates and joint ventures are presented on the balance sheet line item 'Other assets'.

(iv) Net trading and fair value result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments, as well as foreign exchange gains and losses.

In addition, net trading result also contains interest income or expense on derivative financial instruments held in the trading book. However, interest income or expenses on derivative financial instruments held in the banking book are reported in the income statement line item 'Net interest income'.

Net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions.

(v) Rental income from investment properties

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

(vi) Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies.

This line item also includes service costs for defined benefit obligations (pension and jubilee) and the actuarial remeasurements of jubilee obligations.

(vii) Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, expenditures for legal and other consultants. advertising and marketing, as well as sundry other administrative expenses.

Furthermore this line item contains deposit insurance fund contributions.

(viii) Depreciation and amortisation

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

(ix) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

This line item includes selling and other derecognition gains or losses on loans and receivables, financial assets available-for-sale, financial assets held-to-maturity and financial liabilities measured at amortised cost. However, if such gains or losses relate to individually impaired financial assets, they are reported in the income statement line item 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

(x) Net impairment loss on financial assets not measured at fair value through profit or loss

Net impairment losses on financial assets comprise of impairment losses and reversals of impairment on loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. Net impairment losses relate to allowances recognised on individual and portfolio (incurred but not reported) level.

In addition, direct write-offs and recoveries on written-off loans are reported on this line item.

(xi) Other operating result

Other operating result includes all income and expenses not directly attributable to the Bank's ordinary activities.

This line item includes results on the sale, impairment losses or reversal of impairment related to non-financial assets, such as property and equipment and intangible assets. Any impairment losses on goodwill are presented as other operating result.

In addition, this line item includes gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, as well as the related impairment losses or their reversals.

Other operating result also contains expenses for allocations to provisions, income from their release and other taxes.

The significant items reported within other operating result are legally imposed levies related to the banking activities:

- banking tax, and
- contribution to the National Resolution Fund.

34 Renegotiated loans

The Bank seeks to restructure loans, rather than to repossess collaterals, where possible. The restructuring involves extending of payment arrangements and/or agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR calculated before the modification of terms. These loans continue to be subject to individual or collective impairment assessment. The renegotiated loan is no longer considered past due. Management of the Bank continually reviews renegotiated loans to ensure that all criteria are met and future payments are likely to occur.

35 Collateral repossessed

The Bank's policy is to decide on a beneficial treatment of repossessed assets, whether it should be used for internal operations or should be sold. The assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured assets. The assets determined to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

36 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, guarantees / letters of credit, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of a collateral is generally assessed, at a minimum, at inception and according to the Bank's reporting schedule. To the extent possible, the Bank uses active market data for valuation of the financial assets held as collaterals. Other financial assets, which do not have a readily determinable market value, are valued using models. Non-financial collaterals, such as real estates, are valued based on data provided by third parties, e.g. mortgage brokers, housing price indices, and other independent sources.

5) Significant accounting judgements, assumptions and estimate

When preparing these financial statements, management has applied a number of judgements, estimates and assumptions about recognition of assets, liabilities, income and expenses. The estimates and assumptions used are based on a historical experience and other factors, such as planning, forecasts and expectations of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these estimates and assumptions the actual results could lead to adjustments of particular line items of the financial statements in the future periods. The most significant uses of judgements, assumptions and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined by a variety of valuation techniques using mathematical models. Inputs to these models are derived from observable market data. Where observable market data is not available, a judgement is required to establish fair value. The disclosures for fair values of financial instruments, the fair value hierarchy and valuation models are presented in the note 38.

Impairment of financial assets

The Bank reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. For determining an impairment loss it is required to assess whether there is an objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of the future cash flows.

The disclosures concerning impairment are provided in the note 37. The development of loan allowances is described in the notes 10, 18 and 19.

(i) Individual assessment of impairment

Loans and receivables to credit institutions, sovereigns and corporate customers are generally considered by the Bank as individually significant and are analysed on an individual basis regardless materiality limits.

Loans and receivables to retail customers with exposures exceeding 200 ths. Eur are generally considered by the Bank as individually significant and are analysed on an individual basis.

For impairment classification, the Bank uses expected loss threshold of 250 eur per client. Losses under this amount are considered to be immaterial.

Loans and receivables with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments and proceeds from collateral. Impairment amount is determined by the difference between the gross carrying amount of the loan and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

(ii) Portfolio assessment of impairment

For the purpose of collective assessment of impairment, the financial assets are grouped on the basis of the Bank's internal credit rating system.

Future cash flows from a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce differences between the loss estimates and the actual loss experience.

Impairment of non-financial assets

The Bank reviews its non-financial assets at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. Judgements and estimates are required to determine the value in use and the fair value less costs to sell, based on estimated discount rates, timing and the amount of future expected cash flows.

Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Recognition of provisions requires a judgement whether such an obligation exists. Furthermore, estimates are necessary with respect to the amount and timing of the future cash flows to determine the amount of provisions. Details of provisions are disclosed in the note 28.

Defined benefit obligation plans

The cost of the defined benefit obligation plans is determined using an actuarial valuation. This involves making assumptions about discount rates, expected rates of return on assets, future salary increases, future pension increases, fluctuation, mortality rates and retirement age.

Deferred tax assets

Deferred tax assets are recognised with respect of tax losses and deductible temporary differences. They are recorded to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. A judgement is required to determine the amount of deferred tax assets that can be recognised, based on likely timing and level of future taxable profits, together with future tax planning strategies.

6) Application of new and amended IAS/IFRS

The Bank has adopted all the standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), as adopted by the European Union, which are valid for the current reporting period and relevant for its business. The following standards, interpretations and their amendments are applicable for the first time in the year 2016:

Effective standards and interpretations

The following standards and amendments have become mandatory for the financial year 2016 and were endorsed by EU:

Amendments to IAS 1: Disclosure Initiative

Application of disclosure changes and clarifications did not result in significant changes in the presentation of the Banks's financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. Application of these amendments did not have a significant impact on the Bank's financial statements.

Annual Improvements to IFRSs 2012 - 2014 Cycle
In September 2014, the IASB issued a set of amendments to various standards. Application of these amendments did not have a significant impact on the Bank's financial statements.

Also adoption of the following amendments, which apply for the first time in 2016, did not have any impact on the accounting policies, financial position or performance of the Bank:

Amendments to IFRS 11: Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 27: Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

Standards and interpretations not yet effective

(i) The following standards, amendments and interpretations are not yet endorsed by the EU:

Amendments to IAS 7: Disclosure Initiative (IASB effective date: 1 January 2017).

Amendments to IAS 7 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. Application of these amendments is not expected to have a significant impact on the Bank´s financial statements.

Amendments to IAS 7: Disclosure Initiative (IASB effective date: 1 January 2017).

Amendments to IAS 7 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. Application of these amendments is not expected to have a significant impact on the Bank´s financial statements.

Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2017).

Amendments to IAS 12 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The impact on the Bank´s financial statements will be evaluated, but it is not expected that these amendments will have a significant impact.

(ii) The following standards, amendments and interpretations are already endorsed by the EU:

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018)

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both of the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to financial assets that meet condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income. The Bank intends to use this election for some of its investments in equity instruments which are of a long-term nature and do not have quoted market price.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income. IFRS 9 provides an option to apply this requirement early, however the Bank does not intend to make use of this option.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected credit losses. Lifetime expected credit losses are to be recognised for all instruments whose credit risk increases significantly after initial recognition. Furthermore the standard clarifies the rules for accounting for gains and losses resulting from modification of contractual conditions of financial assets.

The objective of the new hedge accounting model is to reflect in accounting actual risk management practices of entities hedging risks. For the Bank, the following areas are expected to be relevant to achieve this objective: only the prospective effectiveness test is required and the retrospective effectiveness test with the 80 % 125 % corridor was abandoned; when options are used as hedging instruments, the volatility of the time value is recognised through OCI rather than profit or loss; the possibility of hedging synthetic items containing derivatives.

IFRS 9 provides an accounting policy choice in the area of hedge accounting. Thus, upon adoption of IFRS 9, entities can either (a) start with full application of the hedge accounting requirements of IFRS 9, (b) start with limited application of the hedge accounting requirements of IFRS 9 by continuing to apply IAS 39 to the specific case of fair value hedges of interest rate exposure of a portfolio of financial assets or financial liabilities, or (c) continue with full application of the hedge accounting requirements of IAS 39. The Bank plans to implement the third choice. However, some actions are expected to be necessary in order to address additional disclosures that will be required based on IFRS 7 after adoption of IFRS 9.

Based on the accounting policy choice embedded into the transition requirements of IFRS 9, the Bank will not restate comparative information upon initial application of IFRS 9. Instead, the one-off impact from initial application of IFRS 9 will be reflected in the opening equity as of the initial application date.

During the year 2016, the Bank has completed the evelopment of business requirements documentation addressing the changes in group-level policies, procedures, processes and systems, assessed as necessary in preparation for transition to IFRS 9 on 1 January 2018. On this basis, the Bank started the localization of the IFRS 9 requirements, in terms of adapting existing local solutions. As part of this effort, iterative financial impact studies (notably with regards to classification/measurement and impairment of financial assets but gradually also with regards to regulatory capital and ratios) continued in the Bank and are planned be further refined throughout the first half of the year 2017. Starting with the second half of the year 2017 a fully-fledged parallel run of the "as is" IAS 39 and the "to be" IFRS 9 driven processes for classification, measurement, impairment and disclosure/reporting for financial instruments is planned. At the same time, Erste Group and the Bank acknowledges that the above mentioned financial impact assessments and the simulated IFRS 9-driven outputs throughout the parallel run will bear an inherent degree of approximation, that is expected to reduce along with different IFRS 9-driven functionalities being implemented, tested and transferred from testing to the Bank's operating systems.

On this basis, the Bank upholds its previousexpectations that this standard will not have a significant effect on balance sheet items and measurement methods for financial instruments.

In the area of classification and measurement, the Bank identified that none of its loan portfolio will have to be measured at fair value through profit or loss, due to the contractual cash flow characteristics. On the other hand, some debt securities currently measured at fair value through other comprehensive income may be measured at amortised cost due to the 'held-to-collect contractual cash' flows business model applied to them.
In the area of expected credit loss modelling and ensuing impairment loss, the Bank believes that one of the key drivers of

the expected impact from adopting the new impairment model required by IFRS 9 is the assessment of significant increase in credit risk for exposures that are not identified as credit-impaired. In this respect, across portfolios and product types, quantitative indicators defined for assessing significant increase in credit risk will include adverse change in 1Y probability of default and days-past-due in excess of 35 days. Qualitative indicators will include specific early-warning-system risk type flag (adversely changing since initial recognition) and specific forbearance type flag (adversely changing since initial recognition). Some of the qualitative indicators (assignments of some specific flag types) will inherently rely on experienced credit risk judgment being exercised adequately and timely. The related credit risk controlling policies and procedures (most of them already in place, some of them in progress of being adapted in preparation for IFRS 9) will ensure the necessary governance framework. Besides the qualitative indicators defined on client level, it is planned to use and perform the assessment of significant increase in credit risk on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag. The portfolio triggers should cover the unexpected increase in credit risk on portfolio level. However, the exact definition of such portfolio triggers has yet to be stabilized. Also, the Bank believes that another significant driver of the expected impact from adopting the IFRS 9 impairment model required by IFRS 9 is incorporation of forward-looking macro-economic information. In this respect, the Bank has developed a methodology for lifetime probabilities of default calculation that requires the application of a macroeconomic overlay. That is, the probabilities of default are modified by using a macroeconomic function as estimated for stress testing purposes (i.e. function linking selected macroeconomic variables with probabilities of default). In consideration of these methodological requirements, credit loss allowances are expected to increase more than insignificantly for some non-defaulted exposures.

Also, the Bank expects that the structure of the financial statements (both main components and explanatory notes) will be have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS 7, as triggered by IFRS 9. Such adaptions would also consider any new regulatory reporting requirements (notably FINREP related) which EU or national regulators may contemplate as part of preparing for initial application of IFRS 9 at the level of the wider European and national banking sector.

IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018)

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on the Bank´s financial statements.

C. NOTES TO THE INCOME STATEMENT AND THE BALANCE SHEET

1) Net interest income

EUR ths.	2015	2016
Interest income		
Financial assets - at fair value through profit or loss	273	87
Financial assets - available for sale	30 071	28 637
Financial assets - held to maturity	100 418	95 446
Loans and receivables	402 158	395 289
Derivatives - hedge accounting, interest rate risk	(7 274)	(8 572)
Other assets	50	15
Total interest income	**525 696**	**510 902**
Interest expenses		
Financial liabilities measured at amortised cost	(57 322)	(49 673)
Derivatives - hedge accounting, interest rate risk	799	837
Other liabilities	(92)	(78)
Total interest expense	**(56 615)**	**(48 914)**
Net interest income	**469 081**	**461 988**

Interest income for the reported period of the year 2016 included interests related to impaired financial assets in the amount of 8.8 mil. eur (2015: 7.9 mil. eur).

2) Net fee and commission income

EUR ths.	2015	2016
Securities	8 054	7 585
Transfer orders	8 736	7 686
Other	(682)	(101)
Custody	215	238
Payment services	82 220	82 340
Card business	22 758	27 533
Other payment services	59 462	54 807
Customer resources distributed but not managed	11 393	11 363
Collective investment	626	504
Insurance products	10 737	10 830
Other	30	29
Lending business	18 417	19 224
Guarantees given, guarantees received	3 751	2 865
Loan commitments given, loan commitments received	65	592
Other lending business	14 601	15 767
Other	840	969
Net fee and commission income	**121 139**	**121 719**

3) Dividend income

EUR ths.	2015	2016
Financial assets designated at fair value through profit or loss	443	629
Available-for-sale financial assets	415	563
Dividend income from equity investments	2 986	2 400
Total	**3 844**	**3 592**

4) Net trading and fair value result

The Bank has adopted a business model of centralised financial markets trading in cooperation with its parent company. Within this model Erste Group Bank AG conducts all trading operations on a central trading book in order to manage effectively market risks from the group trading activities (i.e. transactions with retail, corporate and other institutional clients), with the exception of equity risk trading and transactions for the Bank's liquidity management purposes.

Trading gains from the market positions of Erste Group Bank AG are distributed according to the approved rules to the local banks within the Erste group based on their financial results and are reported in the income statement line item 'Net trading result'. The basic principle underlying these rules is that Erste Group Bank AG absorbes potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. This business model of financial markets trading also includes reallocation of trading costs to the participating subsidiaries of Erste Group Bank AG based on their cost/income ratio.

EUR ths.	2015	2016
Net trading result	9 165	13 489
Securities and derivatives trading	6 789	7 964
Foreign exchange transactions	2 321	5 744
Results from Hedge Accounting	55	(220)
Result from financial assets and liabilities designated at fair value through profit or loss	(290)	(916)
Total	**8 875**	**12 573**

The line item 'Securities and derivatives trading' includes gains from the Erste Group Bank's market positions attributable to the Bank.

5) Rental income from investment properties

EUR ths.	2015	2016
Investment properties	401	367
Total	**401**	**367**

The Bank does not provide any operating lease.

6) Personnel expenses

EUR ths.	2015	2016
Wages and salaries	(84 471)	(94 509)
Compulsory social security	(27 605)	(32 245)
Long-term employee provisions	(484)	(462)
Other personnel expenses	(4 520)	(6 183)
Total	**(117 080)**	**(133 399)**

As at 31 December 2016 the Bank had 4 211 employees, thereof five members of the Board of Directors. Average number of employees in the year 2016 was 4 226.

As at 31 December 2015 the Bank had 3 808 employees with the same number of the Board of Directors members. Average number of employees in the year 2015 was 3 831.

The number of employees increased as a consequence of a merger with the former subsidiary Erste Group IT SK, spol. s r.o. (see note 21).

7) Other administrative expenses

EUR ths.	2015	2016
Deposit insurance contribution	(2 354)	(2 472)
IT expenses	(44 781)	(34 530)
Expenses for office space	(26 787)	(28 567)
Office operating expenses	(12 597)	(12 771)
Advertising/marketing	(14 413)	(14 183)
Legal and consulting costs	(3 421)	(3 457)
Sundry administrative expenses	(6 463)	(8 454)
Total	**(110 816)**	**(104 434)**

The Bank is legally obliged to make a contribution to the Deposit Protection Fund. The amount of this annual contribution is calculated based on the Bank's customer deposit liabilities. The contribution to the Deposit Protection Fund was paid in June 2016.

Expenses for audit and other advisory services provided by the audit company are disclosed in the line item 'Legal and consulting costs' and were as follows:

EUR ths.	2015	2016
Audit fees	(245)	(265)
Other services involving the issuance of a report	(398)	(405)
Tax consultancy fees	(41)	(75)
Other services	(123)	(126)
Total	**(807)**	**(871)**

8) Depreciation and amortisation

EUR ths.	2015	2016
Software and other intangible assets	(23 407)	(24 545)
Owner occupied real estate	(9 357)	(8 024)
Investment properties	(251)	(220)
Office furniture and equipment and sundry property and equipment	(7 849)	(8 582)
Total	**(40 864)**	**(41 371)**

9) Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net

EUR ths.	2015	2016
Derecognition of financial assets available for sale	442	27 004
Derecognition of financial assets held to maturity	446	25
Derecognition of loans and receivables	11	-
From repurchase of liabilities measured at amortised cost	3	15
Total	**902**	**27 044**

With reference to the purchase of shares of Visa Europe Ltd. by Visa INC. performed at 21 June 2016 the Bank reclassified the actual amount of unrealized measurement of its investment classified as financial asset available for sale in the amount of 26.7 mil. eur from other comprehensive income to the position "Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net" (see note 16).

Derecognition of the held-to-maturity financial assets relates to the sales close to maturity without breaching tainting rule as defined by IAS 39.

10) Net impairment loss on financial assets not measured at fair value through profit or loss

EUR ths.	2015	2016
Loans and receivables	(58 359)	(48 198)
Allocation to risk provisions	(342 498)	(320 691)
Release of risk provisions	272 506	264 986
Direct write-offs	-	-
Recoveries recorded directly to the income statement	11 633	7 507
Financial assets - held to maturity	21	(37)
Total	**(58 338)**	**(48 235)**

11) Other operating result

EUR ths.	2015	2016
Result from properties/movables/other intangible assets	368	5
Allocation to/release of other provisions	(455)	56
Allocation to/release of provisions for commitments and guarantees given	2 995	4 416
Levies on banking activities	(30 920)	(29 106)
Other taxes	(205)	(191)
Result from other operating expenses/income	(4 754)	7 813
Total	**(32 971)**	**(17 007)**

There are two significant items within other operating result for the year 2016 presented in the line item 'Levies on Banking activities':

- levy of selected financial institutions ('bank tax') in the amount of 25.1 mil. eur (2015: 23.6 mil. eur);
- contribution to the National Resolution Fund ('resolution fund') in the amount of 4.0 mil. eur (2015: 7.3 mil. eur).

The Bank is legally obliged to make a contribution to the National resolution fund ('Resolution fund'). The amount of this annual contribution is determined by the National authority for crisis resolution based on the Bank's liabities and its risk profile. The contribution to the National resolution fund was paid in April 2016.

In respect to the extraordinary gain realized from the sale of the shares of Visa Europe Ltd. The Bank decided to donate the amount of 2.6 mil. eur to Nadácia Slovenskej sporiteľne. This expense is disclosed in the line item "Result from other operating expenses/income".

In the year 2016 the Bank realized an extraordinary gain in the amount of 14.5 mil. eur from the contribution of POS terminals and relating transactions business into the entity Global Payments, s.r.o. seated in Czech republic (see note 16).

12) Taxes on income

The actual tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate valid in Slovak Republic due to the following items:

EUR ths.	2015	2016
Pre-tax profit/loss	244 173	282 837
Statutory tax rate	22%	22%
Income tax expense for the financial year	53 718	62 224
Impact of decrease in tax rates	-	2 686
Impact of tax-exempt earnings of investments income and other tax-exempt	(10 851)	(13 002)
Tax increases due to non-deductible expenses, additional business tax and similar elements	19 331	19 252
Tax losses carried forward obtained in connection with merger	(2 428)	
Current tax effects of foreign withholding taxes	1	-
Tax income not atributable to the reporting period	270	(544)
Total	**60 041**	**70 616**

EUR ths.	2015	2016
Current tax expense / income	(66 493)	(69 042)
current period	(66 493)	(69 042)
Deferred tax expense / income	6 452	(1 574)
current period	6 452	(1 574)
Total	**(60 041)**	**(70 616)**

13) Cash and cash balances

EUR ths.	2015	2016
Cash on hand	321 939	317 057
Cash balances at central banks	872	79 916
Total	**322 811**	**396 973**

During the monthly period covering the date of 31 December 2016 the required average balance of minimum compulsory reserves was in the amount of 112.4 mil. eur and the actual average balance amounted 133.1 mil. eur representing 118.40% of the requirement.

During the monthly period covering the date of 31 December 2015 the required average balance of minimum compulsory reserves was in the amount of 105.6 mil. eur and the actual average balance amounted 116.2 mil. eur representing 110.07% of the requirement.

14) Financial assets – held for trading/Derivatives

EUR ths.	Notional value		Positive fair value		Negative fair value	
	2015	2016	2015	2016	2015	2016
Interest rate	1 238 955	1 148 509	17 699	15 899	20 334	15 206
Equity	77 114	75 453	1 541	416	1 541	416
Foreign exchange	408 140	408 886	37 752	23 597	36 385	22 383
Credit	50 000	50 000	4	50	-	-
Commodity	291 598	120 593	27 418	4 852	27 248	4 807
Total	**2 065 807**	**1 803 441**	**84 414**	**44 814**	**85 508**	**42 812**

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as a part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most cases requires margin deposits.

15) Financial assets – at fair value through profit or loss

Financial assets were designated as fair value through profit or loss at their initial recognition based on the intention of the Bank to manage them on fair value basis.

EUR ths.	2015	2016
Equity instruments	10 993	6 118
Debt securities	6 675	-
Total	**17 668**	**6 118**

The amounts represent the maximum exposure to credit risk.

16) Financial assets – available for sale

EUR ths.	2015	2016
Equity instruments	51 796	35 387
Debt securities	1 159 815	1 027 934
General governments	972 721	841 430
Credit institutions	61 680	60 644
Non-financial corporations	125 414	125 860
Total	**1 211 611**	**1 063 321**

The carrying amounts detailed above represent the maximum exposure to credit risk.

As at 31 December 2016 financial assets available for sale measured at cost amounted 0.7 mil. eur (2015: 0.7 mil. eur).

On 21 June 2016 Visa INC. bought shares of Visa Europe Ltd. In relation to this transaction the Bank derecognized the value of its investment in Visa Europe Ltd. in the actual amount of 26.7 mil. eur (see note 9). The sale of the participation has been settled in cash amounting 19.4 mil. eur, together with recognition of Visa INC. shares in the amount of 5.7 mil. eur and recognition of a receivable from deferred payment in the amount of 1.6 mil. eur payable in three years time. As at 31 December 2016 the investment in Visa INC. was disclosed in the line item "Financial assets - available for sale" in the amount of 10.3 mil. eur.

On 1 June 2016 the Bank acquired 24.6% share in associate company Global Payments, s.r.o. by contribution of POS terminals and relating transactions business (see note 11). Subsequently, the Bank sold 51% of this share amounting 7.4 mil. eur to Global Payments – Caixa Acquisition Corporation S.à r.l. Consequently, the share of the Bank in its associate Global Payments, s.r.o. decreased to 12.5% and was disclosed in the line item "Financial assets - available for sale" in the amount of 7.1 mil. eur.

On 8 September 2016 the Bank provided a cash and non-cash contribution (in the form of an investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30.99% share in this company.

17) Financial assets – held to maturity

EUR ths.	Gross carrying amount		Collective allowances		Net carrying amount	
	2015	2016	2015	2016	2015	2016
General governments	2 451 290	2 577 372	(223)	(243)	2 451 067	2 577 128
Credit institutions	39 545	63 468	(17)	(36)	39 528	63 433
Non-financial corporations	101	101	(2)	(1)	99	101
Total	**2 490 936**	**2 640 941**	**(242)**	**(280)**	**2 490 694**	**2 640 662**

The amounts represent the maximum exposure to credit risk.

18) Loans and receivables to credit institutions

EUR ths.	Gross carrying amount		Collective allowances		Net carrying amount	
	2015	2016	2015	2016	2015	2016
Loans and advances						
Credit institutions	121 612	89 942	(29)	(36)	121 583	89 906
Total	**121 612**	**89 942**	**(29)**	**(36)**	**121 583**	**89 906**

The amounts represent the maximum exposure to credit risk.

As at 31 December 2016 the accounts in credit institutions repayable on demand (disclosed in the Statement of Cash Flows) amounted 31.0 mil. eur (2015: 26.3 mil. eur).

As at 31 December 2016 and at the end of the year 2015 the Bank had no reverse repo agreements.

Allowances for loans and receivables to credit institutions were as follows:

EUR ths.	2015	Allocations	Releases	2016
Collective allowances				
Loans and advances	(29)	(407)	399	(36)
Total	**(29)**	**(407)**	**399**	**(36)**

EUR ths.	2014	Allocations	Releases	2015
Collective allowances				
Loans and advances	(53)	(110)	135	(29)
Total	**(53)**	**(110)**	**135**	**(29)**

19) Loans and receivables to customers

EUR ths.	Gross carrying amount		Specific allowances		Collective allowances		Net carrying amount	
	2015	2016	2015	2016	2015	2016	2015	2016
Loans and advances to customers								
General governments	235 986	197 813	-	(1)	(449)	(252)	235 537	197 560
Other financial corporations	80 891	83 351	(55)	(7)	(303)	(257)	80 532	83 087
Non-financial corporations	2 258 169	2 247 282	(126 835)	(94 663)	(18 001)	(22 041)	2 113 333	2 130 578
Households	7 194 600	8 110 581	(148 580)	(159 027)	(60 706)	(66 416)	6 985 314	7 885 138
Total	**9 769 646**	**10 639 027**	**(275 470)**	**(253 698)**	**(79 459)**	**(88 966)**	**9 414 716**	**10 296 363**

Allowances for loans and receivables to customers were as follows:

EUR ths.	2015	Allocati-ons	Use	Releases	Interest income from impaired loans	Mergers	2016	Výnosy z odpísaných úverov	Priame odpisy úverov
Specific allowances									
Loans and advances to customers	(275 470)	(162 148)	59 149	115 958	8 813	-	(253 698)	7 507	-
General governments	-	(1)	-	-	-	-	(1)	-	-
Other financial corporations	(55)	(1)	-	49	-	-	(7)	-	-
Non-financial corporations	(126 835)	(66 652)	35 231	61 981	1 612	-	(94 663)	5 399	-
Households	(148 580)	(95 494)	23 918	53 928	7 201	-	(159 027)	2 108	-
Collective allowances									
Loans and advances to customers	(79 459)	(158 138)	-	148 629	-	-	(88 966)	-	-
General governments	(449)	(135)	-	331	-	-	(252)	-	-
Other financial corporations	(303)	(1 507)	-	1 554	-	-	(257)	-	-
Non-financial corporations	(18 001)	(38 385)	-	34 344	-	-	(22 041)	-	-
Households	(60 706)	(118 111)	-	112 400	-	-	(66 416)	-	-
Total	**(354 929)**	**(320 287)**	**59 149**	**264 587**	**8 813**	**-**	**(342 665)**	**7 507**	**-**

EUR ths.	2014	Allocati-ons	Use	Releases	Interest income from impaired loans	Mergers	2015	Výnosy z odpísaných úverov	Priame odpisy úverov
Specific allowances									
Loans and advances to customers	(259 428)	(191 074)	52 640	117 095	7 973	(2 676)	(275 470)	11 633	-
Other financial corporations	(496)	-	279	162	-	-	(55)	-	-
Non-financial corporations	(111 699)	(93 393)	18 805	60 196	1 661	(2 405)	(126 835)	(1 020)	-
Households	(147 233)	(97 681)	33 556	56 737	6 312	(271)	(148 580)	12 653	-
Collective allowances									
Loans and advances to customers	(83 118)	(151 314)	-	155 276	-	(303)	(79 459)	-	-
General governments	(454)	(259)	-	264	-	-	(449)	-	-
Other financial corporations	(395)	(1 456)	-	1 548	-	-	(303)	-	-
Non-financial corporations	(17 001)	(45 303)	-	44 604	-	(301)	(18 001)	-	-
Households	(65 268)	(104 296)	-	108 860	-	(2)	(60 706)	-	-
Total	**(342 546)**	**(342 388)**	**52 640**	**272 371**	**7 973**	**(2 979)**	**(354 929)**	**11 633**	**-**

The column item 'Recoveries recorded directly to the income statement' includes recoveries related to the amounts previously written off, as well as recoveries resulting from the official upgrades of customers to non-defaulted rating grades.

As at 31 December 2016, 15 largest customers accounted for 5.6% of the gross loan portfolio amounting 595,8 mil. eur (2015: 7.8%, 761.5 mil. eur).

Mandate loans

During the year 2016 the Bank cooperated with 10 external companies (2015: 11 companies). Following mandate contracts the management and administration of certain non-performing receivables is outsourced. The Bank maintains risks and rewards associated with the underlying exposures and shares part of recoveries with the external service providers.

As at 31 December 2016 the total amount of gross loans outsourced was 139.0 mil. eur (2015: 128.2 mil. eur).

Write off and sale of receivables

During the year 2016 the Bank sold loan receivables in the amount of 56.8 mil. eur (2015: 51.4 mil. eur) for a consideration of 15.1 mil. eur (2015: 14.2 mil. eur) and used the corresponding allowances amounting 46.3 mil. eur (2015: 43.4 mil. eur).

In the year 2016 the Bank has also written off loans in the amount of 23.4 mil. eur (2015: 19.2 mil. eur) and used the respective allowances amounting 23.2 mil. eur (2015: 18.4 mil. eur).

Finance leases

Loans and advances to customers also include net investments in finance leases acquired as a result of the merger of the former subsidiary Leasing Slovenskej sporiteľne, a.s. with the Bank in the year 2015. The principal assets held under lease arrangements include cars and other technical equipment.

As at 31 December 2016 the accumulated allowances for uncollectible minimum lease payments receivable amounted 0.7 mil. eur (2015: 2.8 mil. eur).

EUR ths.	2015	2016
Gross investment in finance leases	**18 148**	**33 944**
Thereof:		
< 1 year	7 642	10 201
1-5 years	10 241	22 923
> 5 years	264	820
Unearned income	**(856)**	**(1 358)**
Net investment in finance leases	**17 291**	**32 586**
Thereof:		
< 1 year	7 205	9 578
1-5 years	9 826	22 192
> 5 years	260	816

20) Derivatives – hedge accounting

EUR ths.	Notional value		Positive fair value		Negative fair value	
	2015	2016	2015	2016	2015	2016
Fair value hedges - interest rate						
Interest rate	347 821	397 821	7 418	7 705	42 915	52 389
Total	**347 821**	**397 821**	**7 418**	**7 705**	**42 915**	**52 389**

Fair value hedge of assets

As at 31 December 2016 the Bank held in its portfolio fixed rate bonds denominated in eur with face value of 381.0 mil. eur (2015: 331.0 mil. eur). As the purchases of these bonds increased exposure to interest rate risk in the period from five to fifteen years, the Bank entered into interest rate swap deals in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates.

During the year 2016 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Bank recognised a net loss on the hedging instruments in the amount of 8.6 mil. eur (2015: net gain 7.1 mil. eur). On the other hand, a net gain on the hedged item attributable to the hedged risk amounted to 8.4 mil. eur (2015: net loss 7.1 mil. eur).

Fair value hedge of liabilities

In July 2007 the Bank issued fixed rate mortgage bonds with maturity in July 2027 also disclosed in the note 27. At the same time the Bank entered into interest rate swap deals in order to hedge interest rate risk. As at 31 December 2016 the notional value of these hedged mortgage bonds was 16.6 mil. eur (2015: 16.6 mil. eur).

During the year 2016 the hedges were effective in hedging fair value exposure to interest rate movements. During the period the Bank recognised a net gain on the hedging instruments in the amount of 0.3 mil. eur (2015: net loss 0.9 mil. eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 0.3 mil. eur (2015: net gain 0.9 mil. eur).

21) Investments in subsidiaries and associates

EUR ths.	2015	2016
Investment in subsidiaries	20 302	14 906
Investment in associate	1 097	8 135
Total	**21 399**	**23 041**

Changes during the year 2016

On 1 April 2016 the subsidiary Erste Group IT SK, spol. s r.o. s was merged with the Bank and consequently the Bank's equity increased by 1.6 mil. eur.

The company s IT Solutions SK, spol. s r.o. in liquidation did not perform any economic activities in the years 2015 and 2016 and therefore zero values of assets and liabilities were presented. On 18 May 2016 an extraordinary general assembly of this company decided on liquidation finalisation and approved distribution of a liquidation residue among its shareholders. Slovenská sporiteľňa, a.s. as a shareholder with 23.5% share received a liquidation payment in the amount of 114 151.68 eur.

On 1 June 2016 the Bank acquired 24.6% share in an associate Global Payments, s.r.o. seated in Czech republic by a contribution of POS terminals and related transactions business. Through this transaction the Bank realized an extraordinary gain in the amount of 14.5 mil. eur (see note 11).

Subsequently, the Bank sold 51% of this share amounting 7.4 mil. eur to the company Global Payments – Caixa Acquisition Corporation S.à r.l. As a result, the share of the Bank in the company Global Payments, s.r.o. decreased to 12.5% and was disclosed in the amount of 7.1 mil. eur in the line item "Financial assets - available for sale" (see note 16).

On 8 September 2016 the Bank provided a cash and non-cash contribution (in the form of investment in the company Global Payments, s.r.o.) into the company Holding Card Service, spol. s r.o. and thus acquired 30.9% share in this company.

On 20 May 2016 the subsidiary Derop B.V. increased its capital funds, whereby the Bank's contribution as a 85% shareholder amounted 68 000.00 eur.

On 4 August 2016 the Bank acquired the residual share (15%) of the subsidiary Derop B.V. and became its 100% shareholder. The purchase price was 2 977 683.00 eur.

On 28 October 2016 the subsidiary Služby SLSP, s.r.o. decreased its capital funds, whereby the Bank received the amount of 7 447 672.00 eur.

On 30 December 2016 the subsidiary Derop B.V. was merged with the subsidiary Služby SLSP, s.r.o.

Changes during the year 2015

In the year 2015 the Bank has established a subsidiary Služby SLSP, s.r.o., which subsequently purchased 100% share in the former subsidiary Realitná spoločnosť Slovenskej sporiteľne, a.s.

In the year 2015 the Bank acquired remaining shares (49%) of the subsidiary Erste Group IT SK, spol. s r.o. and became its 100% shareholder.

In the year 2015 the subsidiary Leasing Slovenskej sporiteľne, a.s. was merged with the Bank.

The folowing table presents the carrying amounts of investments in subsidiaries and asociates:

EUR ths.	Cost		Impairment		Net book value	
	2015	2016	2015	2016	2015	2016
Derop B.V.	11 308	-	-	-	11 308	-
Erste Group IT SK, spol. s r.o.	994	-	-	-	994	-
Procurement Services SK, s.r.o.	3	3	-	-	3	3
Služby SLSP, spol. s r. o.	7 997	14 903	-	-	7 997	14 903
Subsidiaries	**20 302**	**14 906**	**-**	**-**	**20 302**	**14 906**
Prvá stavebná sporiteľňa, a.s.	1 093	1 093	-	-	1 093	1 093
Slovak Banking Credit Bureau, s.r.o.	3	3	-	-	3	3
s IT Solutions SK, spol. s r.o.	2 409	-	(2 409)	-	-	-
Holding Card Service, spol. s r. o.	-	7 038	-	-	-	7 038
Associates	**3 505**	**8 135**	**(2 409)**	**-**	**1 097**	**8 135**
Total	**23 807**	**23 041**	**(2 409)**	**-**	**21 399**	**23 041**

The Bank performs impairment review of investments in subsidiaries and associates. Impairment losses and their reversals are recognized in the income statement line item 'Other operating result'.

The folowing table presents development of impairment provision for subsidiaries and asociates:

EUR ths.	Impairment provision on subsidiaries		Impairment provision on associates		Total	
	2015	2016	2015	2016	2015	2016
As at 1 January	**(43 564)**	**-**	**(2 409)**	**(2 409)**	**(45 973)**	**(2 409)**
Allocations	-	-	-	-	-	-
Releases	-	-	-	-	-	-
Merger	36 967	-	-	-	36 967	-
Use	6 597	-	-	2 409	6 597	2 409
As at 31 December	**-**	**-**	**(2 409)**	**-**	**(2 409)**	**-**

Investments in subsidiaries of Slovenská sporiteľňa, a.s.

EUR ths.	Služby SLSP, s.r.o.	
	2015	2016
Place of business	Tomášikova 48, 832 01 Bratislava Slovenská republika	
Main business activity	Ancillary bank services	
Ownership held	100%	
Voting rights held	100%	
IFRS Classification (S)	Subsidiary	
Reporting currency	EUR	
Dividend income received	-	-
Impairment loss recognized (cumulative basis)	-	-
Impairment loss recognized (allocation, release, use for the reporting year)	-	-
Loan commitments, financial guarantees and other commitments given	-	-
Investee's key financial information for the reporting year (as at reporting year-end)		
Cash and cash balances	-	-
Other current assets	54	80
Non-current assets	7 942	22 901
Current liabilities	-	-
Non-current liabilities	8	14
Operating Income	(9)	(146)
Post-tax result from continuing operations	(9)	(148)
Other comprehensive income	-	-
Total comprehensive income	(9)	(148)
Depreciation and amortization	-	-
Interest income	-	-
Interest expense	-	-
Tax expense/income	-	(3)

Realitná spoločnosť Slovenskej sporiteľne, a.s. (100% dcérska spoločnosť Služby SLSP, s.r.o.)		LANED, A.S. (100% dcérska spoločnosť DEROP B.V)		Procurement Services SK, s.r.o.	
2015	2016	2015	2016	2015	2016
Tomášikova 48, 832 10 Bratislava Slovenská republika		Tomášikova 48, 832 71 Bratislava Slovenská republika		Tomášikova 48, 832 75 Bratislava, Slovenská republika	
Real estate agency		SPE-Real estate company		Procurement	
100%		100%		51%	
100%		100%		51%	
Subsidiary		Subsidiary		Subsidiary	
EUR		EUR		EUR	
-	-	-	-	16	15
-	-	-	-	-	-
6 597	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1 952	435	2 927	4 344	189	250
5 761	22	67 326	63 680	120	166
-	-	49 433	45 921	-	-
150	129	1 042	263	255	343
160	572	6 267	6 402	80	1 172
(224)	212	1 868	2 061	69	49
-	-	-	-	-	-
(224)	212	1 868	2 061	69	49
(381)	(357)	(3 872)	(3 766)	-	-
1	-	3	-	-	-
-	-	(440)	(364)	-	-
(3)	(3)	(527)	(575)	(11)	(18)

Investments in associates of Slovenská sporiteľňa, a.s.

EUR ths.	Prvá stavebná sporiteľňa, a.s.		Slovak Banking Credit Bureau, s.r.o.		Holding Card Service, spol. s r. o.	
	2015	2016	2015	2016	2015	2016
Place of business	Bajkalská 30 829 48 Bratislava Slovenská republika		Malý trh 2/A 811 08 Bratislava Slovenská republika		Olbrachtova 1929/62, 140 00 Praha 4 Česká republika	
Main business activity	Banking		Retail credit register		Equity release company	
Ownership held	9.98%		33.33%		30.99%	
Voting rights held	35.00%		33.33%		30.99%	
IFRS Classification (JV/A)	Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO	
Dividend income received	2 237	2 270	-	-	-	-
Impairment loss recognized (cumulative basis)	-	-	-	-	-	-
Impairment loss recognized (allocation, release, use for the reporting year)	-	-	-	-	-	-
Loan commitments, financial guarantees and other commitments given	-	-	-	-	-	-
Investee's key financial information for the reporting year (as at reporting year-end)						
Cash and cash balances	338	250	282	318	-	13
Other current assets	2 615 059	2 701 401	-	38	-	-
Non-current assets	78 685	78 530	22	10	-	22 686
Current liabilities	2 413 589	2 514 494	142	211	-	-
Non-current liabilities	35 310	33 158	3	7	-	-
Operating Income	(42 265)	(41 210)	11	5	-	(9)
Post-tax result from continuing operations	23 542	17 644	3	(3)	-	(9)
Other comprehensive income	5 679	2 561	-	-	-	-
Total comprehensive income	29 221	20 205	3	(3)	-	(9)
Depreciation and amortization	(3 614)	(3 809)	(7)	(7)	-	-
Interest income	108 631	104 646	-	-	-	-
Interest expense	(48 922)	(49 547)	-	-	-	-
Tax expense/income	(6 927)	(6 396)	-	-	-	-

As at 31 December 2016 the Bank held 9,98% share of Prvá stavebná sporiteľňa, a.s. (hereafter 'PSS'), alike in the year 2015. In accorndance with a contract with Erste Group Bank AG, the Bank acts on behalf of its parent company, which held 25,02% share in PSS in both presented years. In the year 2004, in accordance with the approval of the National Bank of Slovakia, the Bank has nominated a representative in the Supervisory Board of PSS, who replaced a representative of Erste Group Bank AG. Consequently the Bank has established significant influence in PSS and therefore the Bank's investment in PSS is presented as an associate. Dividend income from PSS is reported in the income statement line item 'Dividend income' and disclosed in the note 3.

22) Property, equipment and other assets

Cost

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Balance as at 1 January 2015	**203 462**	**64 967**	**50 936**	**319 364**	**7 882**
Additions	5 298	3 848	9 890	19 036	-
Disposals	(9 755)	(8 277)	(5 446)	(23 477)	(89)
Reclassification	296	-	(730)	(434)	(296)
Merger (+/-)	-	14	-	14	-
Balance as at 31 December 2015	**199 301**	**60 552**	**54 650**	**314 503**	**7 497**
Additions	5 019	3 336	4 665	13 020	-
Disposals	(21 425)	(4 207)	(414)	(26 047)	(461)
Reclassification	373	-	-	373	(373)
Merger (+/-)	-	5	86	91	-
Balance as at 31 December 2016	**183 268**	**59 686**	**58 987**	**301 940**	**6 663**

Accumulated depreciation

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Balance as at 1 January 2015	**(107 617)**	**(55 477)**	**(42 472)**	**(205 566)**	**(4 576)**
Depreciation	(9 357)	(3 535)	(4 314)	(17 206)	(251)
Disposals	5 088	8 053	5 326	18 468	48
Impairment	(3 135)	-	-	(3 135)	(92)
Reversal of impairment	4 347	-	-	4 347	77
Reclassification	(177)	-	714	537	177
Merger (+/-)	-	(1)	-	(1)	-
Balance as at 31 December 2015	**(110 851)**	**(50 960)**	**(40 746)**	**(202 556)**	**(4 617)**
Depreciation	(8 024)	(3 604)	(4 978)	(16 606)	(220)
Disposals	11 716	4 164	398	16 278	263
Impairment	(1 819)	-	-	(1 819)	-
Reversal of impairment	2 384	-	-	2 384	55
Reclassification	(244)	-	-	(244)	244
Merger (+/-)	-	(5)	(83)	(88)	-
Balance as at 31 December 2016	**(106 838)**	**(50 405)**	**(45 409)**	**(202 651)**	**(4 275)**

Carrying amount

EUR ths.	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Balance as at 31 December 2015	**88 450**	**9 592**	**13 905**	**111 947**	**2 880**
Balance as at 31 December 2016	**76 430**	**9 281**	**13 578**	**99 289**	**2 388**

Cost of property and equipment, which are fully depreciated but still used by the Bank as at 31 December 2016 amounted 87.3 mil. eur (2015: 81.3 mil. eur).

As at 31 December 2016 the Bank owned property and equipment not yet put in use in the amount of 2.6 mil. eur (2015: 1.0 mil. eur).

Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

Investment properties

As at 31 December 2016 the carrying amount of investment properties was 2.4 mil. eur (2015: 2.9 mil. eur). Total rental income earned on this property for the year 2016 amounted 0.4 mil. eur (2015: 0.4 mil. eur) and is separately presented in the line item 'Rental income from investment properties'. Depreciation of rented property for the year 2016 amounted 0.2 mil. eur (2015: 0.3 mil. eur) and is presented in the line item 'Depreciation'.

Operating leases

Summary of future minimum lease payments under non-cancellable operating leases where the Bank acts as lessee:

EUR ths.	2015	2016
< 1 year	14 529	15 735
1-5 years	43 651	48 340
> 5 years	21 255	16 238
Total	**79 435**	**80 313**

The aforementioned summary includes also rental payments for the Bank's head-office in the amount of 54,9 mil. Eur (2015: 56,4 mil. Eur) according to the contract cocluded with its subsidiary Laned, a.s.

The Bank does not act as a lessor in any non-cancellable operating lease transaction.

23) Intangible assets

Cost

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2015	**244 575**		**3 122**	**247 698**
Additions	20 250		146	20 396
Disposals	-		-	-
Reclassification (+/-)	731	-	-	731
Balance as at 31 December 2015	**265 556**		**3 268**	**268 825**
Additions	7 408	2 741	91	10 239
Disposals	(3 809)	-	(217)	(4 026)
Reclassification (+/-)	-	-	-	-
Merger (+/-)	6	-	-	6
Balance as at 31 December 2016	**269 161**	**2 741**	**3 142**	**275 044**

Accumulated amortisation

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2015	**(155 075)**		**(2 660)**	**(157 734)**
Amortisation	(23 205)		(201)	(23 406)
Disposals	-		-	-
Balance as at 31 December 2015	**(178 994)**		**(2 861)**	**(181 854)**
Amortisation	(24 177)	(844)	(235)	(25 256)
Disposals	3 809	-	217	4 026
Reclassification (+/-)	-	-	-	-
Merger (+/-)	(6)	-	-	(6)
Balance as at 31 December 2016	**(199 368)**	**(844)**	**(2 879)**	**(203 090)**

Carrying amount

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2015	**86 562**	**-**	**407**	**86 971**
Balance as at 31 December 2016	**69 793**	**1 897**	**263**	**71 955**

Cost of intangible assets, which are fully depreciated but still used by the Bank as at 31 December 2016 amounted 91.3 mil. eur (2015: 89.9 mil. eur).

As at 31 December 2016 the Bank owned intagible assets not yet put in use in the amount of 5.9 mil. eur (2015: 3.4 mil. eur).

During the year 2016 the Bank put in use upgrade of the core banking system, which amounted 6.0 mil. eur (2015: 16.9 mil. eur).

Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

24) Tax assets and liabilities

The structure of tax assets and liabilities was as follows:

EUR ths.	Tax assets		Tax liabilities		Due to merger	Through PL	Through OCI	Total
	2015	2016	2015	2016	Net variance 2016			
Assets								
Financial assets available for sale	234	-	(27 160)	(21 811)	-	(11)	4 905	5 115
Loans and receivables	47 646	46 022	-	-	-	(1 625)	-	(1 624)
Tangible assets	-	-	(4 032)	(2 466)	-	1 566	-	1 566
Tax loss carried forward	1 956	1 726	-	-	677	(906)	-	(230)
Other assets	27	112	-	-	-	85	-	85
						-	-	
Liabilities						-	-	
Provisions	3 566	2 414	-	-	9	(1 160)	-	(1 152)
Pensions and other post employment defined benefit obligations	985	985	-	-	-	1	-	-
Other liabilities	6 518	7 405	-	-	410	477	-	887
Gross deferred taxes	**60 932**	**58 664**	**(31 192)**	**(24 277)**	**1 096**	**(1 573)**	**4 905**	**4 647**
Net deferred taxes	29 739	34 388	-	-	-	-	-	-
Total current taxes	-	-	(5 925)	(4 007)	-	-	-	-
Total taxes	**29 739**	**34 388**	**(5 925)**	**(4 007)**	-	**-**	**-**	**-**

The Bank applies conservative approach for the recognition of deferred tax assets and liabilities. Deferred tax liabilities are recognised in their full amount. Deferred tax assets are recognised only up to the amount, in which the Bank expects realisation of tax benefits in the future.

Deferred tax assets and liabilities are offset in accordance with the Bank's accounting policy.

25) Other assets

EUR ths.	2015	2016
Prepayments and accrued income	5 003	4 806
Sundry assets	22 211	19 456
Total	**27 214**	**24 262**

26) Financial liabilities measured at amortised costs

Deposits from banks

EUR ths.	2015	2016
Overnight deposits	5 058	3 157
Term deposits	278 351	147 764
Repurchase agreements	101 556	127 272
Total	**384 965**	**278 193**

Deposits from customers

EUR ths.	2015	2016
Overnight deposits	**5 128 490**	**6 052 587**
Non-savings deposits	5 128 490	6 052 587
General governments	52 825	88 624
Other financial corporations	166 469	221 394
Non-financial corporations	1 098 710	1 314 707
Households	3 810 486	4 427 862
Term deposits - Deposits with agreed maturity	**3 614 959**	**2 944 384**
Non-savings deposits	3 614 959	2 944 384
General governments	343 164	103 369
Other financial corporations	273 476	125 611
Non-financial corporations	441 263	286 093
Households	2 557 056	2 429 311
Deposits redeemable at notice	**1 934 572**	**2 392 407**
Households	1 934 572	2 392 407
General governments	**395 989**	**191 993**
Other financial corporations	**439 945**	**347 005**
Non-financial corporations	**1 539 973**	**1 600 800**
Households	**8 302 112**	**9 249 580**
Total	**10 678 019**	**11 389 378**

In the prior period, term deposits from banks included a subordinated debt from the parent, which amounted 100.0 mil. eur as at 31 December 2015. It was a kind of received loan, which would rank behind other liabilities in case of any financial difficulties of the Bank. This subordinated debt with a 10-years maturity was repaid on 21 December 2016.

As at 31 December 2016, no deposits from customers were collateralised by securities (neither at the year-end 2015).

As at 31 December 2016, no embedded derivatives were included in deposits from customers (neither at the year-end 2015).

27) Debt securities issued

EUR ths.	2015	2016
Subordinated liabilities	72 305	74 785
Subordinated debt securities issued	72 305	74 785
Other debt securities issued	1 029 649	1 242 622
Bonds / Certificates	137 738	139 311
Mortgage covered bonds	891 911	1 103 311
Total	**1 101 954**	**1 317 407**

Subordinated debt securities issued

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2015	2016
Subordinated Bonds	June 2011	June 2018	4,25%	700	10 000	EUR	6 771	6 850
Subordinated Bonds	June 2011	June 2018	4,90%	132	50 000	EUR	6 611	6 611
Subordinated Bonds	October 2011	October 2018	4,00%	543	10 000	EUR	5 134	5 222
Subordinated Bonds	December 2011	December 2018	4,00%	407	10 000	EUR	3 828	3 885
Subordinated Bonds	August 2010	August 2020	4,30%	10 000	1 000	EUR	11 984	12 456
Subordinated Bonds	August 2011	August 2021	4,30%	10 000	1 000	EUR	11 478	11 940
Subordinated Bonds	June 2012	June 2022	5,80%	11 000	1 000	EUR	12 326	13 005
Subordinated Bonds	November 2012	November 2022	4,30%	9 000	1 000	EUR	9 484	9 918
Subordinated Bonds	November 2011	November 2023	4,58%	4 250	1 000	EUR	4 689	4 897
Total							**72 305**	**74 785**

The interest rate shown above represents actual interest expense of the Bank.

The bonds marked as 'Subordinated bonds*' include embedded derivatives which were separated and are disclosed on the balance sheet line item 'Financial liabilities – held for trading'. As at 31 December 2016 fair value of these derivatives amounted 0.9 mil. eur (2015: 1.5 mil. eur).

Other debt securities issued

All securities listed above are issued in book-entry form as bearer or registered securities with annual or semi-annual coupon payments. Their transferability is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to these securities. All securities are unsecured. The bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2016, debt securities issued included embedded derivatives (equity and commodities) in the amount of 0.4 mil. eur (2015: 1.5 mil. eur), which were separated and are disclosed in the line items 'Financial assets – held for trading' and 'Financial liabilities – held for trading'.

Bonds in issue

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2015	2016
Mortgage Covered Bonds	July 2011	January 2016	-	-	1 000	EUR	2 485	-
Investment Certificates	January 2015	January 2016	-	-	10 000	NOK	564	-
Investment Certificates	February 2015	February 2016	-	-	1 000	EUR	402	-
Investment Certificates	February 2015	February 2016	-	-	5 000	NOK	193	-
Mortgage Covered Bonds	February 2014	February 2016	-	-	50 000	EUR	30 161	-
Mortgage Covered Bonds	February 2012	February 2016	-	-	1 000	EUR	8 914	-
Mortgage Covered Bonds	August 2011	February 2016	-	-	1 000	EUR	5 369	-
Mortgage Covered Bonds	March 2011	March 2016	-	-	1 000	EUR	14 829	-
Investment Certificates	March 2014	March 2016	-	-	1 000	EUR	41	-
Mortgage Covered Bonds	March 2006	March 2016	-	-	33 194	EUR	16 602	-
Investment Certificates	April 2015	April 2016	-	-	5 000	EUR	539	-
Investment Certificates	April 2015	April 2016	-	-	5 000	EUR	540	-
Investment Certificates	April 2015	April 2016	-	-	5 000	EUR	540	-
Investment Certificates	June 2015	June 2016	-	-	5 000	EUR	378	-
Investment Certificates	June 2015	June 2016	-	-	5 000	EUR	1 162	-
Investment Certificates	July 2015	July 2016	-	-	100 000	CZK	638	-
Mortgage Covered Bonds	January 2012	July 2016	-	-	1 000	EUR	6 257	-
Mortgage Covered Bonds	February 2013	August 2016	-	-	50 000	EUR	12 058	-
Investment Certificates	August 2013	August 2016	-	-	1 000	EUR	459	-
Mortgage Covered Bonds	August 2014	August 2016	-	-	50 000	EUR	10 007	-
Investment Certificates	September 2015	September 2016	-	-	100 000	CZK	372	-
Investment Certificates	September 2015	September 2016	-	-	5 000	EUR	549	-
Investment Certificates	September 2015	September 2016	-	-	5 000	EUR	285	-
Investment Certificates	September 2015	September 2016	-	-	100 000	EUR	560	-
Investment Certificates	October 2013	October 2016	-	-	1 000	EUR	546	-
Mortgage Covered Bonds	December 2011	December 2016	-	-	1 000	EUR	6 331	-
Mortgage Covered Bonds	June 2012	December 2016	-	-	1 000	EUR	2 768	-
Senior Unsecured Bonds	December 2013	December 2016	-	-	5 000	PLN	1 386	-
Investment Certificates	December 2015	December 2016	-	-	50 000	NOK	1 173	-
Mortgage Covered Bonds	July 2012	January 2017	2.88%	7 985	1 000	EUR	8 100	8 089
Investment Certificates	January 2016	January 2017	10.00%	200	50 000	NOK	-	1 214
Investment Certificates	February 2016	February 2017	10.00%	88	50 000	NOK	-	535
Senior Unsecured Bonds	March 2011	March 2017	3.65%	49	50 000	EUR	2 473	2 473
Mortgage Covered Bonds	April 2014	April 2017	0.85%	300	50 000	EUR	15 068	15 082
Mortgage Covered Bonds	May 2012	May 2017	3.30%	700	50 000	EUR	35 766	35 768
Senior Unsecured Bonds	May 2014	May 2017	3.00%	942	5 000	PLN	1 125	1 087
Mortgage Covered Bonds	June 2012	June 2017	2.92%	400	50 000	EUR	20 322	20 323
Investment Certificates	June 2016	June 2017	8.25%	359	1 000	EUR	-	392
Mortgage Covered Bonds	July 2014	July 2017	0.00%	1 120	50 000	EUR	56 063	56 000
Senior Unsecured Bonds	July 2014	July 2017	0.00%	20 576	100	EUR	2 537	2 054
Mortgage Covered Bonds	February 2011	August 2017	3.55%	51	50 000	EUR	2 586	2 586
Investment Certificates	October 2016	October 2017	9.10%	107	10 000	EUR	-	1 186
Mortgage Covered Bonds	October 2012	October 2017	1.95%	300	50 000	EUR	15 050	15 050
Mortgage Covered Bonds	February 2013	February 2018	1.75%	460	50 000	EUR	23 353	23 353
Investment Certificates	March 2016	March 2018	3.45%	1 260	1 000	EUR	-	1 339
Mortgage Covered Bonds	March 2015	March 2018	0.50%	250	100 000	EUR	25 102	25 102
Mortgage Covered Bonds	March 2014	March 2018	1.22%	400	50 000	EUR	20 197	20 197
Mortgage Covered Bonds	March 2015	March 2018	0.44%	100	100 000	EUR	10 035	10 035
Mortgage Covered Bonds	March 2016	March 2018	0.13%	620	100 000	EUR	-	62 005
Investment Certificates	March 2016	March 2018	3.05%	734	1 000	EUR	-	775
Mortgage Covered Bonds	March 2015	March 2018	0.08%	240	100 000	EUR	30 020	24 003
Mortgage Covered Bonds	August 2014	August 2018	0.50%	900	50 000	EUR	44 983	45 021
Mortgage Covered Bonds	September 2012	September 2018	2.85%	9 978	1 000	EUR	10 058	10 052
Investment Certificates	November 2015	November 2018	4.00%	570	1 000	EUR	647	621
Senior Unsecured Bonds	December 2012	December 2018	2.00%	2 017	1 000	EUR	2 032	2 020
Mortgage Covered Bonds	December 2013	December 2018	0.23%	600	50 000	EUR	30 005	30 003
Investment Certificates	December 2013	December 2018	5.00%	612	1 000	EUR	680	658
Mortgage Covered Bonds	February 2015	February 2019	0.19%	500	100 000	EUR	50 084	50 038
Mortgage Covered Bonds	February 2013	February 2019	2.30%	4 952	1 000	EUR	5 008	4 994

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2015	2016
Mortgage Covered Bonds	March 2016	March 2019	0.26%	60	100 000	EUR	-	6 004
Mortgage Covered Bonds	March 2013	March 2019	2.30%	4 928	1 000	EUR	4 966	4 962
Investment Certificates	March 2014	March 2019	5.25%	514	5 000	PLN	726	617
Investment Certificates	March 2014	March 2019	4.00%	784	1 000	EUR	870	846
Investment Certificates	April 2016	April 2019	3.40%	639	1 000	EUR	-	697
Mortgage Covered Bonds	April 2013	April 2019	2.30%	4 952	1 000	EUR	4 981	4 977
Investment Certificates	July 2016	July 2019	2.80%	340	1 000	EUR	-	372
Mortgage Covered Bonds	August 2013	August 2019	2.00%	2 571	1 000	EUR	2 595	2 592
Mortgage Covered Bonds	August 2013	August 2019	2.00%	4 288	1 000	EUR	4 325	4 319
Senior Unsecured Bonds	September 2014	September 2019	1.07%	1 000	100 000	EUR	100 294	100 297
Mortgage Covered Bonds	September 2013	September 2019	2.00%	6 404	1 000	EUR	6 461	6 439
Senior Unsecured Bonds	September 2014	September 2019	1.50%	14 586	1 000	EUR	15 338	14 642
Mortgage Covered Bonds	October 2013	October 2019	2.00%	5 876	1 000	EUR	5 908	5 899
Mortgage Covered Bonds	November 2013	November 2019	2.00%	6 670	1 000	EUR	6 685	6 685
Senior Unsecured Bonds	December 2013	December 2019	1.50%	612	1 000	EUR	689	637
Mortgage Covered Bonds	December 2013	December 2019	2.05%	70	50 000	EUR	3 504	3 504
Mortgage Covered Bonds	December 2012	December 2019	2.50%	66	50 000	EUR	3 304	3 305
Mortgage Covered Bonds	June 2013	December 2019	2.00%	4 176	1 000	EUR	4 182	4 180
Mortgage Covered Bonds	December 2013	December 2019	2.00%	9 627	1 000	EUR	9 642	9 634
Mortgage Covered Bonds	July 2013	January 2020	2.00%	2 235	1 000	EUR	2 256	2 256
Investment Certificates	February 2016	February 2020	4.10%	131	5 000	EUR	-	755
Investment Certificates	February 2016	February 2020	4.20%	220	1 000	EUR	-	254
Mortgage Covered Bonds	March 2015	March 2020	1.25%	4 244	1 000	EUR	4 267	4 262
Mortgage Covered Bonds	June 2015	June 2020	1.20%	4 958	1 000	EUR	4 987	4 961
Investment Certificates	June 2016	June 2020	3.70%	400	1 000	EUR	-	453
Mortgage Covered Bonds	July 2015	July 2020	1.20%	4 990	1 000	EUR	5 026	5 016
Mortgage Covered Bonds	July 2015	July 2020	0.88%	500	100 000	EUR	50 063	50 090
Mortgage Covered Bonds	February 2014	August 2020	2.00%	9 947	1 000	EUR	10 040	10 027
Investment Certificates	August 2016	August 2020	3.00%	339	1 000	EUR	-	384
Mortgage Covered Bonds	August 2015	August 2020	1.20%	4 997	1 000	EUR	5 020	5 018
Mortgage Covered Bonds	September 2015	September 2020	1.20%	4 332	1 000	EUR	4 360	4 346
Mortgage Covered Bonds	October 2015	October 2020	1.20%	3 573	1 000	EUR	3 585	3 581
Mortgage Covered Bonds	November 2015	November 2020	0.63%	400	100 000	EUR	40 020	40 024
Mortgage Covered Bonds	November 2014	November 2020	0.88%	150	100 000	EUR	15 015	15 016
Mortgage Covered Bonds	May 2016	November 2020	0.19%	500	100 000	EUR	0	50 011
Mortgage Covered Bonds	November 2015	November 2020	1.20%	3 077	1 000	EUR	3 084	3 081
Mortgage Covered Bonds	February 2016	February 2021	0.50%	500	100 000	EUR	0	50 213
Mortgage Covered Bonds	March 2016	March 2021	1.05%	7 008	1 000	EUR	0	7 031
Mortgage Covered Bonds	March 2014	March 2021	2.00%	8 515	1 000	EUR	8 572	8 562
Mortgage Covered Bonds	April 2016	April 2021	1.05%	4 976	1 000	EUR	0	4 988
Mortgage Covered Bonds	April 2008	April 2021	5.00%	250	66 388	EUR	17 182	17 184
Mortgage Covered Bonds	May 2016	May 2021	1.00%	4 997	1 000	EUR	0	5 005
Mortgage Covered Bonds	May 2014	May 2021	1.90%	4 987	1 000	EUR	5 004	5 000
Mortgage Covered Bonds	June 2016	June 2021	0.00%	4 022	1 000	EUR	0	3 858
Mortgage Covered Bonds	June 2014	June 2021	1.75%	9 517	1 000	EUR	9 585	9 527
Mortgage Covered Bonds	July 2016	July 2021	0.90%	5 000	1 000	EUR	0	5 022
Mortgage Covered Bonds	July 2014	July 2021	1.55%	3 546	1 000	EUR	3 573	3 571
Mortgage Covered Bonds	August 2016	August 2021	0.80%	4 995	1 000	EUR	0	5 011
Mortgage Covered Bonds	August 2016	August 2021	0.75%	5 000	1 000	EUR	0	5 013
Mortgage Covered Bonds	September 2016	September 2021	0.70%	4 998	1 000	EUR	0	5 008
Mortgage Covered Bonds	October 2016	October 2021	0.65%	4 990	1 000	EUR	0	4 996
Mortgage Covered Bonds	November 2016	November 2021	0.25%	1 000	100 000	EUR	0	99 994
Mortgage Covered Bonds	December 2015	December 2021	0.63%	200	100 000	EUR	19 996	19 998
Mortgage Covered Bonds	December 2016	December 2021	0.65%	10 000	1 000	EUR	0	10 002
Senior Unsecured Bonds	December 2016	December 2021	0.65%	5 000	1 000	EUR	0	5 001
Mortgage Covered Bonds	February 2015	February 2022	0.88%	350	100 000	EUR	35 244	35 250
Mortgage Covered Bonds	March 2014	March 2022	2.00%	220	50 000	EUR	11 084	11 098
Mortgage Covered Bonds	August 2015	August 2022	1.00%	100	100 000	EUR	9 999	10 006
Mortgage Covered Bonds	February 2014	February 2029	2.80%	97	50 000	EUR	4 899	4 899
Total							**1 029 649**	**1 242 622**

28) Provisions

EUR ths.	2015	2016
Long-term employee benefits provisions	4 776	5 167
Pending legal issues and tax litigation	7 086	5 765
Commitments and guarantees given	15 906	11 494
Provisions for guarantees - off balance sheet (defaulted customers)	5 716	1 083
Provisions for guarantees - off balance sheet (non-defaulted customers)	10 190	10 411
Other provisions	299	-
Total	**28 067**	**22 426**

Long-term employee benefits provisions

The Bank has a defined employee benefit program under which all employees are entitled to a lump-sum payment upon working anniversaries or retirement. The number of employees under this program is disclosed in the note 6.

The amount of long-term employee benefits provisions is calculated using an actuarial model based on the projected unit credit method. In the year 2016 the Bank has performed an annual review of the long-term employee benefits provisions using updated data in order to recognize the provisions in appropriate amounts.

The amounts relating to long-term employee benefits provisions recognised on the balance sheet and the income statement were as follows:

EUR ths.	Pension obligations	Jubilee provisions	Total
As at 31 December 2014	**2 120**	**1 949**	**4 069**
Service cost	171	224	395
Interest cost	48	44	92
Payments	(59)	(135)	(194)
Actuarial (gains)/losses			
from changes in demographic assumptions	167	76	243
from changes in financial assumptions	4	2	6
from changes from experience assumptions	154	11	165
As at 31 December 2015	**2 605**	**2 171**	**4 776**
Service cost	203	262	465
Interest cost	41	34	75
Payments	(101)	(168)	(269)
Actuarial (gains)/losses			
from changes in demographic assumptions	(4)	(2)	(6)
from changes in financial assumptions	215	123	338
from changes from experience assumptions	(128)	(126)	(254)
Merge	42		42
As at 31 December 2016	**2 873**	**2 294**	**5 167**

The actuarial calculation of working anniversary provisions used the following assumptions:

Assumptions for the actuarial calculation of pension obligations	2015	2016
Annual discount rate	1.56%	0.65%
Expected annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3.80% - 15.82%	4.16% - 16.40%
Retirement age	62 years	62 years

The actuarial calculation of pension provision used the following assumptions:

Assumptions for the actuarial calculation of jubilee provisions	2015	2016
Annual discount rate	1.56%	0.65%
Expected annual rate of salary increase in future	0.00%	0.00%
Annual employee turnover	3.80% - 15.82%	4.16% - 16.40%
Retirement age	62 years	62 years

In the calculation of long-term employee benefits provisions official mortality tables published by the Statistical Office were used.

Provisions for legal issues

Provisions for legal issues relate to legal cases where the Bank is sued and which arose from normal banking activities.

Provisions for off-balance sheet

Provisions for off-balance sheet were created to cover losses incurred in unused loan commitments, guarantees and letters of credits. The amount of these provisions is estimated with respect to credit risk relating to affected items, as well as time value of money (i.e. current market interest rates are used for discounting).

Other provisions

In the past the Bank provided a deposit product "winning pass books". There was a lottery semi-annually and the winners received prizes based on their deposit amounts as a form of yield. For the purpose of this lottery purpose the Bank regularly allocated and used a provision. This product has been cancelled and the residual amount of the provision was released in the year 2016.

EUR ths.	2015	Additions	Use	Release	Exchange-rate and other changes	2016
Pending legal issues and tax litigation	7 087	1 304	(1 266)	(1 360)	-	5 765
Provisions for contingent credit risk liabilities	15 908	28 314	-	(32 732)	4	11 494
Other provisions	298	(8 972)	6 467	2 207	-	-
Total	**23 293**	**20 646**	**5 201**	**(31 885)**	**4**	**17 259**

EUR ths.	2014	Additions	Use	Release	Exchange-rate and other changes	2015
Pending legal issues and tax litigation	7 001	1 128	(369)	(673)	-	7 087
Provisions for contingent credit risk liabilities	18 893	38 459	-	(41 454)	9	15 908
Other provisions	298	7 303	(7 303)	-	-	298
Total	**26 192**	**46 890**	**(7 672)**	**(42 127)**	**9**	**23 293**

29) Other liabilities

EUR ths.	2015	2016
Client settlement	37 028	74 544
Suppliers (including accruals)	43 232	43 607
Personnel balances and reserves, Social fund	28 549	34 848
State budget, social and health insurance, taxes	4 132	4 398
Sundry liabilities	3 007	3 585
Total	**115 948**	**160 982**

The development of social fund liability included in 'Other liabilities' was as follows:

EUR ths.	2015	2016
As at 1 January	**770**	**298**
Additions	1 394	3 503
Withdrawals	(1 866)	(2 774)
As at 31 December	**298**	**1 027**

30) Equity

Share capital

Authorised share capital was fully paid and consists of the following:

	2015	2016
Nominal value (in EUR)	1 000	1 000
Number of shares (in pcs.)	212 000	212 000
Total (in EUR)	**212 000 000**	**212 000 000**

The following table presents distribution of profits for the years 2015 (approved) and 2016 (proposal):

Dividends per share	2015	2016
Profit of the year (in EUR ths.)	184 132	212 221
Transfer to retained earnings	8 622	10 026
Distribution for Investment certificate 2015 SLSP AT1 PNC5	11 700	11 700
Dividends paid to shareholder from profit for the year	163 810	190 495
Number of shares EUR 1 000 each (in pcs.)	212 000	212 000
Amount of dividends per EUR 1 000 share (in EUR)	**773**	**899**

Dividends for the year 2015 were paid in April 2016 following the resolution of General Assembly of the Bank dated 23 March 2016.

Other capital instruments

During the year 2015 the Bank has issued an investment certificate in the amount of 150 mil. eur that is classified as equity instrument according to the standard IAS 32. This certificate is a perpetual instrument with the agreed interest rate of 7.8% p.a. paid semi-annually.

Legal reserve fund

According to Commercial Code all companies are required to create a legal reserve fund to cover adverse financial conditions in the future. The Bank is obliged to contribute to the fund the amount, which is not less than 10% of its annual net profit until the cumulative amount of annual contributions reaches 20% of its share capital. As at 31 December 2016 Legal reserve fund amounted 79.8 mil. eur (2015: 79.8 mil. eur) and in both years exceeded the required 20% of the share capital. Legal reserve fund is not available for distribution to the shareholder.

Other funds

Other funds include only Statutory fund created from distributable profits to strengthen the Bank's capital base. This fund is not available for distribution to the shareholder. Once the Bank's share capital or legal reserve fund is increased, Statutory fund may be terminated and transferred back to the distributable profits with the approval of the Supervisory Board and of the General Assembly. As at 31 December 2016 Statutory fund amounted 39.1 mil. eur (2015: 39.1 mil. eur).

Revaluation reserves

Revaluation reserves represent the unrealised revaluation of securities available for sale. They are disclosed net of deferred tax effect. Revaluation reserves are not available for distribution to the shareholder. As at 31 December 2016 revaluation reserves were in the amount of 83.7 mil. eur (2015: 96.3 mil. eur).

31) Related party transactions

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by the only shareholder Erste Group Bank AG, which directly owns 100% share on the voting rights of the Bank. Further related parties include subsidiaries, which are under control of the Bank and associates, over which the Bank has significant influence. Moreover, other members of the Erste group are also related parties of the Bank.

Number of transactions with related parties occur in the normal course of business. These transactions primarily include loans and deposits.

Assets and liabilities include accounting balances with related parties, as follows:

EUR ths.	Erste Group Bank AG		Companies under the control of Erste Group Bank AG		Subsidiaries		Associates	
	2015	2016	2015	2016	2015	2016	2015	2016
Assets								
Derivatives	23 706	7 271	313	156	-	-	-	-
Loans and receivables to credit institutions	2 622	17 084	18 688	13 782	-	-	-	-
Loans and receivables to customers	-	-	48 793	40 639	49 410	45 894	-	-
Other assets	5 656	4 370	33	464	268	36	1	-
Total	**31 984**	**28 725**	**67 827**	**55 041**	**49 678**	**45 930**	**1**	**-**
Liabilities								
Derivatives	56 094	34 464	4	2	-	-	-	-
Deposits from banks	150 973	52 724	1 068	644	-	-	-	-
Deposits from customers	-	-	8 830	1 829	6 430	5 028	498	-
Debt securities issued	100 294	100 297	-	-	-	-	-	-
Derivatives – hedge accounting	42 915	52 389	-	-	-	-	-	-
Other liabilities	2 838	1 297	6 004	7 537	6 075	-	-	-
Total	**353 114**	**241 172**	**15 906**	**10 012**	**12 505**	**5 028**	**498**	**-**

Income and expenses include transactions with the related parties, as follows:

EUR ths.	Erste Group Bank AG		Companies under the control of Erste Group Bank AG		Subsidiaries		Associates	
	2015	2016	2015	2016	2015	2016	2015	2016
Interest income	(6 797)	(7 568)	1 420	1 250	438	364	-	-
Interest expense	(3 066)	(3 103)	(12)	(18)	(10)	-	-	-
Dividend income	-	-	274	347	749	15	2 237	2 384
Net fee and commisssion income	323	23	7 165	6 006	4	2	-	-
Net trading and fair value result	30 177	1 020	3 892	-	-	-	-	-
General administrative expenses	(4 026)	(4 074)	(8 184)	(7 402)	(24 115)	(7 506)	-	-
Other operating result	603	625	826	2 559	992	91	5	2
Impairment of investments in subsidiaries, joint ventures and associates	-	-	-	-	860	-	-	-
Total	**17 214**	**(13 077)**	**5 381**	**2 742**	**(21 082)**	**(7 034)**	**2 242**	**2 386**

The amounts with Erste Group Bank AG reported in the line items 'Interest income' and Net trading and fair value result' represent results from derivative instruments used to close positions with the clients.

In the year 2015 the Bank has issued investment certificates in the amount of 150 mil. eur, which were purchased by Erste Bank AG (see note 30).

In December 2016 the Bank repaid the subordinated debt with a 10-years maturity provided by the parent Erste Group Bank AG, which amounted 100.0 mil. eur as at 31 December 2015 (see note 26).

The Bank has received a guarantee from its parent company Erste Group Bank AG covering exposures towards Erste Group Immorent Slovensko s.r.o. As at 31 December 2016 the guarantee was in the amount of 23.2 mil. eur (2015: 23.2 mil. eur).

The Bank received guarantees from its parent company Erste Group Bank AG covering clients' exposures in the amount of 2.2 mil. eur as at the reporting date (2015: 0.0 mil. eur).

The Bank has received guarantee from its sister company Česká spořitelna, a.s. covering credit exposures towards s_Autoleasing SK, s.r.o., which is the Erste group member. As at 31 December 2016 the maximum amount of the guarantee was 27.6 mil. eur (2015: 22.6 mil. eur).

The Bank received guarantees from its sister company Česká spořitelna, a.s. covering clients' exposures in the amount of 1.2 mil. Eur as at the reporting date (2015: 1.1 mil. eur).

The Bank also received a guarantee from its sister company Erste Bank AD Podgorica covering client's exposure in the amount of 0.1 mil. Eur as at the reporting date (2015: 0.1 mil. eur).

As at 31 December 2016 the Bank owned a share in real estate fund Sporo realitný fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of 5.7 mil. eur (2015: 10.0 mil. eur).

Transactions with key management personnel

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2016 in form of short-term employee benefits amounted to 2.2 mil. eur (2015: 1.,8 mil. eur). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

32) Off-balance sheet items

In the normal course of business, the Bank enters various contracts and transactions, which are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following information represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Loan comitments, guarantees and letters of credit

Bank guarantees and letters of credit are used by customers to cover their liabilities (payment and non-payment) against third parties, who are beneficiaries in these transactions. The primary purpose of these instruments is to ensure that funds are available to the customers as required.

Bank guarantee represents an irrevocable liability of the Bank to pay the agreed amount in case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Bank to pay the agreed amount to the seller based on the instruction of the buyer against the documents specified in the letter of credit documentation. The Bank deals with letters of credit in accordance with the 'Unified Rules and Customs for Documentary Letter-of-credit' as published by the International Chamber of Commerce.

Guarantees and standby letters of credit are irrevocable assurances that the Bank will make payments in the event when the customer cannot meet its obligations against a third party and therefore these carry the same credit risk as loans. Documentary and commercial letters of credit are written undertakings of the Bank to provide a third party with the agreed amount on behalf of the customer under specific conditions. As these are collateralised by the underlying shipment of goods (or transfer of the right to use), they carry less credit risk than direct borrowings.

Loan commitment represent an unused portion of the authorised credit limit, which can be drawn in the form of loan, guarantee or letter of credit. In relation to loan commitments, the Bank is exposed to credit risk and a potential loss equals to the total amount of the unused credit limits. However, most of the loan commitments are contingent upon maintaining specific credit standards by customers and therefore the likely amount of loss is less than the total amount of loan commitments.

The following table presents off-balance sheet credit exposures and also treasury commitments:

EUR ths.	2015	2016
Guarantees provided	251 344	286 301
Guarantees from letter of credit	1 918	7 562
Loan commitments and undrawn loans	889 929	1 109 595
Total	**1 143 191**	**1 403 458**

Assets pledged as collaterals

The following table presents assets pledged as collaterals for the Bank's liabilities:

2016 EUR ths.	Carrying amount of transferred assets				Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Total	Repurchase agreements	Other associated liabilities
Available-for-sale financial assets	231 267	128 637	50 426	52 204	212 067	127 272	84 795
Loans and receivables	1 297 728	-	-	1 297 728	1 023 660	-	1 023 660
Held-to-maturity investments	58 764	-	9 991	48 773	47 114	-	47 114
Total	**1 587 759**	**128 637**	**60 418**	**1 398 704**	**1 282 841**	**127 272**	**1 155 569**

2015 EUR ths.	Carrying amount of transferred assets				Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Total	Repurchase agreements	Other associated liabilities
Available-for-sale financial assets	66 407	-	66 407	-	58 475	-	58 475
Loans and receivables	1 120 655	-	-	1 120 655	891 911	-	891 911
Held-to-maturity investments	112 347	102 423	9 924	-	110 294	101 556	8 738
Total	**1 299 409**	**102 423**	**76 331**	**1 120 655**	**1 060 680**	**101 556**	**959 124**

33) Collaterals

The Bank holds collaterals against loans and advances to customers in form of real estates, securities, received Bank guaranties and other credit enhancements. The fair values of collaterals are estimated based on their value at the time of borrowings and are regularly updated. In general, collaterals are not helda against loans and advances to banks, except for securities held as a part of reverse repurchase activities commented in the note 18.

Estimated fair values of collaterals and other credit enhancements related to loans to customers, granted financial guarantees, letters of credit and undrawn loan commitments were as follows:

EUR ths.	2015	2016
Real estates	7 514 967	9 029 796
Securities	215 426	25 976
Bank guaranties	109 820	117 965
Other	245 188	297 615
Total	**8 085 401**	**9 471 352**

34) Offsetting of financial assets and financial liabilities

2016 EUR ths.	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Assets							
Derivatives	44 814	-	44 814	-	-	-	44 814
Derivatives - hedge accounting	7 705	-	7 705	-	-	-	7 705
Total assets	**52 519**	**-**	**52 519**	**-**	**-**	**-**	**52 519**
Liabilities							
Derivatives	42 812	-	42 812	-	-	27 225	15 587
Derivatives - hedge accounting	52 389	-	52 389	-	-	25 033	27 357
Repurchase agreements	127 272	-	127 272	-	-	127 272	-
Total liabilities	**222 473**	**-**	**222 473**	**-**	**-**	**179 530**	**42 944**

2015 EUR ths.	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Assets							
Derivatives	84 414	-	84 414	-	-	-	84 414
Derivatives - hedge accounting	7 418	-	7 418	-	-	-	7 418
Total assets	**91 832**	**-**	**91 832**	**-**	**-**	**-**	**91 832**
Liabilities							
Derivatives	85 508	-	85 508	-	-	47 297	38 211
Derivatives - hedge accounting	42 915	-	42 915	-	-	19 916	22 998
Repurchase agreements	101 556	-	101 556	-	-	101 556	-
Total liabilities	**229 979**	**-**	**229 979**	**-**	**-**	**168 769**	**61 209**

35) Assets under administration

The Bank provides custody, trustee, investment management and advisory services to third parties, which involves making decisions on purchase, sale and allocation related to a wide range of financial instruments. The assets held in a fiduciary capacity are not included in these financial statements.

As at 31 December 2016 the Bank held assets for collective investment undertakings in the amount of 1 132.3 mil. eur (2015: 1 144.8 mil. eur).

As at 31 December 2016 the Bank also held assets for customers other than collective investment undertakings in the amount of 4 238.1 mil. eur (2015: 4 637.1 mil. eur).

36) Segment reporting

The segment reporting of the Bank is based on IFRS 8 - Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Bank the function of the chief operating decision maker is executed by the Board of Directors. In addition, the Bank's segment reporting follows the standards of the Erste group issued for the purpose to unify presentation, measurement and steering of the group.

Structural change and major principles

Following a strategic review related to the Group operating segments and method used for the capital allocation to segments, from 1 January 2016 changes were introduced in the segment reporting of SLSP to be aligned with the Group governance, while amounts for the year 2015 were adjusted as well.

SLSP Segment report represents the single source of truth for reporting of the SLSP segments' financial performance and serves as the basis for business steering of all individual segments as well as consolidated SLSP result. All the areas of SLSP group, directly or indirectly involved in business steering and/or reporting of business performance (e.g. Financial Controlling, Business Accounting, Reporting, Management Information Governance, Local Risk Management, ALM, Strategy & Quality management, Retail, Corporates and Markets, Communication), have to assure full alignment of the data used in their reporting in terms of segment structure, segment definitions, key ratios and measures to the current approved segment structure of SLSP group. It is the responsibility of the respective area to assure that the alignment is achieved. Segment reporting in SLSP has to be aligned with the Group segment reporting in terms of segment structure, segment definitions, key ratios and measures, and it has to fulfil local requirements of IFRS 8.

The SLSP segment structure in force serves as a basis for budgeting, forecasting, strategic discussions, setting and tracking of key performance indicators (KPIs).

83 Business segments

SLSP Segment reporting was aligned with Erste group segment principles in order to present the bank structure in a transparent way reflecting internal steering and allocations of sources. The bank is divided into the following business segments:
- Retail,
- Corporates,
- Assets and Liabilities Management (ALM) and Local Corporate Centre (LCC),
- Group Markets (GM),

The Bank applies account manager principle for the definition of segments / business lines. It means that each client has assigned one account manager from a particular segment / business line. Subsequently, profit or loss on business transactions with the client is allocated to that account manager.

Retail segment comprises the entire business with private individuals, free professionals and micros, which are in the responsibility of account managers from the retail network. Retail products and services, including current and savings accounts, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance and building society products) are offered via various distribution channels, such as branch network and digital banking. The Retail segment is divided into 8 regions, 51 areas and 287 branches (status as at 31 December 2016).

Corporates segment comprises services and business done with corporate customers of different turnover size including public sector and is divided into following areas:
- Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies with an annual turnover from 1 mil. Eur to 75 mil. Eur.
- Local Large Corporates (LLC) are clients with a consolidated annual turnover threshold above 75 mil. Eur which are not defined as Group Large Corporate customers according to the Group Large Corporate client list.
- Group Large Corporates (GLC) are large corporate customers/ client groups with substantial operations in core markets/ extended core markets of Erste Group with an indicative consolidated annual turnover of at least 500 mil. eur. GLC clients can be found on the Erste Group-wide GLC client list, which is maintained by the Group GLC. Group Large Corporates business covers the following customer types in principle: customers across the region with an annual turnover above 500 mil. eur, selected customers with an annual turnover below 500 mil. eur in case of multinational setup or strong capital markets service needs.
- Public sector consists of the following three sets of customers: public sector, public corporations and non-profit sector. Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. Public corporations includes all non-financial state companies and corporations with more than 50 % share of state or regional governments or municipals excluding stock exchange listed companies. Non-profit sector comprises the following private non-profit companies: central authorities of churches, country-wide labor unions,

political parties and nationally significant foundations, private schools and humanitarian organizations.
- Commercial Real Estate (CRE) business covers investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale, asset management services and own development for business purpose.

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment comprises on the one side the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions. On the other side it also includes the local corporate center which comprises all non-core banking business activities such as non-profit servicing participations, intragroup eliminations within the respective partial group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets) which cannot be allocated to other business segments. Apart from that the Logal Corporate Center includes received dividends and the reconciliations to the accounting result. The segment comprises also free capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to all operating segments.

Group Markets (GM) segment comprises trading and markets services as well as business with financial institutions.
- Trading and Market services comprises all activities related to active risk taking and managing in regulatory trading books of SLSP group, additional to that the execution of trades against the market using the trading books of SLSP group for market making, short-term liquidity management and warehousing purposes. Specifically revenues and fair value results not directly attributable to client transactions (which can be valid also for ALM deals) and generally risk premiums and execution fees are taken into account. It also includes 20% compensation fee from Retail for the treasury sales services.
- Financial institutions (FI) are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Measurement and reporting

The segment reporting of the Bank, as well as internal management reporting is prepared in accordance with IFRS. It means, that accounting policies and measurement methods used in the segment reporting are the same as those applied in the separate financial statement.

The profit and loss statement presented in the segment report is based on the measures reported to the Board of Directors for the purpose of resource allocation and segments' performance assessment.

In line with the regular internal reporting prepared for the Board of Directors, total assets, total liabilities, as well as risk weighted assets and allocated equity are disclosed per segment.

The capital consumption per segment is regularly reviewed by the management to assess the performance of the segments. The average allocated equity is determined by credit risk, market risk and operational risk.

For measuring and assessing the profitability of segments, the Bank also uses the rate of return on allocated equity, which is defined as the net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition the cost/income ratio is calculated for each segment, which is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties & other operating lease).

EUR ths.	Retail		Corporates	
	2015	2016	2015	2016
Net interest income	374 122	389 538	58 549	59 025
Net fee and commission income	106 366	99 562	15 873	15 115
Dividend income	-	-	-	-
Net trading and fair value result	3 181	3 155	2 101	4 681
Rental income from investment properties & other operating leases	-	-	-	-
General administrative expenses	(213 897)	(208 409)	(30 244)	(27 883)
thereof depreciation and amortization	(33 730)	(29 499)	(5 481)	(4 448)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	(3)	-
Net impairment loss on financial assets not measured at fair value through profit or loss	(30 223)	(43 968)	(28 816)	(4 894)
Other operating result	(16 784)	(19 023)	(3 165)	1 245
Levies on banking activities	(16 952)	(18 442)	(4 365)	(3 838)
Pre-tax result from continuing operations	**222 767**	**220 855**	**14 294**	**47 288**
Taxes on income	(49 610)	(48 995)	(3 534)	(10 403)
Net result for the period	173 157	171 860	10 760	36 885
Net result attributable to owners of the parent	**173 157**	**171 860**	**10 760**	**36 885**
Operating income	483 670	492 255	76 523	78 821
Operating expenses	(213 897)	(208 409)	(30 244)	(27 883)
Operating result	**269 773**	**283 847**	**46 278**	**50 938**
Risk-weighted assets (credit risk, eop)	2 681 031	2 282 896	1 723 190	1 872 894
Average allocated capital	278 829	294 932	136 153	143 006
Cost/income ratio	44%	42%	40%	35%
Return on allocated capital	62%	58%	8%	26%
Total assets (eop)	7 046 995	7 978 059	2 477 667	2 467 913
Total liabilities excluding equity (eop)	8 709 426	9 671 795	1 347 691	1 277 327
Impairments and risk provisions				
Net impairment loss on loans and receivables from credit institutions and customers	(30 223)	(43 968)	(28 816)	(4 894)
Net impairment loss on other financial assets not measured at fair value through profit and loss	-	-	-	-
Allocation/release of provisions for contingent credit risk liabilities	168	(581)	2 822	5 083
Net impairment loss on other non financial assets	-	-	-	-

Group Markets		ALM/LCC		Total SLSP group	
2015	2016	2015	2016	2015	2016
4 270	4 646	32 140	8 780	469 081	461 988
4 549	4 986	(5 649)	2 056	121 139	121 719
-	-	3 844	3 592	3 844	3 592
6 184	4 483	(2 591)	254	8 875	12 573
-	-	401	367	401	367
(4 258)	(3 870)	(20 361)	(39 042)	(268 760)	(279 204)
(327)	(173)	(1 326)	(7 251)	(40 864)	(41 371)
29	-	877	27 044	902	27 044
25	(8)	676	636	(58 339)	(48 235)
(2 476)	(1 681)	(10 546)	2 452	(32 971)	(17 007)
(2 482)	(1 594)	(7 121)	(5 231)	(30 920)	(29 106)
8 322	**8 556**	**(1 210)**	**6 138**	**244 173**	**282 837**
(1 831)	(1 882)	(5 066)	(9 335)	(60 041)	(70 616)
6 492	6 674	(6 277)	(3 197)	184 132	212 221
6 492	**6 674**	**(6 277)**	**(3 197)**	**184 132**	**212 221**
15 003	14 115	28 144	15 049	603 340	600 240
(4 258)	(3 870)	(20 361)	(39 042)	(268 760)	(279 204)
10 745	**10 245**	**7 783**	**(23 993)**	**334 580**	**321 036**
38 986	17 085	328 869	526 927	4 772 076	4 699 803
12 428	7 579	225 300	188 279	652 710	633 797
28%	27%	72%	259%	45%	47%
52%	88%	-3%	-2%	28%	33%
80 486	100 657	4 345 917	4 254 346	13 951 065	14 800 975
521 647	475 300	1 864 538	1 843 172	12 443 301	13 267 594
25	(8)	655	673	(58 360)	(48 197)
-	-	21	(37)	21	(37)
6	(87)	-	1	2 995	4 416
-	-	858	(681)	858	(681)

37) Risk management

Risk strategy and policy

The Bank takes a prudent and responsible approach to risk and risk-adjusted approach to revenues. Risk appetite of the Bank (the maximum level of risk that the Bank is willing to undertake) is clearly defined, measurable and widely understood. The Bank offsets its risk appetite with sufficient amount of internal capital to cover unexpected losses.

The Bank prefers sustainability to short-term high-risk returns. The risk/return profile and the balance of risks follow this principle in order to generate sustainable and adequate return on capital.

Risk functions are independent from the commercial business lines. Risk management is centralized and the Bank strives for an integrated risk management framework where all relevant risks are managed comprehensively and where dependencies between different risk types are accounted for.

The Bank shall make sure that risk management is properly supported in terms of human, IT and other resources needed for comprehensive coverage of all major drivers of risk.

The primary risk management objective of the Bank is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively. These policies must be periodically reviewed in order to ensure their appropriateness in terms of their performance and in terms of changing circumstances of the Bank's operating environment.

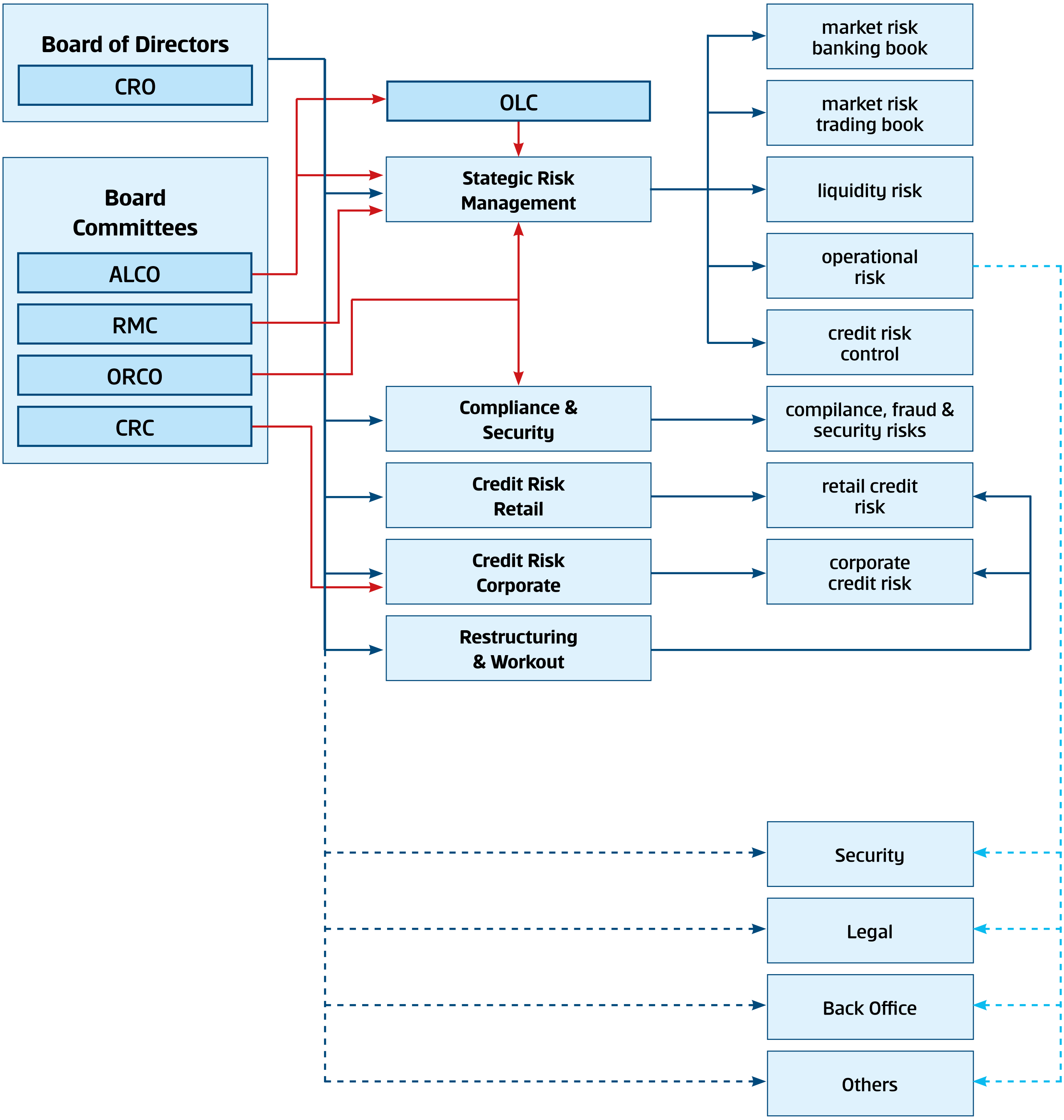
Risk taking is an inseparable part of the Bank's operations and Bank business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

Ultimately, risks should be quantified to the greatest possible extent (considering reasonable effort) and performance measurement of the Bank should be risk weighted. Therefore, the model for calculation and allocation of economic capital is continuously being improved and the Bank has established a internal capital management process (ICAAP).

The Bank is also committed to follow the risk management provisions defined by both local and international laws and regulators.

Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the organizational structure of risk in the Bank:



Risk management structure

The ultimate risk management body is the Board of Directors. However, it may delegate some of its authority for particular risk management areas to the respective committees. The Board of Directors also designates one of its members to serve as the Chief Risk Officer ('CRO').

Asset & Liability Committee ('ALCO') has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

Credit Risk Committee ('CRC') is the ultimate decision making body for corporate credit risk.

Operational Risk and Compliance Committee ('ORCO') is the authorized body to make decisions on operational risk strategies and procedures, risk appetite and tolerance levels, also decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, CRC and ORCO are composed of the members of the Board of Directors and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee ('OLC') governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the Bank on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, BSM and Strategic Risk Management.

Risk Management Committee ('RMC') is a committee consisting of selected members of the Board of Directors and senior managers. It is responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, as well as for comprehensive stress testing.

The bottom (executive) level of the risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division carries out all activities concerning operative credit risk of corporate clients.
- Retail Credit Risk Management Division is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, early collection process and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), operational risk, liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models. Within operational risk, SRM coordinates activities of global scope of other relevant departments (blue/dashed lines in the chart above).
- Compliance & Security is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence and recovery of financial fraud) and for security (information and strategic security, business continuity management).
- Restructuring & Work out is responsible for effective debt recovery and write-off management. It is also responsible for monitoring, restructuring of receivables over-due, specific provisions and collateral management.

In the chart above, black lines show the assignment of different risk types to the respective units. Solid black lines show he areas directly subordinated to the Chief Risk Officer. Strategic Risk Management and Corporate Credit Risk Management may also report directly to their respective committees as shown by red/dotted lines.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in the Bank's risk management strategy.

Comprehensive risk and capital management

Internal Capital Adequacy Assessment Process ('ICAAP') is a process in which all significant risks that the Bank faces must be covered by internal capital (i.e. coverage potential). This means that all material risks are determined, quantified, aggregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Bank consists of the following steps:

- Risk materiality assessment
  - identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation
- Risk-bearing capacity calculation
  - calculation of the risk exposure for each particular material risk
  - aggregation of the individual risks into a single economic capital figure
  - calculation of internal capital (coverage potential)
  - relating economic to internal capital
- Stress testing
  - verification of economic capital figures via severe, yet plausible stress scenarios
- Capital management
  - management of consistency between economic and internal capital including forecasting

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the Bank's management in pursuing its strategy.

Risk materiality assessment

The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both, quantitative and qualitative factors, which is conducted for each identified risk type the Bank faces.

The output of the risk materiality assessment is the set of material risks, which have to be quantified and covered by capital. It also includes other risk management practices to control and mitigate the identified risks (material or non-material).

Risk-bearing capacity calculation

The risk-bearing capacity calculation ('RCC') is ultimately the tool to define capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are aggregated into a capital requirement and compared to the coverage potential and the Bank´s own funds. The integral forecast, risk appetite limit, as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of risk limit's utilization and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks) and in the context of Pillar 2, interest rate risks in the banking book, business and strategic risk, liquidity risk, residual credit risk, and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.9 % confidence level. During the year 2016 the utilization of the economic capital was below 50 %.

Other risks, namely credit concentration risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and/or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined with profit of the current year, considering subordinated liabilities and regulatory deductibles, as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the Bank's operations.

Stress testing

Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99.9 % confidence on one year horizon means an extreme loss that occurs once in 1000 years. At this levels the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the Bank's positions, thus providing further assurance of internal capital adequacy. Should stress testing results show potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

Capital Management

Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so, and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the Bank's business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure day-to-day adherence to the approved risk profile and capital levels.

Risk planning and forecasting

The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both, forward- and backward-looking component, focusing on portfolio and economic environment changes.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (both, Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Strategic Risk Management and Accounting and Controlling.

Credit risk

Credit risk, in broad terms, is the risk that a loss will be incurred if the Bank's counterparty to a transaction does not fulfill its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the Bank. It results from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk includes also sovereign, country, concentration, settlement, counterparty and dilution risks.

The Bank shall follow the policy of long-term risk-adjusted profitability and the principle of adequate pricing (higher credit risk leads to higher risk premium).

The Bank shall annually review its credit risk tolerance, and shall set priorities, i.e. quantitative and qualitative measures, for the next term with respect to the credit risk point of view.

Three fundamental layers of documents regulate the credit activity of the Bank. Credit strategy, defined by the top management, introduces the overall orientation, areas of activity and strategic objectives of the Bank. The credit policy sets out the principles, identifies operating procedures, and specifies framework responsibilities related to credit activities. Subordinated internal provisions take the form of detailed manuals or department-specific instructions or guidelines, describing precisely responsibilities to the lowest levels, any applicable deadlines, reports and other relevant contingencies of credit process and credit risk management.

The organization of the Bank's credit activity is governed by the following principles:

- clear segregation of credit risk management function from business activities or delegation of these activities to business function with clearly defined split of responsibilities
- centralization of operative credit risk management – independent credit risk management divisions for both, corporate and retail segments
- flexibility and accuracy of credit process and quality of credit decisions
- personally assigned and clearly specified competences
- general application of four-eye principle in all critical lending processes (with justified exceptions)
- diversification of credit portfolio in order to keep the exposures within defined limits
- independent credit risk control function – Strategic Risk Management

Strategic Risk Management

Strategic Risk Management, more specifically its Credit Risk Models department, is the independent risk control unit in line with Basel Capital Accord. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the Bank's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to CRR/CRD and model for economic capital. In addition to this, SRM has two other specific roles:

- credit exposures to banks, sovereigns and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally approved and monitored by SRM;
- credit lines of Treasury clients (approved by Credit Risk Corporate) are determined and monitored by SRM.

Retail Credit Risk Management Division

Retail Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). Furthermore, it monitors the development of credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limits documentation, as well as performs early collection.

Corporate Credit Risk Management Division

Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). Furthermore, it monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits, maintains deal and limits documentation for corporate clients.

Restructuring & Workout

Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring, restructuring of receivables overdue, specific provisions and collateral management.

94 Internal rating system

The Bank, as the first bank in Slovakia, reports capital adequacy using the "internal-ratings based" (IRB) approach to credit risk since July 2008. The approval by the Financial Market Authority of Austria and the National Bank of Slovakia indicated that the Bank's credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation, as well as into internal controls and reporting and that they play the essential role.

All material aspects of the rating and estimation processes shall be approved by the Board of Directors. Together with senior management, they shall possess a general understanding of the internal rating system and detailed comprehension of associated management reports.

Senior management, with main responsibility on the head of Strategic Risk Management, shall ensure on an ongoing basis that the rating systems are operating properly. Senior management shall be regularly informed by the credit risk control unit about the performance of the rating process, areas needing improvement and the status of efforts to improve previously identified deficiencies.

The rating system of the Bank comprises all methods, processes, control mechanisms, data collection and IT systems supporting credit risk measurement, assigning exposures to risk grades and risk pools and quantification of risk parameters. The rating system consists of several rating methods and rating tools depending on obligor asset class and other obligor characteristics.

Internal rating is a cornerstone of a complex credit risk management system of the Bank. It is a fundamental indicator of the probability of default of a client. The result of a rating assessment is the allocation of an obligor into a particular rating grade.

The internal rating is composed of hard and soft facts about the client and possibly also includes transformed selected external investment rating(s). The Bank shall use comprehensive rating systems for evaluation of both retail and corporate clients. Obligors in a given asset class and rating method, which have similar probability of default should have the same rating grade. Rating scale should have sufficient discriminatory power to properly distinguish between various levels of credit risk. Distribution of obligors in a given rating grade should be such that the risk parameters quantification for that grade is sufficiently accurate.

Credit Risk Models department is responsible for development of scoring and rating models. Performance of the models, i.e. accuracy and selectivity of internal rating grades, is regularly monitored and reported. Full scope validation of the models is performed on an annual basis.

Assigned ratings shall be reviewed at least annually. Behavioural (batch) rating shall be used for retail exposures, other exposure classes shall be reviewed by Corporate Credit Risk Management Division. If new and important information about the obligor or exposure is available, the rating shall be updated too. It is possible to override a rating only based on information, which is not used by the rating tool, or was not considered during rating approval. All rating overrides shall be recorded and analysed.

The internal rating system shall be properly documented. Detailed principles and processes of the internal rating system shall be specified within internal guidelines.

Risk grades

The classification of credit assets into risk grades is based on the Bank's internal ratings. The Bank uses two internal risk scales for risk classification for customers that have not defaulted: risk scale of 8 risk grades (for retail) and 13 risk grades (for all other segments). Defaulted customers are classified into a separate risk grade.

Default definition

A default is deemed to have occurred with a client when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the Bank without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Bank;
- whatever condition or obligation under contract has been breached by client, on the basis of which the Bank is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

The Bank defines 5 default events:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 – defaulted forbearance
- E4 – exposure write-off
- E5 – bankruptcy

Credit Risk Control department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils EBA criteria and influences estimation of LLP, SRC, etc.

Maximum exposure to credit risk

Maximum exposure to the credit risk of financial assets is represented by their net carrying amount (carrying amount in the case of derivatives measured at fair value). Maximum exposure to credit risk for off balance sheet commitments (e.g. undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Bank has to pay if the commitment is called on.

Information regarding exposure to credit risk arising from financial assets other than loans and off balance sheet commitments is detailed in individual notes.

The following table presents the maximum exposure to credit risk of loans and advances to customers, financial guarantees granted and undrawn loan commitments:

EUR ths.	2015	2016
Gross amount	**10 912 837**	**12 042 484**
On-balance sheet total	9 769 646	10 639 028
Off-balance sheet total	1 143 192	1 403 458
Gross amount	**10 912 837**	**12 042 484**
Retail (incl. micros)	7 658 542	8 662 816
Corporate and other classes	3 254 296	3 379 668
Loss allowances	**(370 835)**	**(354 158)**
Retail (incl. micros)	(228 493)	(241 134)
Corporate and other classes	(142 343)	(113 023)
Net amount	**10 542 002**	**11 688 326**
Retail (incl. micros)	7 430 049	8 421 682
Corporate and other classes	3 111 953	3 266 644

The following table presents total exposure according to the EBA definition:

2016		Z toho		Non performing	
EUR ths.	Total exposure	Performing	Non perfor-ming	Of which: defaulted	Of which: impaired
On-balance sheet exposure	10 639 027	10 163 975	475 052	464 790	407 308
Off-balance sheet exposure	1 403 458	1 353 913	49 545	49 459	3 000
Total	**12 042 484**	**11 517 887**	**524 597**	**514 249**	**410 307**

2015		Z toho		Non performing	
EUR ths.	Total exposure	Performing	Non perfor-ming	Of which: defaulted	Of which: impaired
On-balance sheet exposure	9 769 646	9 229 650	539 995	530 427	458 260
Off-balance sheet exposure	1 143 192	1 120 091	23 100	23 088	21 606
Total	**10 912 837**	**10 349 742**	**563 095**	**553 516**	**479 866**

Loss allowances were structured as follows:

EUR ths.	2015	2016
Loss allowances on loans and advances	354 929	342 664
Provisions for off-balance sheet items	15 906	11 494
Total	**370 835**	**354 158**

The following table presents total loss allowances and provisions according to the EBA definition:

2016 EUR ths.	Total loss allowances and provisions	Z toho		Non performing	
		Performing	Non performing	Of which: defaulted	Of which: impaired
Loss allowances on loans and advances	342 664	70 813	271 851	271 163	253 697
Provissions for off-balance sheet items	11 494	10 107	1 387	1 379	1 075
Total	**354 158**	**80 920**	**273 238**	**272 543**	**254 773**

2015 EUR ths.	Total loss allowances and provisions	Z toho		Non performing	
		Performing	Non performing	Of which: defaulted	Of which: impaired
Loss allowances on loans and advances	354 929	63 198	291 731	290 969	275 470
Provissions for off-balance sheet items	15 906	9 919	5 987	5 986	5 713
Total	**370 835**	**73 117**	**297 718**	**296 955**	**281 183**

The following table presents information on credit quality of loans and advances to customers, financial guarantees granted and undrawn loan commitments, classified as retail asset class:

EUR ths.	2015	2016
Total exposure		
Investment grade (1-5)	6 968 149	7 779 480
Subinvestment grade (6)	178 864	367 537
Subinvestment grade (7)	92 456	123 910
Subinvestment grade (8)	88 455	60 264
Non-performing loans (NPE)**	330 618	331 624
Gross amount	**7 658 542**	**8 662 816**
Loss allowances	(228 493)	(241 134)
Net amount	**7 430 049**	**8 421 682**
Collective assessment comprises:		
0 days	7 129 180	8 123 510
1-30 days	167 941	173 572
31-60 days	19 617	21 891
61-90 days	11 015	12 059
90 days+ *	171	160

** Overdue amount is non material, i.e. less than 50 Eur per client (materiality limit introduced in the year 2009).*

The following table presents information on credit quality of loans and advances to customers, financial guarantees granted and undrawn loan commitments, classified as corporate, institutional or sovereign asset class:

EUR ths.	2015	2016
Total exposure		
Investment grade (1-5)	2 851 686	2 925 288
Subinvestment grade (6)	107 731	165 716
Subinvestment grade (7)	26 763	24 820
Subinvestment grade (8)	35 638	70 871
Non-performing loans (NPE)**	232 477	192 973
Gross amount	**3 254 296**	**3 379 668**
Loss allowances	(142 343)	(113 023)
Net amount	**3 111 953**	**3 266 644**
Individually impaired		
Gross amount	**232 477**	**192 973**
Loss allowances	(118 551)	(85 448)
Net amount	**113 926**	**107 525**
Past due but not impairment		
Investment grade (1-5)	88 355	67 064
Subinvestment grade (6)	6 774	19 815
Subinvestment grade (7)	5 524	1 159
Subinvestment grade (8)	395	671
Non-performing loans (NPE)**	-	-
Gross amount	**101 048**	**88 709**
Loss allowances	(1 265)	(1 188)
Net amount	**99 783**	**87 521**
Past due but not impaired comprises:		
1-30 days	99 782	83 354
31-60 days	1 172	4 971
61-90 days	3	361
90 days+ *	91	23
Neither past due nor impaired		
Investment grade (1-5)	2 763 331	2 858 224
Subinvestment grade (6)	100 957	145 901
Subinvestment grade (7)	21 239	23 661
Subinvestment grade (8)	35 244	70 200
Non-performing loans (NPE)**	-	-
Gross amount	**2 920 771**	**3 097 986**
Loss allowances	(22 527)	(26 388)
Net amount	**2 898 243**	**3 071 598**

** Overdue amount is non material, i.e. less than 250 eur per client (materiality limit introduced in the year 2009).*

The increasing internal rating of clients corresponds with their increasing credit risk. When assigning the rating the Bank considers financial position and performance of counterparty, qualitative factors, as well as general economic trends in particular industry and country.

Clients rated as 1 – 8 according to the Bank's internal rating are not considered to be individually impaired.

Forbearance

In September 2014 the Bank has implemented a forbearance definition based on the EBA definition. The forborne exposure can be identified in both, performing and non-performing portfolios:

- Performing forbearance – forborn loans for customers without financial difficulties
- Non-performing forbearance – forborn loans for customers, which defaulted after forbearance
- Defaulted forbearance – forborn loans for customers in default

The following table presents carrying amounts of renegotiated loans, which are exposures with performing forbearance status:

EUR ths.	2015	2016
Renegotiated loans	95 442	96 867
Total	**95 442**	**96 867**

Concentration risk

The following table presents summary of concentrations of financial assets (including derivatives), loan commitments and guarantees based on the debtors' industry:

2016 EUR ths.	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	555 738	544 415	-	-	-	-
Utilities & Renewable Energy	381 151	379 789	-	-	-	-
Construction and building materials	372 407	344 958	-	-	-	-
Automotive	82 001	80 679	-	-	-	-
Cyclical Consumer Products	195 863	186 526	-	-	-	-
Non-Cyclical Consumer Products	225 949	218 280	-	-	6 706	6 706
Machinery	157 977	148 610	-	-	-	-
Transportation	377 973	372 434	-	-	119 154	119 154
Telecommunications, Media, Technology and Paper & Packaging	70 611	69 799	-	-	-	-
Healthcare & Services	125 498	120 207	-	-	-	-
Hotels, Gaming & Leisure Industry	90 340	81 830	-	-	-	-
Real Estate	983 852	938 469	-	-	6 118	6 118
Public Sector	205 884	205 622	-	-	3 400 729	3 400 485
Financial Institutions	154 861	154 470	89 942	89 906	222 488	222 451
Private Households	8 062 326	7 842 214	-	-	-	-
Other	54	23	-	-	-	-
Total	**12 042 485**	**11 688 325**	**89 942**	**89 906**	**3 755 194**	**3 754 915**

2015 EUR ths.	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	459 244	448 038	-	-	-	-
Utilities & Renewable Energy	454 624	452 767	-	-	-	-
Construction and building materials	354 963	310 522	-	-	-	-
Automotive	54 339	52 759	-	-	-	-
Cyclical Consumer Products	216 992	204 859	-	-	-	-
Non-Cyclical Consumer Products	203 146	194 827	-	-	12 986	12 986
Machinery	148 271	142 193	-	-	6 641	6 641
Transportation	381 468	374 989	-	-	112 428	112 428
Telecommunications, Media, Technology and Paper & Packaging	51 533	50 457	-	-	-	-
Healthcare & Services	150 324	145 726	-	-	-	-
Hotels, Gaming & Leisure Industry	87 344	76 212	-	-	-	-
Real Estate	858 371	800 369	-	-	10 993	10 993
Public Sector	239 704	239 246	-	-	3 406 020	3 405 797
Financial Institutions	116 146	115 801	121 611	121 583	255 561	255 542
Private Households	7 136 296	6 933 198	-	-	-	-
Other	73	41	-	-	-	-
Total	**10 912 838**	**10 542 004**	**121 611**	**121 583**	**3 804 629**	**3 804 387**

The following table presents summary of concentrations of financial assets (including derivatives), loan commitments and guarantees based on asset classes:

EUR ths.	Gross		Net	
	2015	2016	2015	2016
Retail	7 658 542	8 662 816	7 430 049	8 421 682
Corporate	2 983 720	3 114 640	2 841 848	3 002 003
Institution	270 012	263 408	269 542	263 023
Sovereigns	563	1 620	562	1 618
Total	**10 912 837**	**12 042 484**	**10 542 001**	**11 688 326**

The following table presents a summary of the Bank's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government and similar exposures:

EUR ths.	Amount		Portion of total assets %	
	2015	2016	2015	2016
Cash and balances at the central bank	872	79 916	0,01%	0,54%
Loans and advances to customers	498 451	409 946	3,57%	2,77%
Securities portfolios	3 310 004	3 241 450	23,73%	21,90%
Deferred income tax asset	29 739	34 166	0,21%	0,23%
Total	**3 839 066**	**3 765 478**	**27,52%**	**25,44%**

The following table presents a breakdown of state debt securities held by the Bank per portfolio and type of security:

EUR ths.	2015	2016
Securities available for sale	**888 507**	**762 164**
Slovak government Eurobonds	888 507	762 164
Securities held to maturity	**2 421 497**	**2 479 286**
State bonds denominated in EUR	2 389 311	2 446 130
State bonds denominated in USD	32 186	33 156
Total	**3 310 004**	**3 241 450**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Standard & Poor's is A+ with stable outlook (since 1 August 2015).

Market risk

Market risk is the risk of losses in balance sheet and off-balance sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- risk identification – identify all risks inherent in the trading operations and in new products (new products check) and ensure these are subject to adequate procedures and controls before being introduced or undertaken
- risk measurement – calculation of risk exposure using sensitivities and value-at-risk
- limits management – comprehensive limit system and limit allocation in order to restrict the maximum risk exposure
- risk monitoring and reporting

The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

Methods and instruments employed

All positions of the Bank, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model, and respective profit or loss is calculated.

The main tool to measure market risk exposure in the Bank is sensitivity analysis and value-at-risk (VAR) which is complemented by back testing and stress testing programme.

VAR for trading book and investment portfolios of banking book estimates the maximum potential loss over 1-day holding period with 99 % confidence interval and is based on historical simulation (2-years history window, equally weighted) while all positions are treated via full valuation in the calculation (i.e. no simplification of positions for the purpose of VAR). VAR is measured consistently across all portfolios (both banking and trading book) and relevant market factors.

In addition to that, a stressed value-at-risk measure is calculated whereby the above described model is repeatedly applied to a 1-year rolling window of historical rates within longer time span to come up with the most severe VAR measure over a current position.

VAR for the overall banking book uses 99% confidence interval, 10-day holding period, 6-year rolling window for the historical simulation and a decay factor of 0.99.

In order to validate the value-at-risk model, daily back testing routines are applied. In the procedure the real value of closing position of the previous trading day is computed first using relevant market rates of that day. The same closing position is then revalued using the closing market rates of the current day. The difference between the two values is the so-called hypothetical profit and loss, i.e. profit and loss that would have been obtained if the position remained unchanged during the last trading day. If this profit or loss figure exceeds the value-at-risk figure, an exception is recorded and documented. Back testing is conducted not only for the whole trading book, but also for each trading desk and additionally for each applicable risk factor (interest rate, FX rate, stock price, volatility, etc.).

VAR is subject to some model assumptions (e.g. historical simulation), hence stress testing is established in order to partially tackle these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

Furthermore, the application of the extreme value theory ('EVT') allows describing the influence of events with extreme low probability on the result of trading portfolio, and thus well supports other stress testing measures and the model itself. The Bank uses EVT based on approximation of empirical market data (2-years history) by Pareto probability distribution function. From this function, it is possible to obtain maximum loss (i.e. EVT loss) with confidence level of 99.95 % (compared to 99 % VAR). It is measured on daily basis.

Overall market risk of the entire balance sheet is also measured using economic value of equity measure based on EBA guidelines – all positions of the Bank are re-valued using an extreme (200 bp) up and down parallel shift of the yield curve and the resulting sensitivity is related to the available capital. Additional six non-parallel scenarios are also calculated.

Risk mitigation and reporting

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VAR, sensitivity, and stop-loss limits. Limits are structured according to individual sub-portfolios (separate limits are defined for derivative trades). Monitoring is performed daily by SRM.

Risk reporting is done daily for relevant management and monthly for ALCO.

Market risk measures

The following tables summarize the risk measures – Value at Risk of banking book and trading book:

EUR mil.	2015	2016
Trading book VAR	0.0	0.0
Banking book VAR - ALM portfolio	12.9	14.5
Banking book VAR - Corporate portfolio	1.8	1.8
Overall Banking book VAR	130.2	130.3
Overall Banking book sensitivity (200bp shock)	157.9	191.0

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

Liquidity risk

The liquidity risk is defined in the Bank as the inability to meet the Bank's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Banks will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Bank.

Liquidity risk is within the authority of ALCO. The Local Operating Liquidity Committee ('L-OLC') is responsible for operational managing and analysing of the liquidity situation of the Bank.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

Liquidity strategy

The primary goal of the funding strategy in the year 2016 was to cover the planned funding gap coming from the core business efficiently in terms of structure and costs vs. risk tolerance. This has been successfully achieved as the Bank comfortably fulfills all regulatory and internal liquidity limits and keeps sufficient liquidity buffer composed mainly of government securities.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period (SPA) on weekly basis. This analysis determines the maximum period during which the Bank can survive different crisis scenarios (severe market, idiosyncratic, or combined crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow.

Liquidity ratios defined by the regulator (LCR, NSFR and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO. Funding concentration risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Strategic Risk Management provides the reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the Bank to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 2 months
- severe market crisis – over 2 months
- combined name and market crisis – over 1 mo

The minimum volume of the liquidity buffer (counter-balancing capacity) is limited by 1.5 bn eur. The Bank daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks, as well as unencumbered central bank eligible assets. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation.

Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR, NFSR, and local LCR ratios.

Funding Concentrations management - no client may account for more than 30 % of the total whole-sale funding. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess. Sum of top 10 biggest clients may not account for more than 50% of the total wholesale funding.

Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Regulatory ratios

All regulatory ratios were well above the defined regulatory limits during the year 2016.

Internal analysis

Counter-balancing capacity – the minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was around 4 bn Eur throughout 2016 (well above the 1.5 bn limit).

EUR mil. 2016	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	306	-	-	-	-
Liquid assets	3 544	(32)	(11)	(421)	-
Counterbalancing capacity	**3 850**	**(32)**	**(11)**	**(421)**	**-**

EUR mil. 2015	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	300	-	-	-	-
Liquid assets	3 509	-	(107)	-	(121)
Counterbalancing capacity	**3 809**	**-**	**(107)**	**-**	**(121)**

Survival period horizon

During the year 2016 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 50 days but on average was about six month.

Funding concentrations

During the year 2016 both concentrations limits were fulfilled at all times.

Operational risk

Main objectives of effective system of operational risk management are:

- set up a bank-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- properly identify major drivers of operational risk
- develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- implement and update of insurarnce program
- define outsourcing and internal control system principles
- prepare ORCO meetings
- continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- provide quality reporting and documentation

Risk identification

Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and/or severity of loss events.

Risk identification should be generally forward-looking. While it is inevitable to use historical loss data, they should be supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors should be translatable into quantitative measures.

The most significant sources of operational risk in the Bank are:

- theft and fraud (both external and internal)
- legal risks
- human processing error
- data, infrastructure, and system related risks
- cyber crime
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

Internal data

The Bank shall maintain a central database of operational risk events and losses. This should be as comprehensive as possible in that it captures all material activities throughout the Bank. Data collection is conducted via a web-based application EMUS which was upgraded in 2016. This application now provides more user friendly platform to deal with operational risk losses.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the Bank. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the Bank has an access right. Information on loss amounts, recoveries, date of event and other relevant descriptive information must be provided.

Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Financial Crime & Compliance, Card Services, Internal Services or Strategic Risk Management. Second stage is a data consistency check and is performed by Strategic Risk Management. Events should be categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process shall be covered by Strategic Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc.

External data

As severe operational risk events are scarce, and may not have been captured in internal data collection, the Bank shall also include adequate external event data in its risk identification system. These should cover infrequent severe events with relevance to the Bank or financial industry. The Bank should systematically incorporate external data into its risk measurement methodology. External data collection shall be coordinated with the Erste group efforts on this matter and will be conducted by Strategic Risk Management.

Scenario analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Bank shall include such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Strategic Risk Management.

Risk mapping and key risk indicators

The objective of this risk identification technique is to map the level of different operational risks across the Bank and to set up a measurable framework known as key risk indicators ('KRI') that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Strategic Risk Management, with the help of respective senior or third level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the Bank. The resulting map will have three dimensions, namely:

- risk category
- business line/product
- functional process level – where applicable, this provides depth for the business line/product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI should have the following properties:

- it should be easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;
- it should be effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

Risk measurement

The Bank measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both, frequency of loss and amount of loss, is modelled and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9 % and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification process should be used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems should be used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.

The Bank should be able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model should be validated through comparison to actual experience and appropriate corrections should be made. Design of the risk measurement model is within the responsibility of Erste Holding (for more details see the group AMA documentation). Modelling inputs are provided by Strategic Risk Management.

Managing operational risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Strategic Risk Management has a harmonization role and performs activities of global scope.

In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance,
- system of internal controls,
- outsourcing,
- risk acceptance,
- decrease of the extent or disposal of the risky activity.

Selection of the approach is by definition the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, the Board of Directors) for approval.

The following sub-sections give an overview of the main activities regarding operational risk management within the Bank.

Operational Risk and Compliance Committee is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

SRM or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers, and other representatives.

System of internal controls

Each unit manager shall implement a system of internal controls ('ICS') within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc. Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that should be covered by operative controls.Systém vnútornej kontroly zahŕňa:

Internal control system shall consist of:
- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself
- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:
- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the Bank's ICS in order to determine whether the Bank is following enacted policies and procedures. Strategic Risk Management shall issue associated Internal Control System Policy giving detailed information on the system. However, SRM does not assume any coordination role in the implementation and execution of ICS by individual managers.

Insurance

In order to mitigate operational risk, the Bank shall engage in a comprehensive insurance program. This should cover direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the Bank and its subsidiaries. The primary objective of the insurance program is to safeguard the Bank against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Strategic Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which should, inter alia, cover procedures in case of insurance incident.

Outsourcing

Outsourcing is defined as long-term delegation of internal operation to external entity that specializes in that operation. In context of operational risk management, the primary focus is on outsourcing of banking operations.

Outsourcing should be governed by the following high-level principles:
- outsourcing of any banking operation must be approved by respective decision making body
- the Bank neither relinquishes the responsibility for, nor does it get disposed of the risks brought along by such activity
- special attention is to be paid to legal and regulatory issues

General outsourcing policy is defined on Erste Holding level. Strategic Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These shall be documented in associated internal policy. All outsourced activities must strictly follow this policy.

Each outsourcing must have an outsourcing sponsor and an outsourcing manager (both coming from the Bank) who are responsible for governance, correct functioning, operational risk, and other issues related to the outsourced activity.

Operational risk management related to outsourcing is within the responsibility of respective outsourcing sponsor and outsourcing manager. Strategic Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

38) Fair values of financial assets and liabilities

The best indication of a fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (Level 1 of the fair value hierarchy).

In case a market quote is used for a valuation, but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators), the instrument is classified as Level 2 of the fair value hierarchy. In case no market prices are available, the fair value is determined by using valuation models, which are based on observable market data. If all the significant inputs in a valuation model are observable, the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor using valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently, the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations typically credit spreads derived from both external sources (similar securities or issuers) and internal sources (risk parameters such as rating, PD or LGD) are used, besides observable parameters.

Financial instruments measured at fair value

All financial instruments of this category are measured at fair value on a recurring basis.

In the Bank the measurement of fair value is primarily based on external sources of data (stock market prices or broker quotes in highly liquid market segments). The financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities, liquid OTC bonds and derivatives.

Description of the valuation models and inputs

The Bank uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Securities
For plain vanilla debt securities (fixed and floating) the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instrument. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including also methods described for OTC-derivatives. All securities are valued using the bid/ask levels (depending whether asset or liability), i.e. more conservative then the mid level.

OTC-derivative financial instruments
Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps, commodity swaps) are valued by standard valuation models. These models include discounting cash flow models, option models of Black-Scholes-type and Hull-White-type. Models are calibrated on quoted market data (including implied volatilities). Valuation model for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used. The Bank values derivatives at mid-market levels.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC-derivatives. For CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. The Bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling approach is considered for the most relevant products and portfolios. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Bank's issuances. Netting has only been considered for a few counterparties where the impact was material. For those netting has been applied for both CVA and DVA. The methodology and the calculation itself are carried out by Erste Holding.

For collateralised derivatives the effect of collateral received is considered and reduces the amount of CVA accordingly. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

As at 31 December 2016 the cumulative CVA adjustment amounted 1.1 mil. eur (2015: 4.0 mil. eur) and the cumulative DVA adjustment amounted 0.8 mil. eur (2015: 1.0 mil. eur).

Description of the valuation process within Level 3

Level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions, among others. This involves estimation and expert judgment.

The responsibility for valuation of a position of measured at fair value is carried out by risk management unit which is independent from all trading, sales, or investment units.

Fair value hierarchy

The methods used to determine fair values with respect to the levels of fair value hierarchy were as follows:

EUR ths.	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
	2015	2016	2015	2016	2015	2016	2015	2016
Assets								
Financial assets held for trading	-	-	83 512	44 409	902	405	84 414	44 814
Derivatives held for trading	-	-	83 512	44 409	902	405	84 414	44 814
Financial assets designated at FV through profit or loss	-	-	6 641	-	11 028	6 118	17 669	6 118
Financial assets - available for sale	989 390	866 076	184 067	170 731	37 477	25 836	1 210 934	1 062 643
Derivatives - Hedge accounting	-	-	7 418	7 705	-	-	7 418	7 705
Total	**989 390**	**866 076**	**281 638**	**222 845**	**49 407**	**32 359**	**1 320 435**	**1 121 280**
Liabilities								
Financial liabilities held for trading	-	-	85 508	42 524	-	288	85 508	42 812
Derivatives held for trading	-	-	85 508	42 524	-	288	85 508	42 812
Derivatives - Hedge accounting	-	-	42 915	52 389	-	-	42 915	52 389
Total	**-**	**-**	**128 423**	**94 913**	**-**	**288**	**128 423**	**95 201**

Allocation of positions to the levels of fair value hierarchy and any changes between these levels are reflected at the end of the reporting period.

Changes in volumes of Level 1 and Level 2

There were no significant transfers between Level 1 and Level 2 of financial instruments measured at fair value on the balance sheet.

Movements in Level 3

The development of fair value of the securities for which valuation models are based on non-observable inputs was as follows:

EUR ths.	2015	Gains / Losses in PL	Gains / Losses in OCI	Purchase	Sales/ Settlements	Transfer into Level 3	Transfer out of level 3	2016
Assets	**in PL**	**Gains /**						
Financial assets held for trading	Losses	(2 135)	-	-	(902)	31 295	(28 755)	405
Derivatives held for trading	in OCI	Purchase	Sales/	-	(902)	31 295	(28 755)	405
Financial assets designated at fair value through Profit & Loss	Settlements	Transfer into Level 3	Transfer out of level 3	2016	(4 081)	-	-	6 118
Financial assets available for sale	37 477	738	2 370	5 740	(33 363)	34 700	(21 824)	25 836
Total assets	**49 407**	**(2 225)**	**2 370**	**5 740**	**(38 346)**	**65 995**	**(50 579)**	**32 359**
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	-	-
Derivatives held for trading	-	-	-	-	-	(288)	-	(288)
Total liabilities	**-**	**-**	**-**	**-**	**-**	**(288)**	**-**	**(288)**

EUR ths.	2014	Gains / Losses in PL	Gains / Losses in OCI	Purchase	Sales/ Settlements	Transfer into Level 3	Transfer out of level 3	2015
Assets	in PL	Gains /						
Financial assets held for trading	Losses	(40)	-	-	(2 319)	1 388	(207)	902
Derivatives held for trading	in OCI	Purchase	Sales/	-	(2 319)	1 388	(207)	902
Financial assets designated at fair value through Profit & Loss	Settlements	Transfer into Level 3	Transfer out of level 3	2015	(2 508)	-	-	11 028
Financial assets available for sale	29 489	650	24 589	-	(655)	5	(16 603)	37 477
Total assets	**45 127**	**589**	**24 589**	**-**	**(5 482)**	**1 393**	**(16 810)**	**49 407**
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	-	-
Derivatives held for trading	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Gains or losses on Level 3 financial instruments held at the end of the reporting period, which are included in the income statement were as follows:

EUR ths.	2015	2016
Assets		
Financial assets held for trading	(650)	405
Financial assets designated at FV through profit or loss	(327)	(1 377)
Liabilities		
Financial liabilities held for trading	-	(288)
Total	**(977)**	**(1 260)**

The volume of Level 3 financial instruments consists solely of a few positions in illiquid securities.

Fair value of financial instruments disclosed in the notes

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2016:

EUR ths.	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets					
Cash and cash balances	396 973	396 973	-	-	-
Financial assets - held to maturity	2 640 662	3 117 560	3 025 219	58 830	33 510
Loans and receivables to credit institutions	89 906	90 253	-	-	90 253
Loans and receivables to customers	10 296 363	10 662 263	-	-	10 662 263
Liabilities					
Financial liabilities measured at amortised costs	12 984 978	12 983 145	-	373 849	12 609 295
Deposits from banks	278 193	280 776	-	-	280 776
Deposits from customers	11 389 378	11 344 642	-	-	11 344 642
Debt securities issued	1 317 407	1 357 727	-	373 849	983 878

The following table shows fair values and fair value hierarchy of the financial instruments disclosed in the notes as at 31 December 2015:

EUR ths.	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets					
Cash and cash balances	322 811	322 811	-	-	-
Financial assets - held to maturity	2 490 694	2 992 288	2 951 504	40 681	103
Loans and receivables to credit institutions	121 583	121 793	-	-	121 793
Loans and receivables to customers	9 414 716	9 666 089	-	-	9 666 089
Liabilities					
Financial liabilities measured at amortised costs	12 164 938	12 159 689	-	1 134 150	11 025 538
Deposits from banks	384 965	379 633	-	-	379 633
Deposits from customers	10 678 019	10 638 434	-	-	10 638 434
Debt securities issued	1 101 954	1 134 150	-	1 134 150	-

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of securities issued and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, where available. Otherwise it is estimated by taking into consideration the actual interest rate environment and they are transferred to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads and these are allocated to Level 3.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities.

Fair value of non-financial assets

The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification.

Property, equipment and other assets

Property, equipment and other assets are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

Fair values of non-financial assets owned by the Bank are based on valuation reports relying essentially on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets). Such measurements are disclosed as Level 2 of the fair value hierarchy. If fair values of non-financial assets result from valuation models using expected future rental income method they are presented in Level 3 of the fair value hierarchy.

For non-financial assets owned by the Bank the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenants and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

Investment property

Investment property is measured at fair value on recurring basis.

As at 31 December 2016 the estimated fair value of investment property was in amount of 2,3 mil. Eur (2015: 2,8 mil. Eur). The Bank uses its own model for determining the fair value of investment property, which is based on discounting future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location. Such measurements are presented in Level 2 of the fair value hierarchy.

39) Current and non-current assets and liabilities

The classification of assets, liabilities and equity to current (due within one year) and non-current (due over one year) based on their remaining contractual maturity is shown in the following table:k):

EUR ths.	2015		2016	
	< 1 year	> 1 year	< 1 year	> 1 year
Assets				
Cash and cash balances	322 811	-	396 973	-
Financial assets - held for trading	25 372	59 042	6 753	38 061
Derivatives	25 372	59 042	6 753	38 061
Financial assets - at fair value through profit or loss	6 641	11 027	-	6 118
Financial assets - available for sale	129 441	1 082 170	34 976	1 028 345
Financial assets - held to maturity	107 120	2 383 574	445 846	2 194 816
Loans and receivables to credit institutions	121 583	-	89 906	-
Loans and receivables to customers	1 449 375	7 965 341	1 409 807	8 886 556
Derivatives - hedge accounting	-	7 418	-	7 705
Property and equipment	-	111 947	-	99 289
Investment properties	-	2 880	-	2 388
Intangible assets	-	86 971	-	71 955
Investments in subsidiaries and associates	-	21 399	-	23 041
Deferred tax assets	-	29 739	-	34 166
Other assets	27 214	-	24 262	-
Total assets	**2 189 557**	**11 761 508**	**2 408 523**	**12 392 440**
Liabilities				
Financial liabilities - held for trading	28 139	57 369	6 889	35 923
Derivatives	28 139	57 369	6 889	35 923
Financial liabilities measured at amortised cost	10 641 586	1 523 352	11 423 533	1 561 445
Deposits from banks	198 194	186 771	116 163	162 030
Deposits from customers	10 317 284	360 735	11 145 531	243 847
Debt securities issued	126 108	975 846	161 839	1 155 568
Derivatives - hedge accounting	-	42 915	-	52 389
Provisions	-	28 067	-	22 426
Current tax liabilities	5 925	-	4 007	-
Other liabilities	115 948	-	160 982	-
Total liabilities	**10 791 598**	**1 651 703**	**11 595 411**	**1 672 183**

The following table details the Bank's non-derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

2016 EUR ths.	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total
Financial liabilities measured at amortised cost						
Deposits from banks	11 027	84 778	20 414	80 078	84 442	280 739
Deposits from customers	8 954 535	711 914	1 481 666	245 157	-	11 393 272
Debt securities issued	9 470	5 221	152 481	1 007 501	199 009	1 373 682
Financial guarantees	2 051	37 518	63 466	176 908	6 358	286 301
Total	**8 977 084**	**839 431**	**1 718 027**	**1 509 644**	**289 809**	**13 333 994**

2015 EUR ths.	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total
Financial liabilities measured at amortised cost						
Deposits from banks	31 972	42 196	124 400	97 330	95 173	391 071
Deposits from customers	7 747 437	1 037 144	1 536 692	363 688	-	10 684 961
Debt securities issued	3 051	76 671	46 935	799 783	239 218	1 165 658
Financial guarantees	19 817	30 457	48 626	138 072	14 372	251 344
Total	**7 802 278**	**1 186 468**	**1 756 652**	**1 398 873**	**348 763**	**12 493 034**

40) Own funds and capital requirements

Regulatory Scope of Application

Hereby Slovenská sporiteľňa, a.s. fulfills the disclosure requirements according to the Capital Requirements Regulation (CRR), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 1 January 2014, SLSP has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the Capital Requirements Regulation (CRR) and the Capital Requirement Directive (CRD IV) that were enacted in national law, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR and the aforementioned technical standards are fully applied by SLSP for regulatory purposes and for the disclosure of regulatory information.

SLSP fulfilled regulatory capital requirements in both years 2016 and 2015 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

Accounting Principles

The financial and regulatory figures published by SLSP are based on IFRS regulatory capital components. Eligible capital components derive from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation for items where the regulatory treatment is not equal to the accounting requirements.

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of SLSP is 31 December of each respective year.

128 Consideration of financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of common equity Tier 1 of SLSP

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art, 56 (c) and 59 CRR and Tier 2 items according to Art, 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10 % threshold. Amounts that are equal to or less than 10 % of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65 % of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65 % combined threshold, a 10 % threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability arising from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10 % of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% risk weight (RW) according to Article 48 (4) CRR.

At the reporting date, SLSP did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the own funds of SLSP and therefore are considered in RWAs.

The following table shows threshold calculations according to Articles 46 and 48 CRR:

EUR ths.	2015	2016
Non significant investments in financial sector entities		
Threshold (10% of CET1)	102 869	104 533
Holdings in CET1	678	678
Holdings in AT1	-	-
Holdings in T2	-	-
Distance to threshold	**102 190**	**103 855**
Significant investments in financial sector entities		
Threshold (10% of CET1)	102 869	104 533
Holdings in CET1	21 398	23 038
Distance to threshold	**81 470**	**81 496**
Deferred tax assets		
Threshold (10% of CET1)	102 869	104 533
Deferred tax assets that are dependent on future profitability and arise from temporary differences	29 739	32 440
Distance to threshold	**73 129**	**72 094**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	181 563	184 502
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	51 138	55 477
Distance to threshold	**130 425**	**129 024**

The following tables show equity items and how they are affecting regulatory own funds:

2016 EUR ths.	Own funds disclosure table - reference	Equity	Regulatory adjustments	Own funds
Subscribed capital		212 000	-	212 000
Capital reserve		118 899	-	118 899
AT1 capital instruments and the related share premium accounts	a	150 000	-	150 000
Retained earnings	b	757 089	-	757 089
Other comprehensive income (OCI)	c	82 938	-	82 938
Cash flow hedge reserve	g	-	-	-
Available for sale reserve		105 975	-	105 975
unrealized gains according to Art. 35 CRR	h	106 675	-	106 675
unrealized losses according to Art. 35 CRR		(699)	-	(699)
other		-	-	-
Currency translation		-	-	-
Remeasurement of net liability of defined pension plans		(783)	-	(783)
Deferred tax		(22 255)	-	(22 255)
Profit or loss attributable to equity holders of the parent		212 221	(212 221)	-
Other		222	(222)	-
Equity attributable to the owners of the parent		1 533 369	(222)	1 320 926
Equity attributable to non-controlling interests	d	-	-	-
Total equity		1 533 369	(222)	1 320 926

2015 EUR ths.	Own funds disclosure table - reference	Equity	Regulatory adjustments	Own funds
Subscribed capital		212 000	-	212 000
Capital reserve		118 899	(0)	118 899
AT1 capital instruments and the related share premium accounts	a	150 000	-	150 000
Retained earnings	b	746 874	(6 148)	740 726
Other comprehensive income (OCI)	c	95 637	(37 382)	58 255
Cash flow hedge reserve	g	(0)	-	(0)
Available for sale reserve		123 455	(48 342)	75 113
unrealized gains according to Art. 35 CRR	h	123 817	(46 612)	77 205
unrealized losses according to Art. 35 CRR		(362)	(1 730)	(2 092)
other		-	-	-
Currency translation		-	-	-
Remeasurement of net liability of defined pension plans		(659)	325	(333)
Deferred tax		(27 160)	10 635	(16 525)
Profit or loss attributable to equity holders of the parent		184 132	(184 132)	-
Other		222	(222)	-
Equity attributable to the owners of the parent		1 507 764	(32 791)	1 279 880
Equity attributable to non-controlling interests	d	-	-	-
Total equity		1 507 764	(32 791)	1 279 880

Further details regarding the development of IFRS equity are disclosed in the Separate Statement of Changes in Equity.

The following tables show intangible assets and amount of deduction of regulatory own funds:

2016 EUR ths.	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own funds
Intangible assets	e	71 955	-	71 955
deductible from CET1 acc. to transitional provisions		-	-	-
deductible from AT1 acc. to transitional provisions		-	-	-
Intangible assets	e	71 955	-	71 955

2015 EUR ths.	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own funds
Intangible assets	e	86 971	-	86 971
deductible from CET1 acc. to transitional provisions		-	-	-
deductible from AT1 acc. to transitional provisions		-	-	-
Intangible assets	e	86 971	-	86 971

Details regarding the development of intangible assets are disclosed under “Intangible assets” (see note 23).

The following tables show deferred taxes:

2016 EUR ths.	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own Funds
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		1 726	-	1 726
related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions	f	-	-	-
related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions		-	-	-
Deferred tax assets that rely on future profitability and arise from temporary differences		32 440	-	32 440
Deferred tax assets		34 166	-	34 166

2015 EUR ths.	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own Funds
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		-	-	-
related DTA allocated on or after Jan 14 for which 100% deduction is required according to CRR transitional provisions	f	-	-	-
related DTA allocated before Jan 14 for which 0% deduction from CET1 is required according to CRR transitional provisions		-	-	-
Deferred tax assets that rely on future profitability and arise from temporary differences		29 739	-	29 739
Deferred tax assets		29 739	-	29 739

Based on the threshold definition according to Article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for SLSP at the year end 2016. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Details regarding deferred tax assets are disclosed under "Tax assets and liabilities" (see note 24).

The following tables show subordinated liabilities:

2016 EUR ths.	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		74 785	(26 720)	48 065
Tier 2 capital instruments (including related share premium) issued by the parent company	k	74 785	(26 720)	48 065
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party	l	-	-	-
instruments issued by subsidiaries	m	-	-	-
Hybrid issues	i	-	-	-
Subordinated liabilities		74 785	(26 720)	48 065

2015 EUR ths.	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		172 334	(97 318)	75 016
Tier 2 capital instruments (including related share premium) issued by the parent company	k	172 334	(97 318)	75 016
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party	l	-	-	-
instruments issued by subsidiaries	m	-	-	-
Hybrid issues	i	-	-	-
Subordinated liabilities		172 334	(97 318)	75 016

Details regarding subordinated liabilities are disclosed under "Financial liabilities measured at amortised costs" (see note 26).

The following table shows own funds development between the start and the end of the period:

EUR ths.	2015	2016
CET1 as of 1 January	**916 632**	**1 028 685**
Changes in retained earnings	38 280	16 363
Changes in accumulated other comprehensive income	(0)	24 683
Changes in minority interest	-	-
Changes in prudential filters	2 201	945
Changes in regulatory deductions	2 992	13 290
goodwill	-	-
other intangibles	2 992	15 016
Other	68 580	(38 632)
CET1 as of 31 December	**1 028 685**	**1 045 335**
Additional Tier 1 development		
AT1 as of 1 January	**-**	**150 000**
Net increase / decrease in AT1	150 000	-
Changes in regulatory deduction	-	-
Other	-	-
AT1 as of 31 December	**150 000**	**150 000**
Tier 2 development		
T2 as of 1 January	**113 527**	**91 047**
Net decrease in T2	(25 899)	(26 951)
Changes in regulatory deduction	-	-
IRB Excess and SA credit risk adjustments	3 419	11 093
T2 as of 31 December	**91 047**	**75 189**
Total own funds	**1 269 733**	**1 270 523**

Transitional provisions

The Transitional Provisions are not applied by SLSP.

Own funds template
Disclosure requirements: Art. 437 (1) (d) (e) CRR

SLSP does not consider Art. 437 (1) (f) CRR for the calculation of own funds.

The table below presents the composition of the regulatory capital based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU. There are no transitional provisions that would affect the calculation of the own funds. The table is presenting own funds according to Basel 3 fully loaded regime.

The following table shows Own funds disclosure template according to Article 5 in Commission implementing regulation (EU) No 1423/2013:

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
Common Equity Tier 1 (CET1) capital: instruments and reserves					
1	Common equity tier 1 (CET1) capital: instruments and reserves	26 (1), 27, 28, 29, EBA list 26 (3)	a	212 000	212 000
	thereof ordinary shares	EBA list 26 (3)	a	212 000	212 000
2	Retained earnings	26 (1) (c)	b	859 625	875 988
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	26 (1)		58 255	82 938
3a	Fund for general banking risk	26 (1) (f)	c	-	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	486 (2)		-	-
	Public sector capital injections grandfathered until Jan 18	483 (2)		-	-
5	Minority interests (amount allowed in consolidated CET1)	84, 479, 480	d	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	26 (2)		-	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**			**1 129 880**	**1 170 926**
Common Equity Tier 1 (CET1) capital before regulatory adjustments					
7	Additional value adjustments (negative amount)	34, 105		(5 668)	(4 428)
8	Intangible assets (net of related tax liability) (negative amount)	36 (1) (b), 37, 472 (4)	e	(86 971)	(71 955)
9	Empty Set in the EU			-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	36 (1) (c), 38, 472 (5)	f	-	(1 726)
11	Fair value reserves related to gains or losses on cash flow hedges	33 (a)	g	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	36 (1) (d), 40, 159, 472 (6)		-	-
13	Any increase in equity that results from securitised assets (negative amount)	32 (1)		-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	33 (b)		1 047	752
15	Defined-benefit pension fund assets (negative amount)	36 (1) (e), 41, 472 (7)		-	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	36 (1) (f), 42, 472 (8)		-	-
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	36 (1) (g), 44, 472 (9)		-	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)		-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)		-	-
20	Empty Set in the EU			-	-

	EUR ths.	Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	36 (1) (k)		-	-
20b	of which: qualifying holdings outside the financial sector (negative amount)	36 (1) (k) (i), 89 to 91		-	-
20c	of which: securitisation positions (negative amount)	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258		-	-
20d	of which: free deliveries (negative amount)	36 (1) (k) (iii), 379 (3)		-	-
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		-	-
22	Amount exceeding the 15% threshold (negative amount)	48 (1)		-	-
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	36 (1) (i), 48 (1) (b), 470, 472 (11)		-	-
24	Empty Set in the EU			-	-
25	of which: deferred tax assets arising from temporary differences	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		-	-
25a	Losses for the current financial year (negative amount)	36 (1) (a), 472 (3)		-	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	36 (1) (l)		-	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			-	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			-	-
	unrealised loss	467		-	-
	unrealised gain	468	h	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	481		-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	36 (1) (j)		-	-
	CET1 other deductions			(9 603)	(48 235)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**			**(101 195)**	**(125 592)**
29	**Common Equity Tier 1 (CET1) capital**			**1 028 685**	**1 045 335**

Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	51, 52		150 000	150 000
31	of which: classified as equity under applicable accounting standards			150 000	150 000
32	of which: classified as liabilities under applicable accounting standards			-	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	486 (3)	i	-	-
	Public sector capital injections grandfathered until 1 January 2018	483 (3)		-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	85, 86, 480		-	-
35	of which: instruments issued by subsidiaries subject to phase out	486 (3)		-	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**			**150 000**	**150 000**

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
Additional Tier 1 (AT1) capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	52 (1) (b), 56 (a), 57, 475 (2)		-	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	56 (b), 58, 475 (3)		-	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	56 (c), 59, 60, 79, 475 (4)		-	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	56 (d), 59, 79, 475 (4)		-	-
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)			-	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		-	-
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc			-	-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	477, 477 (3), 477 (4) (a)		-	-
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc			-	-
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	467, 468, 481		-	-
	Of which: ... possible filter for unrealised losses	467		-	-
	Of which: ... possible filter for unrealised gains	468		-	-
	Of which: ...	481		-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	56 (e)		-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**			**-**	**-**
44	**Additional Tier 1 (AT1) capital**			**150 000**	**150 000**
45	**Tier 1 capital (T1 = CET1 + AT1)**			**1 178 685**	**1 195 335**

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
Tier 2 (T2) capital: Instruments and provisions					
46	Capital instruments and the related share premium accounts	62, 63	k	75 016	48 065
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	486 (4)		-	-
	Public sector capital injections grandfathered until 1 January 2018	483 (4)		-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	87, 88, 480	l	-	-
49	of which: instruments issued by subsidiaries subject to phase out	486 (4)	m	-	-
50	Credit risk adjustments	62 c) & (d)		16 031	27 124
51	**Tier 2 (T2) capital before regulatory adjustments**			**91 047**	**75 189**
Tier 2 (T2) capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	63 (b) (i), 66 (a), 67, 477 (2)		-	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	66 (b), 68, 477 (3)		-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	66 (c), 69, 70, 79, 477 (4)		-	-
54a	Of which new holdings not subject to transitional arrangements			-	-
54b	OF which holdings existing before 1 January 2013 and subject to transitional arrangements			-	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	66 (d), 69, 79, 477 (4)		-	-
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			-	-
56a	Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		-	-
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc			-	-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	475, 475 (2) (a), 475 (3), 475 (4) (a)		-	-
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc			-	-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	467, 468, 481		-	-
	Of which: ... possible filter for unrealised losses	467		-	-
	Of which: ... possible filter for unrealised gains	468		-	-
	Of which: ...	481		-	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**			**-**	**-**
58	**Tier 2 (T2) capital**			**91 047**	**75 189**
59	**Total capital (TC = T1 + T2)**			**1 269 733**	**1 270 523**

EUR ths.		Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016

Risk-weighted assets

59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			-	-
	Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)		-	-
	Of which: ... items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)		-	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)		-	-
60	**Total risk-weighted assets**			**5 816 662**	**5 946 490**

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of risk exposure amount)	92 (2) (a), 465		18%	18%
62	Tier 1 (as a percentage of total risk exposure amount)	92 (2) (b), 465		20%	20%
63	Total capital (as a percentage of total risk exposure amount)	92 (2) (c)		22%	21%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	CRD 128, 129, 130		145 417	208 127
65	of which: capital conservation buffer requirement			145 417	148 662
66	of which: countercyclical buffer requirement			-	-
67	of which: systemic risk buffer requirement			-	-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	CRD 131		-	59 465
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	CRD 128		13%	13%
69	[non-relevant in EU regulation]			-	-
70	[non-relevant in EU regulation]			-	-
71	[non-relevant in EU regulation]			-	-

	EUR ths.	Regulation (EU) No 575/2013 Article reference	Reference to reconciliation tables	2015	2016
	Capital ratios and buffers				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		678	678
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (i), 45, 48, 470, 472 (11)		21 398	23 038
74	Empty Set in the EU			-	-
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	36 (1) (c), 38, 48, 470, 472 (5)		29 739	32 440
	Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	62		-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	62		-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	62		16 031	34 600
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	62		16 031	27 124
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	484 (3), 486 (2) & (5)		-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	484 (3), 486 (2) & (5)		-	-
82	Current cap on AT1 instruments subject to phase out arrangements	484 (4), 486 (3) & (5)		-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	484 (4), 486 (3) & (5)		-	-
84	Current cap on T2 instruments subject to phase out arrangements	484 (5), 486 (4) & (5)		-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	484 (5), 486 (4) & (5)		-	-

41) Events after the reporting period

Since 31 December 2016 up to the date of issue of these separate financial statements there were no events identified that would require adjustments or disclosure.

These separate financial statements were signed and authorised for issue by the Board of Directors of the Bank on 7 February 2017.

Ing. Štefan Máj
Chairman of the Board of Directors and
Chief Executive Officer

Ing. Peter Krutil
Deputy Chairman of the Board of Directors and
First Deputy of Chief Executive Off