Slovenská sporiteľňa, a.s.,
Member of Erste Group
Annual Report 2018

SLOVENSKÁ sporiteľňa

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The company at a glance

Basic data

Registered office: Tomášikova 48, 832 37 Bratislava, Slovak Republic
Registered: Commercial Register administered by District Court Bratislava I, section: Sa, entry: 601/B
Corp. ID (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, serving more than 2.2 million clients. It has long held a leading position in total assets, household loans, clients' deposits, number of branches and ATMs. The bank offers its comprehensive services at more than 250 branches for retail clients and 8 regional commercial centres in Slovakia.

In 2001, Slovenská sporiteľňa became a member of Erste Group, which was Austria's first savings bank, founded in 1819. Since 1997 the group has developed into one of the largest banking groups focusing on retail and corporate clients in Central and Eastern Europe. The Erste Group is made up of Erste Group Bank AG (the parent company) and its subsidiaries, which Erste Group Bank AG consolidates through direct or indirect shareholdings. At present, the Erste Group has around 47,000 employees serving more than 16 million clients at over 2,500 branches in seven countries: Austria, Czech Republic, Slovak Republic, Romania, Hungary, Croatia and Serbia.

Shareholder structure of Slovenská sporiteľňa as at 31.12.2018

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 holdings of the Bank

· Služby SLSP, s.r.o.	100.00%
· Realitná spoločnosť Slovenskej sporiteľne, a.s.	100.00%
· LANED, a.s.	100.00%
· Procurement Services SK, s.r.o.	51.00%
· Slovak Banking Credit Bureau, s.r.o.	33.33%
· Holding Card Service, s.r.o., Czech Republic	24.62%
· Prvá stavebná sporiteľňa, a.s.	9.98%*

Ratings

Moody's

Long-term rating / Outlook	A2 / stable
Short-term rating	P-1
Basic credit rating	baa2
Adjusted credit rating	baa1
Counterparty risk (long-term/short-term)	A1/P-1

This annual report has been prepared in accordance with Act no. 431/2002 Coll. on accounting as amended (the "Accounting Act"), Act no. 423/2015 Coll. on statutory audit as amended, and Act no. 566/2001 Coll. on securities and investment services and on the amendment of certain laws as amended (the "Securities Act"), as Slovenská sporiteľňa is a securities dealer. This Annual Report substitutes the 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 the section "Annexes" contains all information required under § 77(2)(b) of the Securities Act, except for the list of companies consolidated in the financial statements in accordance with § 77(2)(b)(1), which is included in the chapter Summary Corporate Governance Report. Information under § 77(2)(b)(3) of the Securities Act is given in note 30 on the consolidated financial statements and information under § 77(2)(i) and (j) is given in the Consolidated statement of profit or loss, in the section "Annexes". This Annual Report includes a statement in accordance with § 34(2)(c) of the Stock Exchange Act and the internet address at which is published the annual report of the Bank's parent company Erste Group Bank AG for 2018 as required by § 34(3) of the Stock Exchange Act. This annual report also includes, under note 33 on the consolidated financial statements in the section "Annexes", a proposal for the distribution of profit in accordance with § 20(1)(f) of the Act on Accounting and § 77(2)(c) of the Securities Act.

Method of publication of the annual report

Slovenská sporiteľňa files its annual report, including its individual and consolidated financial statements and the auditor's reports, in the register of financial statements in accordance with the provisions of Act no. 431/2002 Coll. on accounting, as amended. It publishes the document on its website and a notice of publication is placed in the Hospodárske noviny newspaper.

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* Under a shareholder agreement with Erste Group Bank AG, Slovenská sporiteľňa exercises a 35.00% share in voting rights in Prvá stavebná sporiteľňa, a.s. (Erste Group Bank AG has a 25.02% shareholding in Prvá stavebná sporiteľňa, a.s.). Ownership interests in registered capital and voting rights are equal in other companies.

Financial highlights

Consolidated results	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017	31 Dec 2018
Prepared in accordance with the International Financia l Reporting Standards (IFRS)	(mil. eur)	(mil. eur)	(mil. eur)	(mil. eur)	(mil. eur)
Balance sheet total	12,969	13,980	14,825	16,343	17,443
Loans and advances lo cred it institutions	179	122	90	178	48
Loans and advances lo customers (net)	8,086	9,365	10,250	11,720	13,008
Investments	3,953	3,836	3,793	3,745	3,721
Customer deposits	9,666	10,672	11,384	12,478	13,653
Equity	1,311	1,539	1,562	1,536	1,513
Net profit	183	186	215	164	184
Selected ratios	(in %)	(in %)	(in %)	(in %)	(in %)
Return on equity*	14,5	13.8	14.0	10.8	12.6
Return on assets*	1.5	1.4	1.5	1.1	1.1
Cost income ratio	44.5	44.3	46,1	49.7	48.3
Net interest margin*	4.0	3.7	3.4	3.0	2.7
Net loans to deposits ratio	83.6	87.8	90.0	93.9	95.3
Total capital adequacy	19.9	21.9	21.5	18.7	18.1
Tier 1 capital ratio	17.7	20.3	20.3	17.8	17.1
Other figures					
Number of employees	4,275	4,205	4,232	4,250	4 105
Number of branches	292	291	287	271	250
Number of A TMs	779	790	795	805	801

* Monthly figures (not year-end figures) were used for calculation of average balance sheet values

Statement by the Chairman of the Board and CEO

Peter Krutil
Chairman of the Board
and CEO

Modern Slovakia, a modern Slovenská sporiteľňa, is the leitmotif of last year as I perceive it, in the digital atmosphere of the Bank, especially George. Jointly with the Slovenská sporiteľňa Foundation we have launched the grant **#mamnato** (#believeinyourself) and supported local heroes turning Slovakia into a modern country.

The year in business was a success story for the Bank. Despite the extraordinarily low rates and fierce competition, we have succeeded in maintaining our interest revenues at almost the same level as last year. Fee income has grown, mainly thanks to the growth in the insurance intermediation. The costs have been reviewed and efficiency increased, starting by making processes simpler through to optimising our branches. We devoted great attention to corporate clients, making us an important bank in this sector. Due to responsible lending and favourable economic conditions we have maintained provisions at a very low level, despite the increase in business. Once again the client experience has been improved.

We are modernising not just our Bank, country, but also our annual report. For this reason I have this year decided to be truly brief in my opening words. Instead, the following report will tell you the story of our results.

I wish you a pleasant read and thank you for the trust you have shown us.

Can Slovenská sporiteľňa be an influencer? It's already happened

Getting under your own skin is challenging. You need enough perspective, and yet you may still overlook something important, which is quite obvious to you. That is why we invited the reporter Mario Šmýkal. He wrote an article about Slovenská sporiteľňa and revealed in it what was important for us in 2018, what are our goals for 2019, which projects we supported and how successful we were in launching the key project George. He also writes about the character of Slovenská sporiteľňa today and where we want to move it in the coming years. He was accompanied by personal banker Ivana Gašparová, the Head of Brand Strategy and Development Division Dáša Juríková, the Head of Corporate Banking Norbert Hovančák, the Head of Digital Banking Juraj Barta, the Head of Strategy & Customer Experience Ľudovít Valent as well as the Slovenská sporiteľňa CEO Peter Krutil.

The key is to listen to people. Therefore, it was the human touch that was the winner at Slovenská sporiteľňa last year.

Man and woman. They walk one after the other the twenty-seven stairs to the branch of Slovenská sporiteľňa at SNP Square in Bratislava, and before long they are already fighting. They are louder than the young Slovak band Tolstoys, providing a background to conversations with their dreamy song Agapé. They are the latest discovery. A new player on the scene. Last year, the band received the Radio_Head Awards in the category Debut of the Year with their album Botanika.

This alone is a good enough reason to listen to the pleasant piano melody instead of bickering who was first.

„Hey, sir! Haven't you arrived by any chance after me?" a young lady calls to the man, who was just making his way to the vacated teller.

"Excuse me? Well ... I haven't by any chance." he snaps back, and keeps walking.

"You sure have. Look, people are waiting here, and you just jump the queue, as if you didn't know better... " she continues persistently, no longer being certain herself, when she actually arrived.

In that moment a personal banker Ivana Gašparová, who watched their misunderstanding from a distance got to her feet and started to make her way towards them. Very soon there will be reconciliation or adventure at the tellers.

„Hello, how can I help you?" she smiles and invites them to talk.

Before they are finished, a violin and fine drums can be heard in the Tolstoys song. The shouting is over.

"Please, sit down, and in a minute I will take care of one of you and then the other and problem will be fixed. It will be quick. Come, sir," she continues to smile and invites him to the table. Ivana Gašparová realizes that if she chose an offensive approach and „I will wait until you two will sort it out", it would make things even worse. Sometimes she helps clients this way too. She is calming them down.

„In Slovenská sporiteľňa, humane approach is leading the way. Since the competition is too fierce, we as bankers can only differentiate ourselves in our interest in the human being. If you compare the banks in terms of products, we are almost the same, „ Ivana Gašparová reveals her motivation to be a personal banker, which she began eleven years ago.

„I'm trying for us to be the only bank for our clients. This can only be achieved by the above-standard added value, which is humanness."

„I'm trying for us to be the only bank for our clients. This can only be achieved by the above-standard added value, which is humanness. That is why I listen to the clients a lot, giving our relationship time. People do not go to the bank to feel good, but it happens to them with me. They come to see me, even they don't need anything," she explains more about her client approach.

In 2018, Slovenská sporiteľňa began to look at the society and people differently and took the initiative in an effort to reinforce its leading position on the banking market.

„If someone woke me up in the middle of the night and asked me to say something about Slovenská sporiteľňa, first thing that would come to my mind that we are ready for changes," says the Head of Corporate Banking Norbert Hovančák, who has worked in Slovenská sporiteľňa since graduating from college, which is twenty years.

Asking a similar „midnight question", anyone else will bring sometimes more and sometimes less different responses. Someone is ready for change, another is feeling humanity, another sees Slovenská sporiteľňa as a bank for modern young families, and someone even as already the best bank. This was reiterated by interviews, ranging from the branch office at SNP Square in Bratislava to the Head of Corporate Banking, the Head of Digital Banking or Head of Strategy & Customer Experience.

Clients are asking for innovations

„Our idea and brand focus is to be beneficial to the client. At the same time, we want to promote prosperity of a society, „continues Norbert Hovančák.

Last year, Slovenská sporiteľňa succeeded in shifting the positioning of the brand and in achieving better future so much so that it started to change outwardly as well as inwardly. Whether cancelling billboards, emphasising stories of ordinary people in advertising or launching George Internet Banking, a project that had been several years under preparation, all this has been done because also the people inside the bank felt it the same way.

„It's important how we enjoy our work. That is also why I would like to gradually start doing things in an agile manner, to abandon the traditional organizational structure. This way we would transfer greater responsibility to self-organized units that, with their clearly set goal, will be able to do things faster, better and with better client knowledge," clarifies Juraj Barta, Head of Digital Banking, who has been with Slovenská sporiteľňa fifteen years.

Such an arrangement does not assume (and the managers should not even do that) to decide what exactly the team should be doing. It is more beneficial to set a clear goal and remove obstacles that make it impossible for colleagues to achieve their goal. Under such conditions people have not only more space, but also more responsibility.

Juraj Barta tried this already with implementation of George, the culmination of several years of effort and preparations. Hundreds of people worked on this project during the most exposed times.

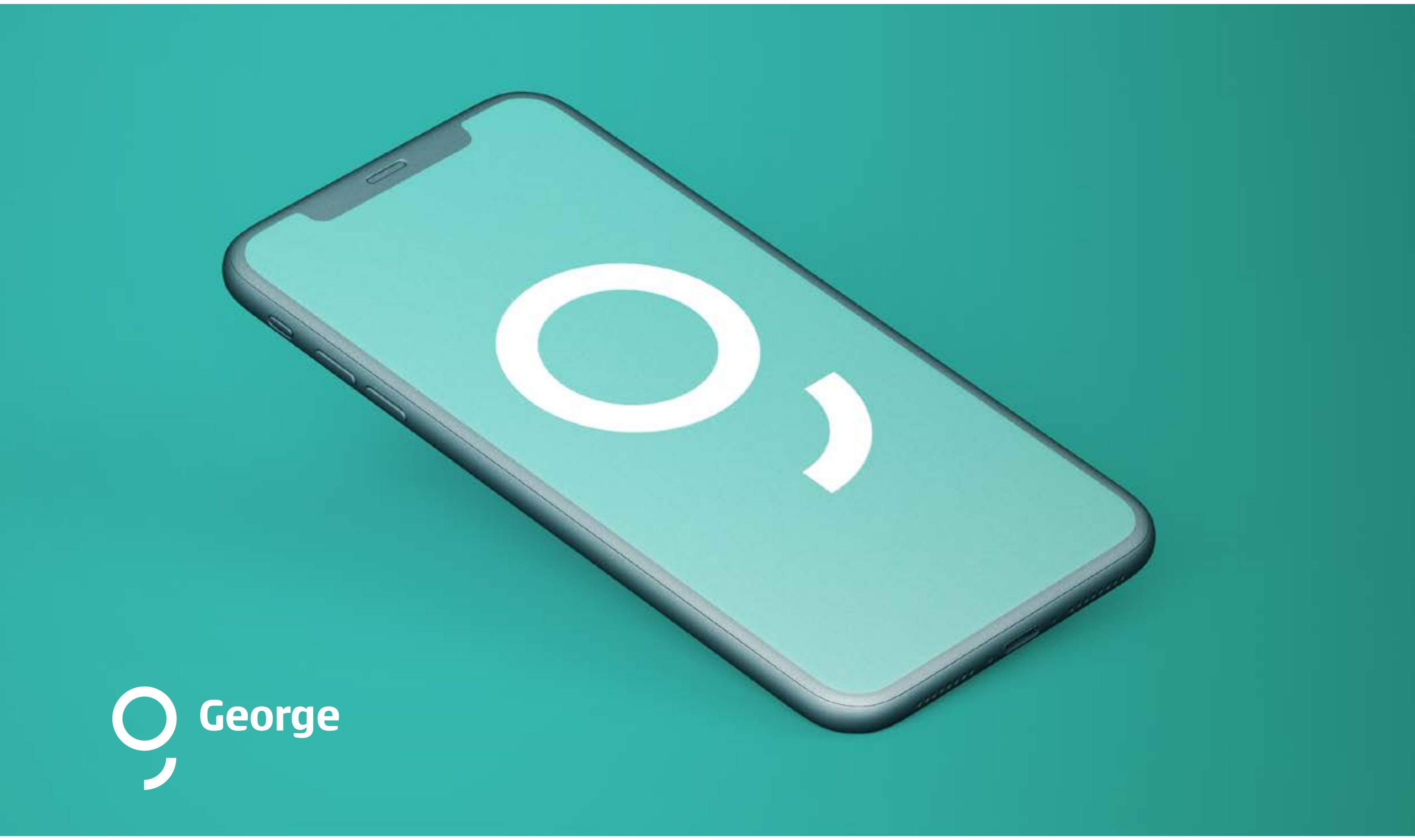
The beginnings were difficult, and there was quite some feedback from users, but the numbers have quashed any doubts. The number of mobile app users has more than doubled, moreover in December last year, each user logged in to the application on average 16 times a month, with the average of the old version being only 1.7 times a month.

"This dispels the myth that Slovenská sporiteľňa clients are conservative and that they don't need innovations. On the contrary, when we introduce to them something that works, they are very happy to use it. We did not push it especially, and we did not lobby anyone to move to a mobile application. Nevertheless, the number of users increased from 120,000 at the end of 2017 to nearly 260,000 by the end of 2018.

„We did not push it especially, and we did not lobby anyone to move to a mobile application. Nevertheless, the number of users increased from 120,000 at the end of 2017 to nearly 260,000 by the end of 2018."

Today, out of a millions of active clients between 550,000 to 700,000 use Internet Banking and 260,000 of them are in the mobile app," informs us Juraj Barta.

George became a new beginning for Slovenská sporiteľňa. Last year was about laying solid foundations, this year is about building on these foundations.



There is no progress without trust

The core of Slovenská sporiteľňa began to change in 2018 so much, that the perception of the brand towards being modern gradually changed as well. At the same time it is also built on strong credibility and humanity. It transpires at every level, from branches to the management.

„I learned that my work is primarily about listening. Only then I can show the client a direction towards being satisfied. Under no circumstances can he be thinking at night about whether he made the right decision. The client should be leaving with a smile on his face. That's why I feel the moment of closing a deal just as something above standard. Interest in a human being is in the first place. This is also true about the everyday life, which is losing humanity and listening to one another," explains personal banker Ivan Gašparová.

This is also related to the set-up of the whole bank and relationships between people. Without the personal bankers enjoying the trust of their manager, Ivana Gašparová wouldn't work with such assurance. Without the branch director at SNP Square branch, who trusts his managers, they would not be able to lead Ivana with sufficient assurance either. And without having the head of branch network, the directors of the branch at SNP Square would not lead the manager with such assurance for the manager to lead Ivana with sufficient assurance. It sounds like a play on words, but the trust across the hierarchy does wonders. With everything summed up, mutual support is the basis for success.

„My goal is to place the emphasis on increasing mutual trust in the teams. It's key for the bank to move forward. As soon as there will be no confidence in each other, we will not be able to change so fast and to manage processes faster, both towards the clients as well as internally," explains Norbert Hovančák, Head of Corporate Banking.

At the same time, he wants to contribute to people believing more in themselves and to think differently.

„Once we have a growth strategy, we must also set the mindset of people that we have it, we recognize our potential and want to be successful. We don't want to get stuck in a mindset that this is good enough for us; instead we want to look for the maximum potential for use in the given situation. It may not always be about the growth itself, but sometimes it is also about preserving what we currently have," he adds.

Therefore, last year the bank rose to the occasion in an effort to be a responsible leader for life and business and to realise that

„As soon as there will be no confidence in each other, we will not be able to change so fast and to manage processes faster, both towards the clients as well as internally.“

the bank is part of the society as well. This lead to a situation that Juraj Barta, the Head of Digital Banking, was increasingly proud of working in the Slovenská sporiteľňa.

„We have indirectly supported the protests "For a Decent Slovakia" by sharing their visuals and allowing all employees to take part in the marches. This generated a very positive response on social networks, and we have received complimentary private messages. This is proof of being part of the society and trying to promote things that make Slovakia a modern country," says Juraj Barta.

Where the billboard ends, the client starts

The company's decision to abolish billboards and all external advertising has also generated significant waves across the society. At the beginning of August, Slovenská sporiteľňa announced that as a responsible and innovative leader it will no longer contribute to visual smog in the public space.

"We started reducing spending on our external advertising already in 2015. However, to close it down forever was that much easier now that we launched our own digital platform, where we have more than half a million clients. We have additional millions of contacts with clients at our branches and we conduct approximately 100,000 interviews per month over the telephone. By deciding to cancel the billboards, we tried to deliver a message that as a major advertiser and the largest bank in Slovakia we can continue to function without it," explains Dáša Juríková, Head of Brand Strategy and Development Division.

However, the abolition of billboards and support for the Decent Slovakia protest actions were not the only two areas which Slovenská sporiteľňa backed last year.

„For the past ten years, our bank, together with the Slovenská sporiteľňa Foundation, donated almost €25 million to develop projects in the fields of education, sport, culture, the environment, social assistance and community support. We want to increase the level of self-confidence of Slovaks, which is a prerequisite for an active and well-prosperous civil society. We believe that Slovakia needs people who believe in themselves. And a bank that believes in them," said Peter Krutil, Slovenská sporiteľňa CEO.

Last year, the bank redistributed from the Foundation of Slovenská sporiteľňa 1.4 million euro in direct support, and additional 1.5 million euro to various initiatives and non-profit organizations.

It supported, for example, the music festivals Bratislava jazz days, Pohoda, Viva Musica! or Convergences, theatres such as Studio L+S, Andrej Bagar Theatre in Nitra and the Slovak Chamber Theater in Martin and also helped the Slovak Football Union, the Slovak Olympic Committee or the National Run Devín - Bratislava, the marathons in Košice and Banská Bystrica and activities for children such as Matej Tóth Sports Academy and cycling Peter Sagan Kids Tour.

If some people might take an offence that sometimes a brand keeps jumping out of everywhere, because it is everywhere and often, in the case of Slovenská sporiteľňa, it is rather a pleasing

„Last year, the bank redistributed from the Foundation of Slovenská sporiteľňa 1.4 million euro in direct support, and additional 1.5 million euro to various initiatives and non-profit organizations."

experience. Because yes, it is everywhere, often and for a purpose.

Among other things, the bank is one of the founding members of the Transparency Slovakia Fund, it has supported the establishing of the Investigative Journalism Foundation at the Open Society Foundation and it is a long-time partner of the Journalist Award and the White Crow Award.

The bank also ceased to use leaflets at branch offices and ATMs no longer issue paper slips, saving 23 tonnes of paper per year, city bees live on Slovenská sporiteľňa's head office building roof, and flower beds with meadow flowers are planted around the bank.

No matter what anyone says, in a modern and young language, Slovenská sporiteľňa is an influencer.

Artwork from the series „Future of our city" for Slovenská sporiteľňa and for the city of Kráľovský Chlmec, designed Róbert Szegény.

Objectives for the future

Asking the "midnight question" of the bank staff has delivered relatively expected answers. However, if one could wake up the Slovenská sporiteľňa itself in the middle of the night, the answer would be at least unusual for a bank.

Namely its strategic priority is to support education and the development of financial literacy. So let us repeat it. A bank. Support for education. Development of financial literacy.

The bank sees both areas as indispensable for the prosperity of a modern country. It is also the reason why it supports many educational programs for young people, but realizes that good teachers are the foundation of quality education. In this manner it is also helping with the Teacher of Slovakia Award also thanks to partner projects Teach for Slovakia.

In addition the bank supports the Duke of Edinburgh International Award (young development program) or the Know your money Award from the Children of Slovakia Foundation and More than money from Junior Achievement Slovakia.

„After the coins and banknotes became just numbers on the screens, the whole thing is becoming more distant and finances give increasingly an impression as something worthless. Especially with young people, we see that the development of financial literacy is really needed," assumes the Head of Strategy & Customer Experience Ľudovít Valent.

„We also need to focus on being attractive enough to middle-aged people who may not be our clients, but who could become clients in the future. Often, these are the young families from cities. This is where we want to improve, „explains Juraj Barta, Head of Digital Banking.

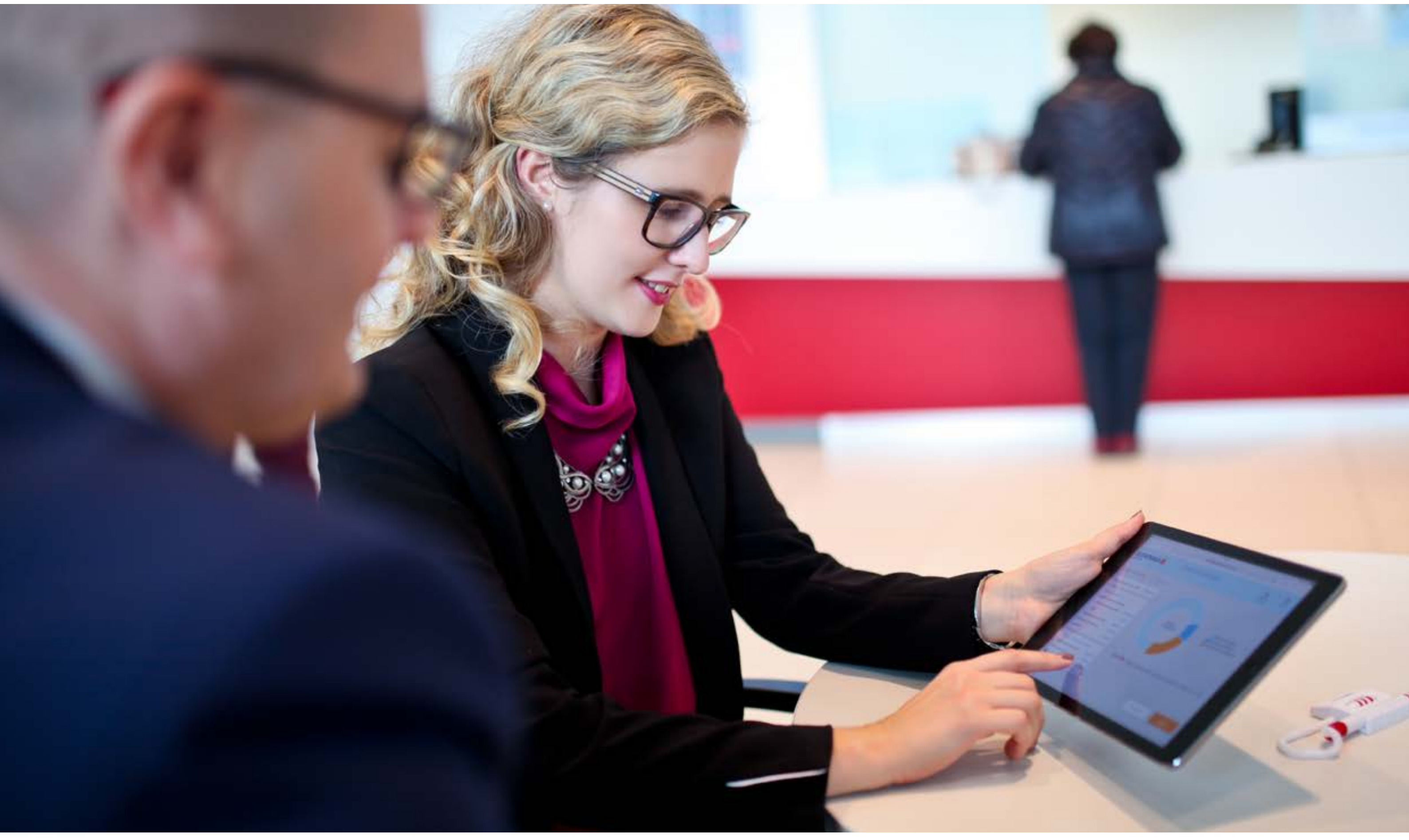
„We want to be the bank of first choice for business clients and companies as well. We are currently third, but we're working towards making it happen, surveys already showing the highest satisfaction of our clients," adds Norbert Hovančák.

Constant growth of the bank and acquisition of new clients will also be about understanding their unique needs. Perhaps the same way as in the past the banker Ivana understood one of the clients.

"As part of a feedback, one client gave me a B grade. When I asked him what the reason was, he told me the reason was that because I changed my pen. Originally, I apparently had a grey one and I suddenly changed it for blue pen and he thought I would have the grey one," she recalls.

„We want to be the bank of first choice for business clients and companies as well."

„I consider it normal, because our interest in the client needs to be comprehensive and we need to be familiar also with his/her life and the current situation. As soon as you find this out, you have the opportunity to understand the client and you can prepare for him/her a tailor-made offer. On the contrary, if you want to sell something no matter what, you may succeed only once and the second time the client will not come," concludes Ivana Gašparová and in the branch office at SNP Square there is a cool jazz playing instead of the band Tolstoys.



Top management

Peter Krutil

Chairman of the Board and 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 Bank, 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.

With effect from 1 January 2018, he was elected Chairman of the Board of Directors and CEO of Slovenská sporiteľňa. He is responsible for the management of the corporate banking and capital markets business line and for staff units.

Alexandra Habeler-Drabek

Board Member and Deputy CEO

Alexandra Habeler-Drabek is a graduate of the Vienna University of Economics and Business. She has more than 24 years' experience in risk management. During 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 of the Erste Group.

She was appointed a member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa on 1 January 2017. She is responsible for the risk management, legal services, compliance and financial frauds.

Pavel Cetkovský

Board Member and Deputy CEO

Pavel Cetkovský has a master's degree from the Brno University of Technology and a bachelor's degree from the Institute for Economics and Management in Kiev, Ukraine. In 1994, he began his professional career at Česká spořitelna, where he held several managerial positions in risk management and asset and liability management. He worked in Erstebank Kiev in Ukraine as a member of the Board of Directors and later its Chairman from 2007 to 2013. His areas of competence and responsibility included risk management, information technology and operations and staff units. He joined Erste Group Bank AG in Vienna in 2013 with responsibility for liquidity management throughout the Erste group, managing banking book interest rate risk and managing the banking group's investment portfolio.

With effect from 26 January 2018, he was elected Member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa. He is responsible for management of the finance line.

Zdeněk Románek

Board Member and Deputy CEO

Zdeněk Románek is a graduate of Charles University and the University of Economics in Prague. He has an MBA degree from INSEAD Fontainebleau University in France. 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 consulting for McKinsey & Company in several European countries. In 2007 he moved to Česká pojišťovna, a part of the PFF Holding Group, where he was responsible for sales, distribution and product management. In 2013 he took charge of retail banking in Air Bank in Czechia.

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 the retail banking, bancassurance, social bank and private banking.

Milan Hain

Board Member and Deputy CEO (since 1 July 2018)

Milan Hain completed doctoral research on computer modelling, measurement and systems management at the Faculty of Mathematics and Physics of Comenius University in Bratislava and the Eindhoven University of Technology. From 1993 to 1999 he worked at VÚB Bank in various positions and management functions related to IT development. He then worked as Chief Information Officer for Slovak Telekom until 2012 and until June 2018 he was a Board Member and Chief Information Officer in Raiffeisenbank in Prague, where he was responsible for technology, the transformation programme and the implementation of an omnichannel platform at the Bank. In his career, he has participated in many management programmes and training courses on marketing, finance, human resources and communication and he has extensive professional experience in the development, security, management and architecture of information systems and technology.

He was elected member of the Board of Directors and Deputy CEO of Slovenská sporiteľňa on 1 July 2018. He is responsible for the IT line and for banking operations. Richard Chomist was responsible for the IT management line and banking operations until 31 March 2018, when his function as a Board Member and Deputy CEO ended on his resignation.

SLOVAK ECONOMY IN 2018

- **Economy growth substantially driven by household consumption and investment growth**
- **Unemployment fell to a new low**
- **Inflation averaged 2.5%, and will maintain a similar rate also in 2019**
- **Euro area growth slackened and moderate growth is expected for 2019**
- **European Central Bank ended net asset purchases, but will normalise monetary policy only very cautiously and gradually**
- **Consolidation of public finances continued**
- **Growth could slow down in 2019**

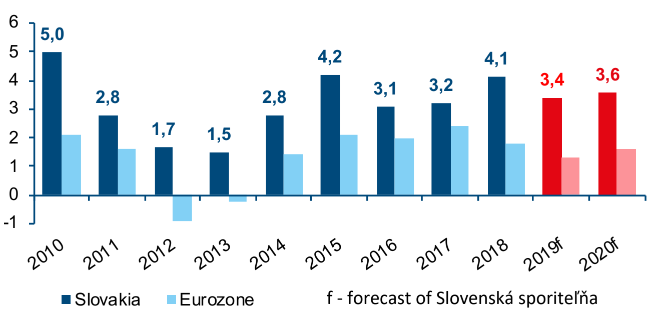
Domestic demand remained the mainstay of economic growth

After rising 3.2% in 2017, the economy last year managed to accelerate growth to 4.1%. The largest contributor to growth was domestic demand; net exports helped to a lesser extent. High household consumption was helped by favourable developments in the labour market, contributing to raising disposable household income. Investment in 2018 rapidly accelerated the pace of growth, with the automotive sector contributing significantly. The investments though were import-intensive, which, together with relatively strong demand for consumer goods imports, partially muted the contribution of net foreign trade.

Continued recovery in the labour market

Alongside good economic growth, positive development in the labour market also continued. The unemployment rate in 2018 fell to 6.6%, thanks to the placement of registered jobless in employment. Employment growth continued across all sectors. Many employers are addressing the issue of skilled labour shortages and the employment of foreigners is rising. The tightening labour market is creating significant pressure for wage growth. Together, these are accelerating the rate of growth to the highest levels since 2008, which is reflected also in the population's higher disposable income. We are expecting to see further decline in unemployment and brisk growth in nominal wages also this year.

GDP growth in Slovakia and Eurozone (%)



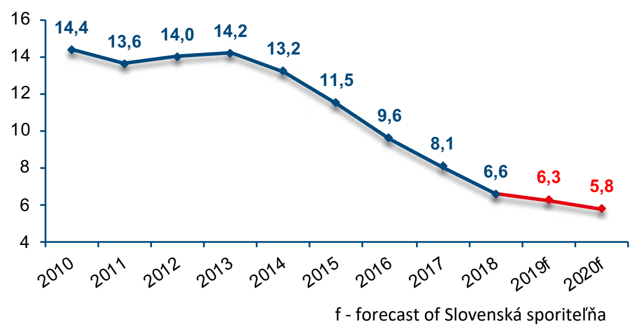
Inflation driven by both domestic and external factors

Inflationary pressures last year increased and average inflation rose to 2.5%. The year-on-year growth in consumer prices is attributable mainly to food, services and energy prices. Service prices reflect the continuous recovering labour market and growth in household disposable income. We expect that inflation this year will again reach around 2.5%.

Euro area growth slackened

The growth in the euro area slowed and grew by 1.8% due mainly to domestic demand. Net exports put a brake on growth, reacting to weaker global demand. The main engine of the euro area, Germany, over the past year recorded growth of 1.5%, its slowest pace over the past five years. Developments in Germany, as well as across the euro area as a whole, indicate that the bloc's economic cycle has peaked and we are gradually moving toward potential growth. The pace of growth in peripheral countries of the euro area varied, with Greece faring well, while growth in Spain, Portugal and Italy slowed against 2017.

Unemployment rate in Slovakia (%)



European Central Bank ended net asset purchases

The European Central Bank (ECB) over the past year left interest rates at historic lows (the main refinancing rate has been zero and the overnight deposit rate is -0.4%). Despite the slight slowdown and geopolitical risks (protectionism, Brexit) the outlook for the euro area remains solid. Inflation stood at 1.7% in 2018, but core inflation remains sluggish. At the end of 2018, the ECB ended net purchases in the framework of its quantitative easing (QE) programme. The policy of reinvesting maturing volumes should, though, continue, even after ECB begins with interest rates hikes. . We expect rates to remain stable at the present levels at least until the end of summer 2019. The first increase (first deposit, then main rate) could come in the last quarter of 2019. We expect just slight growth in yields of Slovak government bonds due to loose monetary policy of ECB and lower volume needed to finance public finance deficit.

Consolidation of public finance continues

The fiscal deficit for 2017 reached 0.8% of GDP, less than the originally budgeted deficit of 1.3% of GDP. In the past years, tax and levy income have been increasing which is helping to consolidate public finances. Our estimate of the fiscal deficit for 2018 is 0.8% of GDP. This year, the state budget should, according to the government's draft, be balanced. The budget, though, reckons with a significant growth in surpluses of other general government entities, which introduces a certain risk into the forecast.

Outlook for 2019 is solid, but global demand slows down

Economic growth this year could slow down to 3.4%. Domestic demand, particularly household consumption should have a key position in the structure. Exports should grow faster than last year thanks to production at a new car plant. On the other hand, growth will be dampened by a global demand slowdown. We see risks especially regarding rising tendencies towards protectionism, geopolitical risks and unresolved Brexit deal.

MANAGEMENT REPORT ON BANK'S ACTIVITIES IN 2018

Based on the consolidated financial statements

REVIEW OF FINANCIAL RESULTS

- **Slovenská sporiteľňa achieved a consolidated net profit of €183.7 million in 2018, representing a growth of almost €19.8 million against 2017. The increase in net profit against a year earlier was due mainly to an increase in fee and commission income, as well as a decrease in provisioning. Net interest income declined slightly over the year.**
- **The balance-sheet total grew over the year by 6.7% to €17.4 billion, primarily due to growth in customer lending**
- **The volume of lending to customers in 2018 rose by 11%, to reach €13 billion, while customer deposits rose by 9.4% to almost €13.7 billion**
- **The net loan-to-deposit ratio at 95.3% confirms the Bank's stable position in liquidity and financing, and creates the potential for continued growth in the coming period**
- **The cost-to-income ratio improved from 49.7% in 2017 to 48.3% in 2018, thanks particularly to growth in operating income and strict management of operating costs.**
- **Operating income, comprising primarily net interest income, fee and commission income, and trading income, rose by €12.7 million to reach €581.5 million.**
- **Net interest income fell against a year earlier by 0.3% from €439.3 million to €437.8 million**
- **Net fee and commission income grew over the year by €16.1 million to €128.8 million**
- **General operating costs fell over the year by 0.6%**
- **Actual risk costs (impairment on loans and receivables and allocation/release of provisions)were €10 million lower**

Credit and deposit growth continued in the face of strong competition and tighter regulation

Slovenská sporiteľňa's balance sheet total as at the end of 2018 stood at €17.4 billion, representing 6.7% growth (+€1.1 billion) against a year earlier. The share of loans in the balance sheet total in 2018 was 74.6% (compared to 72% in 2017). Net lending to customers as at the end of 2018 rose to €13 billion, a 11% (+€1.3 billion) increase against 2017. Retail segment loans (according to the Erste segments reporting definition) contributed greatly to the overall increase in lending, rising in nominal terms by 7.7% (+€0.7 billion). The most significant source of growth lays in housing loans, their volume rising by 8.3% (lending growth of €570.1 million in nominal terms) and consumer lending growth of 4.8% (lending growth of €81 million in nominal terms). Slovenská sporiteľňa's market share in retail loans reached 26.7%, confirming the Bank's long-term position as market leader in retail loans. The volume of loans provided to the corporate clients sector, which includes also the public sector, rose by €555 million, to reach €3.4 billion.*

The Bank's securities portfolio as at the end of 2018 totalled €3.6 billion, a fall of €34 million against a year earlier. The credit risk of the securities portfolio as a whole is low, thanks to the fact that approximately 95% of bonds are government bonds. Up to 91% of the portfolio consists of ECB-eligible bonds.

Total customer deposits grew by 9.4% (+€1.2 billion) on a year earlier to €13.7 billion. As such, Slovenská sporiteľňa retained its market share of 28% as a clear leader in the retail deposits market. The largest share in the overall increase in deposits came from retail segment client deposits, where the Bank recorded an 8.6% rise (in absolute terms, the increase in principal on retail client accounts rose to €891 million). The growth was driven mainly by current and giro accounts, though deposits on personal accounts also increased. On the other hand, the Bank recorded a fall in standard term deposits. Over the course of 2018 the corporate clients segment (including the public sector) also saw deposits grow, by €261 million to €1.9 billion. Again in this segment, mostly current accounts were preferred in the case of new deposits. Deposits from the Agency for Debt and Liquidity Management (ARDAL) also rose against a year earlier, by €140 million to €490 million. The net loan-to-deposit ratio as at the end of 2018 stood at 95.3% (compared to 93.9% in 2017). The Bank's liquidity and funding position is stable and supports further growth in lending to customers.*

Over the year the Bank's portfolio of issued debt securities rose by almost €236 million, while the net addition was dominated by issued mortgage covered bonds and investment certificates. The Bank's equity remained almost unchanged against a year earlier, at approximately €1.5 billion. The Bank fulfils all capital requirements set by the regulator.

Net interest income declined slightly

Slovenská sporiteľňa's net interest income fell slightly against 2017, by €1.5 million (-0.3%) to €437.8 million. This decline is the consequence of a low interest rate environment and strong competitive pressure on margins of newly provided and refinancing loans, as well as maturity of high interest income securities. The net interest margin decreased against a year earlier from 2.98% to 2.71%. However, the decrease was milder than in 2017. The share of net interest income in the Bank's total operating income fell slightly against a year earlier to 75%.

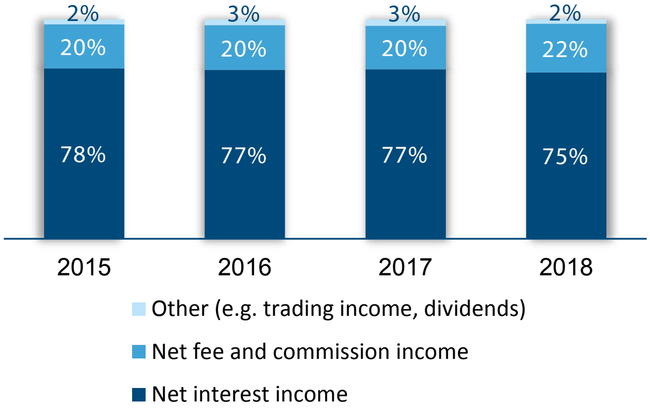
Interest income from loans, securities, derivatives and other assets increased against a year earlier by €7.3 million to €479.3 million. A large part of this increase was due to a change in the accounting methodology for charging income and expense from derivative instruments for trading (breakdown of interest income / interest expense from trading income), with positive effect of €14.5 million. Interest income from loans fell by €4.8 million to €365.9 million (interest income from client loans and leasing receivables). Interest income from securities declined against a year earlier by almost €3 million to €107.2 million.

Interest expense on liabilities increased by approximately €8.8 million against a year earlier, under the influence of the above-mentioned change in the accounting of derivatives (negative effect of €13.4 million). Interest expense on client deposits fell against a year earlier by €4.6 million to €13.8 million due primarily to the fall in interest rates on term deposits and savings accounts, as well as through the effect of a change in the structure of deposits. Total interest expenses in 2018 totalled almost €41 million.

The Bank invested excess liquid funds mostly in short-term interbank assets within the Erste Group, in Slovak government bonds and in government bonds of neighbouring countries, particularly Slovenia and Poland. The transparent and responsible pricing policy, rising loan volumes, as well as efficient liquidity management create a favourable basis for the development of net interest income in future years.

** Data may differ from that given in the financial statements due to different segmentation.*

Structure of operating income



Trading income fell slightly, while fee and commission income rose

Net fee and commission income increased on a year earlier to €128.8 million (compared to €112.7 million in 2017).

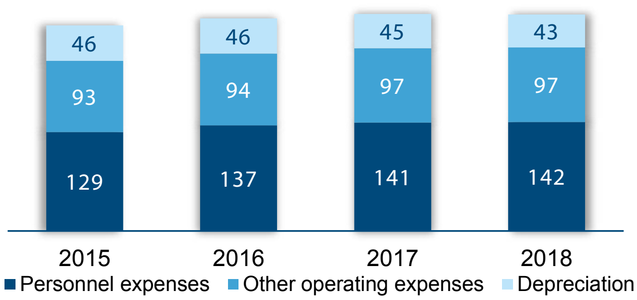
In 2018 the Bank was particularly successful in insurance brokerage, in which the Bank recorded growth of approximately €11 million in insurance commission against a year earlier. A further factor having a positive impact in the past year was the increase in fees for statements and transactions in branches, alongside a €2 million growth in card transaction fees compared to the previous year. Other fees and commissions stagnated, or grew at a constant pace. The share of net fee and commission income in the Bank's total operating income rose over the year to 22.2%.

Operating costs decreased

General operating costs decreased against a year earlier by 0.6% to €281.1 million from €282.7 million in 2017. The fall in operating costs was connected with the streamlining of internal processes, in which the Bank continued to work towards improving client services.

Total personnel costs increased only slightly, by 0.6%, while depreciation costs fell more substantially (by 4.4%).

General operating costs



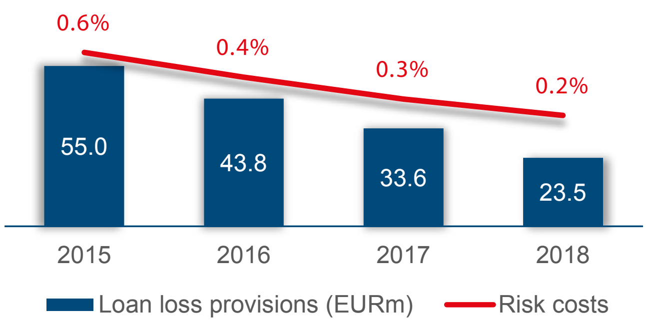
Other operating result deteriorated

In 2018 there was a negligible deterioration in the other operating result in comparison with 2017 by €0.4 million. The Bank's total levy duty rose against 2017 by €2.9 million, this being due in particular to bank tax having increased by €2.9 million. This tax, at an unchanged levy rate of 0.2% rose to €30.3 million. In comparison with 2017 there was a change in the reporting of provisions for credit lines and bank guarantees provided. In 2018 these provisions were moved from the other operating profit/loss to total loan provisions. The positive effect on the other operating profit was €3.6 million.

Positive development of actual risk costs

Slovenská sporiteľňa's actual risk costs (the share of balance sheet provisions to gross client loans) in 2018 stood at 0.18%. This represented a significant decline against 2017, when actual risk costs were 0.28%. Even despite the 11% growth in the Bank's loan portfolio, impairment on loans and receivables and allocation/release of provisions were only €23.5 million, representing a 30% fall against 2017. The positive development was caused equally by the retail segment and corporate clients segment. Changes in risk costs in retail were a result of favourable development in the NPL portfolio. The amount of new NPLs was below the expected level and the Bank also managed to make larger profitable sales of NPLs. The corporate clients segment saw an improvement in risk parameters in the SME subsegment due to lower individual provisions.

Allocation/release of provisions and risk costs



Return on capital reached 12.6%; operating profit rose

The Bank's consolidated net profit in 2018 reached €183.7 million, representing growth of €19.8 million against a year earlier. The profit was influenced mainly by the positive development of fee and commission income and the fall in the amount of provisions. The total level of the effective income tax rate in 2018 was 22.3%, falling from 24.3% in 2017. The operating profit rose against a year earlier by €14.3 million (+5%) to €300.4 million. Operating income grew against a year earlier by €12.7 million (+2.2%) to €581.5 million, whilst the Bank's operating costs fell by €1.6 million (-0.6%) to €281.1 million.

Return on equity in 2018 reached 12.6 % (compared to 10.8 % in 2017).

CUSTOMER CARE AND SERVICE QUALITY

- **Customer feedback helps improve bank processes and products**
- **Slovenská sporiteľňa won Bank of the Year for 6th time according to Trend weekly**
- **New communication concept #mamnato**

Positive customer experience is a strategic objective for the Bank

The Bank devotes great attention to client satisfaction, since only satisfied clients are loyal clients. The satisfaction and needs of retail and corporate clients are evaluated by means of several types of survey – customer pathways, mystery shopping, focus groups, internal surveys, or collection of spontaneous feedback via the web. Client expectations are then taken into account when configuring products and processes. In this way the Bank continually improves customer experience.

Client satisfaction and recommendations are such an important component of all employees' KPIs that the whole bank is engaged in fulfilling them.

At the same time, Slovenská sporiteľňa pays individual attention to each suggestion and complaint received. In resolving more complicated situations, clients are helped by an ombudsman team.

In 2018, thanks to measures to improve client experience, the Bank managed to increase client satisfaction and loyalty, reaching a long-term maximum in all segments.

A year of successes

Slovenská sporiteľňa, after a year's break, regained the prestigious TREND TOP 2018 award in the Bank of the Year category. Over the past seven years, the Bank has won this award six times. Thanks to its responsible approach to business and supporting projects benefiting the public in all regions of Slovakia, the Bank also won the Via Bona award in the "responsible large enterprise" category. This confirms that Slovenská sporiteľňa is not just successful, but also of benefit to society. The Bank ranked first also in a survey conducted on the profesia.sk jobs portal as the Best Employer in the category "Banking, Finance & Insurance".

#mamnato

Slovenská sporiteľňa, in the framework of the parent Erste Group's concept #believeinyourself, launched a new communication concept #mamnato. A part of this was also the decision to stop using outdoor advertising – billboards, city lights and other outdoor advertising spaces. As a responsible and innovative leader, it will no longer contribute to the visual smog in public spaces. The Bank at the same time kicked off the historically largest grant programme in the framework of its foundation, in the value of €250,000. The aim is to inspire society and find local heroes with good ideas who can help Slovakia accelerate on the road to becoming a modern, prosperous country. The new campaign gained extraordinary spontaneous publicity and was recognised by the professional public and many organisations as the communications and marketing success of the year.

RETAIL SERVICES

- **The Bank continued in innovation – clients can pay by smartphone using Google Pay**
- **Benefit programme for daily banking services increasingly rewarded loyal clients**
- **Number of saving clients continued to grow; saving can also be set up in George**
- **2018, the year of bancassurance**
- **New housing loans in a volume of approximately €1.9 billion.**
- **Increasingly stringent legislation has yet to have a significant negative impact**
- **Erste Private Banking's assets under management approach €900 million**
- **Primary emissions still among the most favourite**

The Bank continued in innovation – clients can pay by smartphone using Google Pay

At the start of 2018, Slovenská sporiteľňa, as one of four banks in Slovakia, brought for its clients with personal account a new option in the form of the worldwide Google Pay service. The service enables them to make payments using an Android smartphone wherever contactless cards are accepted. Number of e-shops accepting Google Pay payments is gradually growing as well.

Loyalty programme makes daily banking more advantageous

The Personal Account remained the most sought-after daily banking product of Slovenská sporiteľňa. The loyalty programme Výhodný súčet made a significant contribution to this. Clients simply need to pay for purchases using a debit or credit card, to use standing orders or direct debits, and to regularly save, and the fee for the personal account is reduced by half or completely free of charge. Slovenská sporiteľňa is one of the few banks that do not make the account fee discount conditional on income. Thanks to the Výhodný súčet loyalty programme, more than half of the clients had a cheaper account in 2018.

Advantages when buying at partner stores have been expanded also to e-shops

In the framework of the Odmena+ programme they can receive benefits for payment card purchases at partner merchants. More than 50 retailers have joined the programme, most usually the largest retailers in their segment, who provide Slovenská sporiteľňa payment card holders benefits of up to 10% of the purchase value. In 2018, the Bank continued to expand the number of merchants involved to include e-shops, as online shopping becomes more and more common.

Saving now in George

Slovenská sporiteľňa's most successful deposits product is saving, with the number of clients having risen again in 2018. The number of clients who regularly invest in mutual funds almost doubled over the last year. An option to set up and manage own savings in the new modern electronic banking, George, has been a new feature offered to clients. Furthermore, the innovative tablet-based method of selling greatly helped towards the growth seen in saving. Every bank adviser at Slovenská sporiteľňa can, using a tablet, efficiently analyse the client's financial situation, their monthly expenses and possibility for saving, or for taking a loan. The overall result is improved advice for clients and a streamlined paperless sales process, completed with a digital signature.

2018, the year of bancassurance

The Bank focused mainly on insurance both in the area of risk protection and pension security. Life insurance has long been an important product in the Bank's retail portfolio.

Last year, attention was also focused on non-life insurance. New home insurance product called "Domov" was introduced in the framework of the mortgage lending process, together with the launch of insurance for personal belongings and cards, by means of multiple sales channels.

Consumer loans also in tablets Consumer loans even simpler

Again in 2018, Slovenská sporiteľňa continued in simplifying and streamlining lending processes so as to make it as easy as possible to fulfil clients' needs. This was evidenced by the fact that a half of clients used the possibility of handling a consumer loan using a tablet in branch. A new feature is also the possibility of online accession of a joint borrower to a loan.

Clients are increasingly making use of the possibility to take a loan quickly and from the comfort of home, with the result that one in every five consumer loans in 2018 was provided via the call centre or online.

Slovenská sporiteľňa helped clients with consolidating loans from other banks and financial institutions by simplifying the paperwork in paying off their liabilities. The Bank supported the consolidation also with a reward of €10 for each €500 transferred, which in the framework of the autumn campaign rose to €20 for each €500 transfer.

Despite legislative measures introduced in 2018, and despite an overall fall in market demand, Slovenská sporiteľňa's volume of new consumer loans provided reached almost €1 billion.

Sale of mortgages not just in branch, but also at distance

Slovenská sporiteľňa remains the market leader in housing loans. The volume of new loans granted in 2018 reached approximately €1.9 billion. In addition to the traditional sale of loans in branch, the Bank also introduced distance sales. In this way, clients can consult on their mortgage on the phone and even obtain a mortgage with just one visit to a branch.

Also in 2018, the Bank provided clients with a property valuer, as well as arranging and paying for the entry in the cadastral land register. Thanks to this, clients saved time connected with visiting the cadastral registry office, and spending €66 unnecessarily.

Erste Private Banking in 2018

As of year-end 2018, Erste Private Banking provided its services to almost 1,500 clients, managing their assets in a value approaching €900 million.

Over the course of the past year, private banking offered 26 primary issues, in which clients invested almost €40 million. With 18 primary issues, investment certificates were a clear favourite, with clients investing in them some €21 million. The greatest interest was in investment certificates with underlying assets for Komerční banka – the third largest bank in the Czech Republic and the German carmaker Volkswagen. Option of an own, tailor-made investment certificate emission was also available to private banking clients

As part of its open architecture, private banking offered clients the opportunity to invest in the mutual fund of the management company C-QUADRAT – Crossover Bond Fund, which invests in European and in Asian corporate bonds. Due to sufficient diversification, this delivers investors an attractive return in combination with an acceptable level of risk. In the field of bond investment, Erste Private Banking's offer also included SLSP and Erste subordinated bonds, as well as their senior bonds.

For professional asset management, private clients can use the Actively Managed Portfolio service. This is a special solution, when the client's assets are taken care of by investment professionals.

By organising two events of the Women's Business Club, Erste Private Banking once again brought its clients interesting information regarding management of finances, fashion, health and modern lifestyle.

At the end of 2018, Erste Group Private Banking received, for the fifth consecutive time, the major award Best Private Bank in Central and Eastern Europe.

DISTRIBUTION NETWORK

- **The Bank reconstructed another 28 branches**
- **Clients can now use 46 cash deposit ATMs**
- **Successful migration of more than 1 million internet banking clients to the new version – George**
- **Number of mobile application users doubled**
- **Digital sales during the migration also maintained their share in the Bank's total sales**
- **Clients can now apply for a loan via the mobile application in a process simplified to a couple of clicks**

Largest distribution network in Slovakia

Slovenská sporiteľňa, with 250 branches and 801 ATMs, has the largest bank distribution network in Slovakia. Last year, the Bank continued reconstructing branches, concurrently implementing the new client service concept throughout the branch network. Thanks to this, clients are served in a pleasant, friendly atmosphere with greater comfort and in greater privacy. The merits of the new service concept have been confirmed also by clients' satisfaction with banking services, which, compared to the preceding year, again grew to reach its highest ever level.

At the end of 2018, the Bank operated more than 800 ATMs, of which 46 were deposit ATMs, at which cash can be both withdrawn and deposited. This modern way of depositing money on an account is extraordinarily popular among clients, thanks to the cost savings and time flexibility it provides, as deposit ATMs are available also outside branch office opening hours. Together with other activities focused on moving branch transactions into the online environment, they create greater room in branches for further improving the quality of personal advice and shorten waiting times.

Tablet was a key element of service in branches also in 2018. It enables clients to have a perfect overview of their bank products and account movements, and also help them find out what other tailored offers they could use at Slovenská sporiteľňa. Using the tablet, they can also set up some products offered by the Bank, third-party products, and activate George, the new smart Internet banking. The tablet significantly supports greater transparency and trust between the branch worker and client, thus leading to better mutual understanding.

Client migration to the new Internet banking – George

Slovenská sporiteľňa in 2018 presented clients its new electronic banking, named George. At the same time, over the year the Bank also managed a migration of more than 1 million clients from the old Internet banking into George. The roll-out of George at the start of the year was accompanied by a successful advertising campaign focused on the main advantages that banking with George brings.

George, with a user interface inspired by the most popular Internet applications, allows easy and intuitive management of family finances online. Compared to its predecessor, George is more modern; transactions search is simpler (for example using simple words or combinations of words), overall making it easier to manage your finances. Furthermore it is user-friendly for all generations. George has become a digital platform that is continuously delivering new services and enhancements.

Slovenská sporiteľňa is constantly listening to feedback from clients; therefore George itself, even during migration, saw several improvements. Based on user comments, the Bank progressively improved navigation, made search more transparent, supplemented transaction history details, and printing of lists and account transactions details.

Mobile application users more than doubled

George also includes a modern mobile application. Over the course of the year this gradually replaced its predecessors – the accounts ("Účty") and payments ("Platby") apps. In the second half of the year, it also brought new functionalities in card management directly via mobile, and support for personalised campaigns and digital sales of the Bank's products.

Over the year George was activated by twice as many clients than had been using previous versions of the app. Currently it is used by more than a quarter of a million clients on the iOS and Android platforms.

Digital sales

In 2018, the Bank focused mainly on creating new processes for sales via George and via its mobile version. The resulting processes are tailor-made for digital sales. They do not copy branch processes, but are recreated for the online environment. Only after first testing clients' interest in a particular product does the Bank look for a way how to sell the product online. Some processes are therefore designed as to operate from start to finish entirely online, without visiting a branch, without needing a courier or call centre assistance. The primary objective is to meet clients' needs and expectations, which means being more accessible, comprehensible and simpler.

The year 2018 was also successful in terms of sales figures. Despite the ongoing migration of clients between the old internet banking and George, the Bank managed to maintain sales volume via digital channels, which again surpassed the €100 million mark.

George also brought users a new feature – a preapproved loan. This is a product created primarily for the mobile app, allowing borrowers to have money on their account immediately, in just a few clicks and without filling out forms. Clients can, though, also get a preapproved loan via other sales channels, for example via the call centre.

Slovenská sporiteľňa ready for changes under the PSD2 Directive

Over the course of 2018, Slovenská sporiteľňa continued to focus on tasks stemming from the PSD2 Directive. This international directive defines the general principles enabling the entry of new entities – third parties – to the banking system, products and processes. Third parties are not banking houses, though the legislation allows them to perform payment services of the same type as those provided by banks. Open third-party access to banks' systems must fulfil very high security standards, and therefore Slovenská sporiteľňa is devoting extraordinary attention to this area.

During the transitory period the Bank prepared a temporary solution for the introduction of open banking in accordance with the principles of the PSD2 Directive, working intensively on adjustments to its systems so that by September 2019 it will be thoroughly prepared for open secure communication with third parties.

CORPORATE BANKING

- **Corporate clients' satisfaction with the Bank continued rising**
- **Slovenská sporiteľňa's market share in corporate banking grew over the year**
- **Over the course of 2018 the Bank brought new functionalities in corporate electronic banking**
- **Corporate customer satisfaction and loyalty remained driven by the professionalism of advisers, and quality of banking services and products**

Slovenská sporiteľňa grew its market shares in corporate banking

In 2018, Slovenská sporiteľňa strengthened its position in corporate banking finance. The volume of loans to businesses (without public sector) grew over the year by €515 million*, raising its market share by 1.3 percentage points. Over the course of the year the Bank managed not just to acquire new clients, but also support its existing clients with new financing. The risk of the corporate loans portfolio improved, despite credit growth, which outpaced market growth. The portfolio of standard financial products was complemented by modern solutions from the field of receivables and trade financing, or leasing services.

The Bank pushes on in developing electronic banking for businesses

The Bank in 2018 continued simplifying products and services for corporate clients. They added several new features facilitating communication with the Bank. Slovenská sporiteľňa, as the first in the Erste Group, began to apply automation in the approval and monitoring process also for the small and medium-sized enterprise segment. This streamlined lending process raised client satisfaction. Another new feature was the premium package, which brought clients several advantages:

- company analysis – a unique service reducing business risk, providing information on the payment discipline of business partners, their debts, declared bankruptcies and about other potentially risky facts,
- media overview – fresh news on the most important events from the economy and society,

** Data may differ from that given in the financial statements due to different segmentation.*

- company account administration – allows the addition of users and configuration of limits and signing rules, without visiting the Bank,
- multibanking – makes it possible to display accounts from multiple banks in one place, creating a comprehensive overview of the state of your finances.

The Bank reaffirms its strong market position in the SME segment

Throughout the year, Slovenská sporiteľňa confirmed its strong market position also in the area of providing financial services to small and medium-sized enterprises (SMEs) with an annual turnover of €1 million to €75 million. Customer care for SMEs is provided through eight corporate centres, present in every region of Slovakia.

By the end of 2018 the total number of SME clients had grown to more than 5,500. The volume of loans provided to this segment rose by 20% on a year earlier, to €1.35 billion, including financing in the form of leasing and factoring. The volume of managed deposits reached €550 million, up 14% on a year earlier. SME clients' needs were met also through support for business activities provided by global transaction banking specialists. Besides higher activity in transaction business, this was reflected also in increased revenues from transaction services and products.

Important strategic partner of large corporate clients

Slovenská sporiteľňa continued in 2018 in its long-term strategy of reinforcing its strong position in providing financial services to large corporate clients. It acquired 35 new large active clients, which enjoy tailor-made product solutions. The Bank also improved its position in the local market by co-financing the majority of its clients' major projects. Over the period of persistently low interest rates and highly competitive environment, the importance of providing comprehensive care was confirmed; in the Large Corporates segment Slovenská sporiteľňa recorded a 20% year-on-year growth in loans.

A significant portion of the Bank's revenues were achieved through the active use of transaction banking products and services. The highly professional approach of dealers and comprehensive solution of corporate clients' needs worked to strengthen client loyalty and satisfaction. A number of large corporates again in 2018 made use of complex services and products provided in the framework of the Erste Group.

Active use of the digital solution reverse factoring also contributed to client satisfaction. This solution links large firms and their smaller suppliers, and improves conditions for receivables financing and their administration.

Growing volume of real estate project financing

Slovenská sporiteľňa in 2018 remained responsible and focused on a healthy growth in financing. The Bank increased its loan exposure over the year by almost 15%, financing in particular the construction of residential and non-residential premises, as well as commercial and logistics projects.

The Bank reaffirms its strong market position in the public sector

Slovenská sporiteľňa through active acquisition activities also increased its market share in the financing of the public and non-profit sector, particularly in the towns and municipalities segment. The Bank continued collaboration with the Association of Towns and Communities of Slovakia (ZMOS), which represents more than 95% of the towns and municipalities in Slovakia, and 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 Principal Controllers of the Slovak Republic.

Activities in the financial institutions segment

The gradual phasing-out of quantitative easing by the European Central Bank has contributed to an increase in debt securities placement in the domestic and European markets. However, the negative interest rate environment still persists, which, together with new regulations, supports clients' interest in stock exchange derivatives. The total volume of securities under management and depository services was comparable to the preceding year, 2017.

FINANCIAL MARKETS

- **A year of covered bonds, assigned the highest possible rating**
- **Breakthrough year in debt capital markets**

The year 2018 was a breakthrough for Slovenská sporiteľňa in securities emission. After long-term careful preparation, the Bank's covered bonds were assigned an Aaa rating by the Moody's rating agency, the highest possible rating for securities. The Bank subsequently made two new issues of covered bonds, each in a value of €250 million, in which the covered bonds were also sold to foreign investors. Besides covered bonds, for domestic clients, Slovenská sporiteľňa issued also new senior bonds, subordinated bonds and investment certificates in a total volume of almost €100 million. Together with another institution, the Bank participated as the lead manager in major and exceptionally successful 10- and 50-year government bond emissions.

RISK MANAGEMENT

- **The share of non-performing loans fell significantly from 3.8% to 3.3% in 2018**
- **The total capital adequacy ratio fell to 18.1% in 2018, though remains comfortably above the minimum limit required by the regulator**
- **The liquidity situation remained stable, 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 risk management is to be able to identify all important risks to which it is exposed, accurately estimate their possible adverse impact and to have procedures in place to manage and control them effectively. Risk management is guided by the following basic principles:

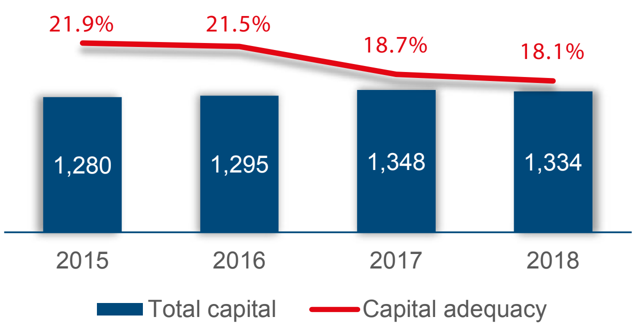
- prudent approach to risk, emphasising long-term sustainability;
- risk management is as far as possible independent from business lines; it is centralised and has sufficient resources and powers to fulfil its functions;
- risk management is integrated; the overall risk profile reflects interdependencies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

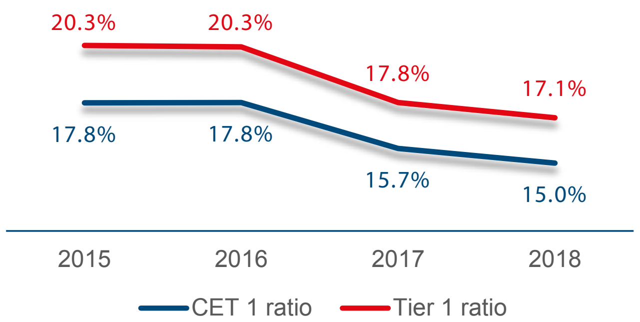
Again in 2018, the Bank defined its binding Risk Appetite Statement, which is a set of indicators determining the Bank's target risk profile. This document was one of the defining starting points in creating the Bank's strategic business plan.

Capital adequacy decreased slightly

The Bank's consolidated capital adequacy changed from 18.7% at the end of 2017 to 18.1% in 2018. This downward trend can be ascribed to continuing growth in lending volume. Throughout the year, the Bank nonetheless continued to easily satisfy the ECB's minimum capital adequacy requirements, including all capital buffers. The long-term development of Tier 1 and CET 1 capital ratios copies the trend of total capital adequacy. Since 2015, the Tier 1 indicator has been slightly higher than CET 1, thanks to additional Tier 1 capital in a volume of €150 million.

Capital and capital adequacy



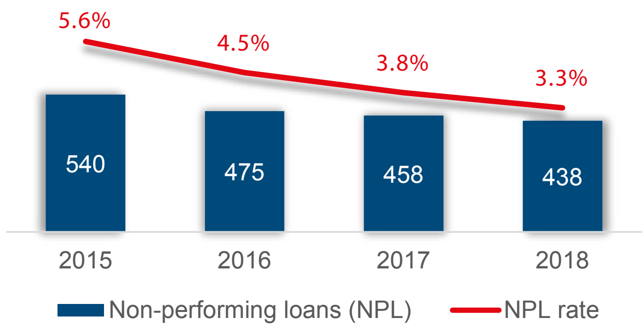


Liquidity situation remained stable

Slovenská sporiteľňa's liquidity situation is free of problems; the Bank fully satisfies all related statutory and internal requirements. The Liquidity Coverage Ratio (LCR) averaged 186% over the year (the yearly low was 164%), well above the statutory limit of 100%. The Net Stable Funding Ratio (NSFR) exceeded the 125% level; the statutory limit is 100%. The Bank holds about €3.9 billion in highly liquid assets as a liquidity buffer (mainly Slovak government bonds) and complies with internal limits for survival period in the case of crisis situations (survival period analysis).

Significant fall in the share of non-performing loans*

Slovenská sporiteľňa recorded a significant fall in the share of non-performing loans, from 3.8% in 2017 to 3.3% in 2018. This was achieved, in addition to positive macroeconomic development, through a combination of prudent credit policy, prevention, more efficient collection, and the regular write-off and sale of non-performing loans. Reflecting the positive trend in non-performing loans, the Bank also reported lower provisioning in both the retail and corporate segments, from €33.6 million in 2017 to €23.5 million in 2018. Non-performing loans and the NPL rate.



Non-performing loans in retail declined despite legal restrictions

The share of non-performing retail loans fell from 3.6% in 2017 to 3.3% in 2018, indicating the improving quality of the retail loan portfolio. As in the previous year, the Bank in 2018 again applied one of the most conservative definitions of the default at the market. With the positive economic background, the decrease in the share of non-performing loans was mainly due to the continued streamlining of the recovery process for unsecured and secured loans, as well as growth in the Bank's loan portfolio. The Bank increased the efficiency of its cooperation with debt recovery agencies in collecting receivables, as well as in using an automated system (Collection Assistant).

In 2018 Slovenská sporiteľňa sold retail loans receivables totalling €41.1 million.

Impact of legislative and regulatory changes

Following significant legislative changes in 2017 concerning the Bankruptcy & Restructuring Act, there continued in 2018 a rising trend in personal bankruptcies declared and ending in debt relief for the debtor. Over the year as a whole 13,848 personal bankruptcies were declared in Slovakia, up 164% on a year earlier (5,239 personal bankruptcies). At the same time there were approximately 9,000 personal bankruptcies in 2018, of which more than 95% were

** Slovenská sporiteľňa follows the definition of non-performing loans as formulated by European Banking Authority (EBA).*

terminated due to lack of assets, i.e. without creditor satisfaction. Slovenská sporiteľňa in 2018 recorded 3,002 personal bankruptcies declared, of which 1,448 were clients from whom the Bank has a receivable.

In lending the emphasis remains on own customers

Similarly as the year before, a substantial part of the growth in the loan portfolio in 2018 came from own clients, in the case of whom the Bank can best assess their risk profile.

The loan portfolio growth was driven mainly by loans secured by real estate. This portfolio is the most important in the retail segment. The Bank, therefore, meticulously tests its sensitivity to systemic risks.

Another significant part of the loan portfolio comprised consumer loans, whose growth continued to be influenced by the efforts of Slovenská sporiteľňa, as well as other banks, to provide clients with beneficial solutions in the form of one loan instead of several. In the area of consumer loans, the share of own clients in newly granted loans is greater than in the case of secured real estate loans. In both the market as a whole and Slovenská sporiteľňa's portfolio, there can be seen a slowdown in consumer loan growth, which is in line with NBS expectations.

Seeking to slow the dynamic growth in consumer debt on the market, the National Bank of Slovakia (NBS) continued in tightening regulation, introducing new measures. As of July 2018, it introduced the new indicator DTI (debt-to-income), limiting the total level of a client's debt to 8 times the client's net annual income. Furthermore, the NBS completely prohibited granting secured loans with a loan-to-value ratio of above 90% and tightened limits for LTVs above 80%. From the point of view of Slovenská sporiteľňa, the effect of these tightened measures began to be seen in the admissibility of secured loans only at the close of 2018.

Improving the quality of data on security

In 2018, the Bank made large investments in the digitalisation of the security process and automation of data flows, with a goal of streamlining work, eliminating errors in manual processing, and securing the necessary data for regulatory and group supervision with adequate quality. The Bank continued collaborating with the network of contracted property valuers, whilst a statistical model is used for revaluing existing security in the form of residential real estate, and a team of internal property valuers revalued commercial real estate. For both contracted and internal property valuers, the Bank arranged expert training and regular annual recertification in cooperation with the ÚSI Institute of Building Engineering Žilina.

Substantial fall in non-performing corporate loans

The trend of substantial decline in the share of non-performing corporate loans at Slovenská sporiteľňa continued again in 2018. The Bank recorded a fall in the share of non-performing corporate loans from 4.4% in 2017 to 3.0%. The total volume of non-performing loans fell by €22 million to €102 million.* This fall in non-performing loans was recorded across all corporate banking segments.

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

HUMAN RELATIONS

- **Slovenská sporiteľňa wins "Employer of the Year" award for the third time**
- **Diversity is important for the Bank**
- **Slovenská sporiteľňa offers its employees many benefits**
- **Volunteering again enjoyed success**

Employer of the Year for the third time now

Slovenská sporiteľňa defended its title of the Employer of the Year in the Category Banking, Finance & Insurance for the third time. The most attractive employer ("Najzamestnávateľ") is a prestigious survey carried out by the job search firm Profesia. The survey is aimed at finding out how potential employees perceive firms in Slovakia, their benefits and overall image.

Diversity Charter

In the Erste Group, great attention is paid to activities to promote balanced gender representation within the Erste Women's Hub network. At the same time, the Erste Group has signed the UN Global Compact initiative, committing to the principles of empowering women.

Slovenská sporiteľňa joined these activities in the first half of the year. Alexandra Habeler-Drabek, the member of the Board of Directors responsible for managing risk and diversity, signed the Diversity Charter, outwardly declaring the Bank's non-discrimination approach to its employees. Slovenská sporiteľňa considers this a very important step, since it is one of the largest employers in Slovakia. The topic of diversity greatly resonated also during Slovenská sporiteľňa's conference Ženy ženám (Women to Women), now in its second year.

World-class learning

Slovenská sporiteľňa in previous years initiated activities for promoting corporate culture. A game entitled "Blue Butterfly" brought together colleagues at the head office and in the retail network to get to know one another better both at the workplace and in private. With this game for encouraging internal communication, Slovenská sporiteľňa ranked among the five best projects in the worldwide competition Learning Awards 2019 in the category Best Internal Learning solution.

Unlocking the potential

Other inspirational projects in the Bank's internal learning included conferences, such as the Evening of Inspiration and Women to Women, as well as smaller events organised by Slovenská sporiteľňa for specific target groups. One of them was the children of employees, for whom "Unlocking Children's Potential" were prepared in cooperation with the coaches Jan Mühlfeit and Kateřina Novotná. This format was designed for children aged 9 to 15 and their parents. In this way, Slovenská sporiteľňa supported the work-life balance and, at the same time, informal learning among its staff.

The popular format of HydePark also continued, regularly bringing interesting guests to speak about attractive topics.

** Data may differ from that given in the financial statements due to different segmentation.*

Learning through play

Play is one of the most tried-and-tested efficient ways by which people of any age can learn. This transformation of learning, or "gamification", has also found its place at Slovenská sporiteľňa. In 2018, this concept was successfully applied also during the first adaptation day for new employees. Besides the information they learnt about Slovenská sporiteľňa in a special game, there were added further elements in their induction, familiarising them with other important work topics such as occupational safety and compliance.

New unifying features for colleagues from branches

In 2018, the Bank continued collaboration with one of Slovakia's leading fashion designers, Lea Fekete. Her unique collections of scarfs and ties in the Bank's colours with unique designs specially for Slovenská sporiteľňa decorate the Bank's retail network staff. In addition to these unifying elements, the Bank also moved to a more informal look, by way of T-shirts with original designs from this designer.

Employee care

For Slovenská sporiteľňa, satisfied employees are the key to its goals and key to satisfied clients. The Bank recognises the potential of its staff, and therefore takes comprehensive approach in caring for their needs. At the end of 2017, the Bank set up a unique non-stop Helpline for the Bank's employees who find themselves in a crisis situation (death of a close family member, unexpected health problems, relationship problems, etc.). The helpline is staffed by professionals from the field of psychological first aid and from crisis intervention. Absolute caller anonymity is, of course, ensured.

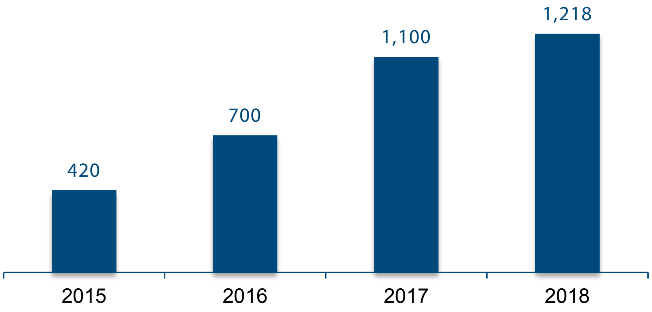
In the framework of health promotion, Slovenská sporiteľňa extended the Health Days event to various places in Slovakia. In addition to standard measurements provided by health insurance companies, the Bank used this opportunity for non-traditional forms of health care for supporting in workload management in both work and private life.

Throughout the year, Slovenská sporiteľňa enabled its head office staff to have in-house massages, provided by a protected workshop. The Bank in the framework of preventive care enables colleagues at regional treasuries to undergo a two-month compensatory movement regime with a specialist physiotherapist.

Volunteering enjoyed success

At Slovenská sporiteľňa, volunteering became an everyday part of employees' lives. In 2018, all employees had the opportunity to devote one day to any volunteer activity. This opportunity was taken by 1,218 staff, representing more than 9,700 hours. Group volunteering remained the most preferred form, with most activities focused on the social sphere.

Number of volunteers in 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 declared in 2003 by Slovenská sporiteľňa's parent company – Erste Group Bank, which included a voluntary undertaking 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, as a member of the Central European Corporate Governance Association (CECGA), has concurrently 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 its shares are not traded on any stock market. Certain provisions of the Governance Code relating 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 2018, 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 establishing 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, and the responsibility of the Bank and its staff to one other are 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 Code, adopted by the Board of Directors, was drawn up in compliance with 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. The Compliance Code sets out the Bank's anti-corruption policy and establishes methods and procedures for reporting suspected cases of corruption or anti-social activities.

Pursuant to requirements for raising the level of corporate culture, information for clients and transparency, and increasing quality in the provision of investment services and securities trading, the Bank consistently applies measures under the Directive of the European Parliament and the European Council on markets in financial instruments (MiFID II) for strengthening consumer protection in accordance with European legislation. Since 01.01.2018, the Bank has, prior to providing an investment service, furnished clients with a document giving key information on structured retail investment products and insurance-based products.

Other key documents strengthening customer protection in the banking environment include the European Agreement on a Voluntary Code of Conduct on Pre-Contractual Information for Home Loans. This has been adopted at the level of European consumer organisations and the European Credit Sector Associations.

Over and above legal obligations in this area, Slovenská sporiteľňa has adopted the Erste Group Code of Conduct, which establishes common values and principles for the whole financial group. It is a set of binding rules and recommendations affecting the day-to-day business activities of all the Bank's employees. The Code defines what is permitted in relation to customers, the company, employees and the shareholder and sets the standard for the Bank's conduct as a socially responsible company, which is obliged, in all its activities, to act responsibly, with respect and without undue risk. It is an important instrument of quality assurance in internal and external environments because quality means support for proper, trustworthy relationships with each other and with relevant stakeholders.

In its financial and investment operations, the Bank takes account not only of economic perspectives but also social, environmental and ethical criteria under the umbrella of "Equator Principles". This approach is applied in all matters with environmental and social impacts and in the administration and management of any activities in the area of financing to ensure all projects financed by the Bank are socially and environmentally sustainable and that all the Bank's financial activities comply with applicable regulations and international best practices. From the environmental perspective, the Bank must consider the protection and conservation of biodiversity, the sustainable management and use of renewable natural resources, the use and management of hazardous substances, pollution prevention and waste minimisation. Issues considered in the evaluation of social and ethical criteria affecting projects financed by the Bank include child labour, the elimination of all forms of forced and obligatory labour, the prevention of discrimination in employment, the ensuring of a safe working environment, health protection etc.

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 conduct of the Bank's business activities. It regularly reports to the General Meeting on its activity. The Board of Directors is the Bank's statutory body, managing its activity and acting on its behalf. It decides on all the Bank's affairs not reserved under generally binding legal regulations or the Articles for the General Meeting or Supervisory Board of the Bank.

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 Meeting. In addition to mandatory requirements under the provisions of Act no. 513/1991 Coll., the Commercial Code, 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 Division and the Bank's committees. In addition to the activities set out in the Articles and entered in the Commercial Register, the Bank may, following approval by the National Bank of Slovakia, also carry out non-banking activities related to the operations of the Bank and companies belonging to the consolidated and sub-consolidated group of Erste Group Bank AG. These activities, in accordance with the Banks Act, are not entered in the Commercial Register.

The company's organisational structure, the basic principles of its organisational arrangement, and the 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, the Banks Act, the Securities Act, the Articles and other acts of general application, 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. In compliance with acts of general application, the Bank maintains within its organisational structure a separation between activities and powers and responsibilities in the following areas:
- risk management and banking activities;
- lending and investment business, and monitoring of risks to which the Bank is exposed;
- monitoring of risks arising from conducting banking activities with persons with a special relationship to the Bank.

In 2018 the Bank continued to apply the principle of separation between risk monitoring and banking activities at all levels of management including the highest. The Corporate Credit Risk Management, Retail Credit Risk Management, Strategic Risk Management and Compliance and Operational Risk Management departments must not engage, and during 2018 did not engage, in any banking, lending or investment business. Competence for authorising transactions with persons with a special relationship to the Bank is exercised by the Board of Directors of the company in accordance with the Banks Act and the Organisational Code.

Slovenská sporiteľňa has not established any units abroad and does not perform banking activities outside Slovakia.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal control system

Slovenská sporiteľňa has in place an internal control system with clearly defined principles and standards. 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 implement, monitor and evaluate measures for protecting the Bank against money laundering and terrorist financing,
- 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 must abide 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 authorisation 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 correction of shortcomings and the implementation of measures identified in their findings.

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 its operational 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 deliberation in the Supervisory Board Audit Committee. The Audit Committee also approves the Internal Audit Statute, conducts regular monitoring of actions and activities, and evaluates the efficiency of the Internal Audit Division.

The Bank pays particular attention to measures for protecting the Bank against money laundering, terrorist financing and financial fraud. The independent Compliance and Operational Risk Management department is responsible for their implementation. One of the unit's responsibilities is monitoring compliance with the Bank's internal regulations and rules issued by regulatory bodies; another is 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 enforces and monitors compliance with the principle. The Bank consistently implements guidelines on the reporting and investigation of antisocial activities, including the establishment of an independent and anonymous means for reporting corrupt or antisocial conduct that is available to staff 24 hours a day.

Risk management and control system

Slovenská sporiteľňa has, in accordance with applicable Slovak legislation, a risk management system in place which is based on a 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 and the periodic review of its effectiveness and adequacy. The effectiveness of risk management is overseen by the Supervisory Board, or the Supervisory Board Audit Committee. Within its organisational structure, the Bank keeps trading and investment activities strictly separated from risk management. Organisational units for strategic risk management, corporate credit risk management, retail credit risk management, compliance & operational risk management and legal services report to the member of the Board of Directors responsible for risk management.

The risk management strategy of Slovenská sporiteľňa defines the fundamental principles and objectives of risk management, and describes the management process, responsible persons and competences for 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 via an 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 policies and internal regulations enabling efficient risk management in the current situation. The Bank has a process prepared for managing every identified risk. The effectiveness and adequacy of the risk management system in place is reviewed with reference to the adopted strategy upon each major change in the risk management process, or in any risk-related activity, at least once a year. Furthermore, when developing and evaluating the scenarios of comprehensive stress testing, the Bank considers all material risk types (credit, market, operational and liquidity risks, etc.). In accordance with statutory and regulatory provisions, the Bank continuously evaluates and maintains its ability to bear risk in the changing economic and market environment in which it operates. The risk management system in place, including the monitoring of the applicable limits for each risk, enables the Bank to manage its risk profile in a responsible manner and to provide and secure financing both under normal conditions and in the case of major changes.

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 has implemented the ICAAP framework and standards, including the RAS (Risk Appetite Statement) methodology, in accordance with the Erste Group's policy, and it takes them into account in managing and setting business objectives.

In accordance with statutory provisions, the Bank has a Recovery Plan prepared. The plan describes each risk type, the potential failure points for the Bank, and its scenarios for recovery and identifies critical functions and the main strategies and procedures to be implemented in unexpected major critical situations. Because the Bank is part of the Erste Group, the local Recovery Plan is, in accordance with European legislation, a direct part of the Group Recovery Plan and is designed to enable the Bank to restore its financial position in such circumstances without external assistance.

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 Slovenská sporiteľňa's Articles, which are approved by the Shareholders' General Meeting pursuant to the provisions of 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 elects the members of the Board of Directors subject to prior approval by the European Central Bank, which supervises Slovenská sporiteľňa as a systemically important bank, as well as in accordance with recommendations of the Nomination Committee of the Supervisory Board. The appointment and dismissal of Supervisory Board members, other than representatives elected and dismissed by employees, lies in the authority of the General Meeting, following prior consent by the European Central Bank and after scrutiny of the independence and suitability of the proposed candidates by the Nomination Committee of the Supervisory Board. The suitability of members of the Supervisory Board and the Board of Directors and the company's top management is assessed in accordance with the guidelines issued by the European Banking Authority (EBA/GL/2012/06) and the Banks Act, as amended. Appointments to the Bank's Supervisory Board and Board of Directors take account of the criterion of gender diversity, amongst others. The aim of the Erste Group is that by 2019 at least 35% of the members of such bodies will be women. The statutory and supervisory bodies of Slovenská sporiteľňa already passed this threshold in 2017, with 36% women members.

General Meeting

Pursuant to statutory provisions, the Shareholders' General Meeting 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 extent of the competence of the Slovenská sporiteľňa General Meeting is defined in the Articles. A two-thirds majority of all shares is required for a change to the Articles, in accordance with applicable legislation. The General Meeting also has the competence to decide on share capital increases or decreases, to elect or dismiss members of the Supervisory Board and other bodies stipulated in the Articles, with the exception of the Supervisory Board Members elected and recalled by employees, to approve the company's regular and extraordinary individual financial statements, to decide on the distribution of profits or settlement of losses and directors' fees, 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 Meeting or in the form of a sole shareholder decision, which replaces the effect of the General Meeting. 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 due process in the convening, voting and decision-making of the Shareholders' General Meeting.
All information on the General Meeting's activities, its powers, a description of shareholders' rights and the procedure for their application are set out in the Articles, the full text of which is held at the Bank's headquarters and is also available on its website.
In 2018, one ordinary General Meeting was held, and one decision of the sole shareholder was executed. At the General Meeting on 27 March 2018, the shareholder approved the annual individual and consolidated financial statements, the profit distribution, and the company's Annual Report for 2017. The General Meeting also approved the appointment of PricewaterhouseCoopers Slovensko, s.r.o. as the external auditor to audit Slovenská sporiteľňa's financial statements. The decision of the sole shareholder approved a change in the Bank's Articles on 20 June 2018. The adopted changes related mainly to the expansion of the Bank's business activities to include the issuing and management of electronic money, expansion of the competences of the Shareholders' General Meeting relating to the remuneration of members of the Supervisory Board and decisions on takeovers, the division of the company or its merger with another company. Changes were also made to the responsibilities and competence of the company's Board of Directors and the compliance officer in relation to the company's policy on avoidance of conflicts of interest, money laundering and terrorist financing, and the practical implementation of this policy. Other changes were made to bring the text into line with applicable legislation.

Supervisory Board

The Supervisory Board is the Bank's supreme control body. The Articles stipulate that it may have 3 to 6 members, two third of whom are elected by the General Meeting with the remainder being elected by employees of the Bank. Membership on the Supervisory of Directors may not be deputised. The Supervisory Board oversees the Board of Directors and the Bank's business operations. Meetings are normally held on a quarterly basis. The competences of the Supervisory Board include supervising compliance with acts of general application, compliance with the Articles and the General Meeting's decisions, scrutinising the Bank's financial statements and making proposals for profit distribution or settlement of losses. The Supervisory Board regularly examines reports on the state of the Bank's business and the balance of its assets, monitors the Bank's risk management position, deliberates on the report on the remuneration system, submits its opinions and statements, recommendations and proposals for decisions to the General Meeting 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 and the appointment of the Internal Audit Division Director; it 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. Pursuant to the Articles, the term of office of members of the Board of Directors is five years. In 2018 the Supervisory Board acted in the following composition:

Supervisory Board Member	Year of birth	Profession	Date of first election	End of term
Gernot Mittendorfer (chairman)	1964	Board Member	23.03.2012 07.08.2017	23.03.2017 07.08.2022
Jan Homan (vice-chairman)	1947	CEO	04.05.2012 07.08.2017	04.05.2017 07.08.2022
Tatiana Knošková[1]	1973	lawyer	25.05.2017	25.05.2022
Alena Adamcová[2]	1967	bank advisor	02.11.2016	02.11.2021
Ľudovít Ódor[1]	1976	economic analyst	01.01.2017	19.02.2018
Beatrica Melichárová[2]	1957	trade union officer	05.06.2003	19.12.2018

[1] *independent member of the Supervisory Board*
[2] *member of the Supervisory Board elected by employees*

In accordance with the requirements laid down by guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), two members of the Supervisory Board satisfied the criteria of independence in 2018.

Committees and advisory bodies of the Supervisory Board

In line with statutory and regulatory requirements and corporate governance principles, the Supervisory Board has established the following committees:

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. Additionally, 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 Meeting. 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 recovery of receivables) 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, establishing the rules for prudent management of banks and securities dealers. 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 members of the Bank's Board of Directors and Supervisory Board. It was established in accordance with Directive of the European Parliament CRD IV. It oversees the candidate selection process, the scrutiny and reappraisal of candidates' suitability regarding the characteristics, skills, knowledge and experience required for the relevant positions under the Banks Act and applicable rules of the European Banking Authority.

Board of Directors

The company's statutory body is the Board of Directors. Its member, including the chairman, are elected by the Supervisory Board. In accordance with the Articles, 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 its rules of procedure. Meetings of the Board of Directors are held at least once a month. Its responsibilities and competences are defined in the Articles. It decides on all the Bank's affairs not reserved under generally binding legal regulations or the Articles for the General Meeting 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 legislation, the Articles, as well as internal regulations and guidelines. The Board of Directors decides on the Bank's strategic objectives and business plan, as well as that of its subsidiaries, its organisational structure, remuneration system and staff competences at each organisational grade, the company's internal control system, the provision of loans to persons with a special relationship to the Bank, the issuing of selected types of securities and outsourcing of selected activities, internal guidelines required under acts of general application or under Erste Group rules. In addition, it also takes decisions on 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 protection of the Bank against money laundering and terrorist financing. With the 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. Pursuant to the Articles, the term of office of members of the Board of Directors is five years. In 2018, the Board of Directors worked in the following composition:

Board Member	Year of birth	Date of first election	End of term
Peter Krutil (chairman from 01.01.2018)	1968	17.12.1998	03.01.2021
Alexandra Habeler-Drabek	1970	01.01.2017	01.01.2022
Zdeněk Románek	1976	15.06.2015	15.06.2020
Pavel Cetkovský	1969	26.01.2018	26.01.2023
Milan Hain	1962	01.07.2018	01.07.2023
Richard Chomist	1974	01.04.2015	31.3.2018[1]

[1] Richard Chomist resigned from the Board of Directors on 31.3.2018

No vice-chairman of the Board of Directors was appointed in 2018.

Division of competences and responsibilities of Board Members according to the organisational structure

Board Member	Area of competence
Peter Krutil (Chairman)	Treasury, Large Corporate Clients and Real Estate Financing, Corporate Clients, Products and Solutions for Corporate Clients, Management and Development of Corporate Banking, Strategy and Client Experience, Strategy and Brand Development, Human Resources and the SLSP Foundation;
Alexandra Habeler-Drabek	Compliance and Operational Risk Management, Strategic Risk Management, Corporate Credit Risk Management, Retail Credit Risk Management and Legal Services. Appointed as the person responsible for risk management functions and person responsible for gender equality;
Zdeněk Románek	Retail product management, Support Network and Client Centre, Customer Relationship Management, Digital Banking and Client Data, Branch Network Management and Social Bank, Bancassurance, Private Banking. Appointed as the person responsible for the area of financial intermediation for all sectors;
Pavel Cetkovský	Accounting and Controlling, Balance Sheet Management, Facilities, Environment and Construction. Appointed as the Chief Environmental Officer and Chief Sustainability Officer;
Milan Hain (Richard Chomist until 31.3.2018)	IT Development, IT Operation, Architecture, Change Management & Project Management, Financial Management of IT Services, Security, Payments & Settlement, Retail Processing Centre.

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 2018, the Bank had the following committees:

Assets and Liabilities Committee (ALCO)
The committee assesses and approves the management and control process for the Bank's financial flows and its asset and liability structure 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 and fulfil-

ment of the planned balance sheet structure, and it 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
This committee analyses and evaluates the Bank's liquidity position. Where necessary, the committee submits 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 recovery of receivables) 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 together with 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 and its individual campaigns; it allocates costs to campaigns and evaluates their effectiveness. It also considers issues relating to digitalisation of the Bank and electronic sales channels.

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 operational 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 the risk management strategy and procedures pursuant to § 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 account of 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 methodology and stress testing, and it ensures that ICAAP principles are implemented in the Bank's management and its business objectives. The committee coordinates the preparation of scenarios for comprehensive stress testing and approves the scenarios, taking into consideration all material types of risk, including credit, market, operational and liquidity risk, and their evaluation. The Committee provides support and information to the Board of Directors and Supervisory Board concerning risk identification, analysis, monitoring reporting and management.

Models Committee
The Board of Directors delegates to the Models Committee powers related to the development, validation, monitoring and approval of local credit and non-credit models, or the use of group models related to risk.

Crisis Committee
The Committee's role is to assess the situation in the event of an impending crisis and to manage the Bank's procedures at a time of crisis. The Crisis Committee takes decisions and determines responsibilities in a time of crisis. 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 a crisis.

At the end of 2018 the Bank's Board of Directors cancelled the **Client Experience Management Committee**. The Committee's duties had been to monitor and evaluate indexes and key parameters of customer satisfaction, to develop concepts for managing and measuring the quality of the client experience, to identify key problems and areas with a major impact on client experience and to propose specific measures for improving the quality of services and client experience/customer satisfaction in line with the company's strategic objectives. The Board of Directors directly took over the responsibilities and competences of this committee.

Specialised functions

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

Compliance Officer – ensures the fulfilment of tasks under the programme of Slovenská sporiteľňa's own activity against money laundering and terrorist 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 designated Deputy Compliance Officer.

The **Data Protection Officer** (in accordance with the GDPR) assesses, prior to the processing of personal data at Slovenská sporiteľňa, whether there is any potential danger of infringement of data subjects' rights and freedoms. The responsibilities and competences of this officer are detailed in the guideline "Ensuring Personal Data Privacy".

The **persons responsible for specific areas in financial intermediation** monitor compliance with the obligations of employees performing activities in accordance with the Act on Financial Intermediation and Financial Advice, especially in deposit taking, lending, insurance, reinsurance and financial intermediation for all sectors.

The **persons responsible for MiFID** (Markets in Financial Instruments Directive) monitor and evaluate the effectiveness of measures and procedures to ensure the Bank's provision of investment services complies with its obligations as a securities dealer under the Securities Act. The responsibility is divided into two areas. The first is the definition of operational controls, checking their fulfilment, reporting and organisation in this area and MiFID2 implementation. The second person is responsible for the development, methodology and administration of investment products and related guidelines, and for customer care and related control activities.

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

The **BCM Officer** (Business Continuity Management) is responsible for managing the Bank's policy on operational and business continuity and the implementation of rules in this area.

The **Risk Management Officer** is responsible for the implementation of the Bank's risk management system and monitoring of its effectiveness.

The **Consumer Protection Contact Person** coordinates and implements consumer protection requirements into the Bank's systems, processes and products. They also coordinate and implement requirements from the supervisory authorities for consumer protection.

The **Chief Environmental Officer and Chief Sustainability Officer** implements an environmental concept of sustainability into corporate strategy, manages environmental protection and defines rules for combatting climate change within the Bank.

The **Diversity Officer** implements the Erste Group's rules and principles on diversity at the local level; responsible also for local initiatives promoting diversity and solutions for diversity and inclusion.

The **Person responsible for the protection of competition** provides for and coordinates the Bank's activities relating to the protection of competition and compliance with fair competition rules including rules on anti-competitive conduct and prohibited agreements.

The **Safeguarding Officer** is responsible for establishing and regularly reviewing measures and procedures for the protection of clients' funds and financial instruments, their separation and proper record keeping, including prevention of their unauthorised use; as well as responsible for compliance with related requirements under the act on securities and investment services and MiFID2.

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

The Banks Act regulates the holding of functions in the management and supervisory bodies of other companies by members of a statutory body. In 2018, 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:

Board Member	Area of competence
Peter Krutil (Chairman)	Member of the Presidium of the Slovak Banking Association, member of the Board of Trustees of the Slovenská sporiteľňa Foundation
Alexandra Habeler-Drabek	Member of the Supervisor Board of Prvá stavebná sporiteľňa, a.s., External member of the Board of Directors of Erste Bank Hungary, member of the Board of Directors of the Slovak-Austrian Chamber of Commerce
Zdeněk Románek	Member of the Supervisory Board of KOOPERATIVA poisťovňa, a.s., Vienna Insurance Group.
Pavel Cetkovský	Deputy chairman of the Deposit Protection Fund Council, director of Procurement Services SK, s.r.o., chairman of the Supervisory Board in LANED a.s.
Milan Hain	Did not hold any function in the management and/or supervisory bodies of other companies

Remuneration policy and principles for the members of the Board of Directors and Supervisory Board

The remuneration of members of the statutory body and selected categories of employees in Slovenská sporiteľňa is in accordance with the Banks Act, employment law, in particular the Labour Code and the implementing directives of the European Parliament and the European Council that affect supervision of remuneration principles in banks, such as CRD IV (the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms) and the Markets in Financial Instruments Directive (MiFID II) and guidelines on remuneration policy issued by the National Bank of Slovakia, the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) on remuneration policy.

The remuneration policy takes account of the principle of proportionality and the requirements of EU legislation calling for limitation of the risk resulting from the motivation of persons who could have a material effect on the Bank's activity and risk profile. Rules for remuneration of specific groups of employees adopted by the Bank are drawn up with consideration of the Bank's activity, the Bank's risk profile and the significance of the impact of individual categories of staff on the risk profile. The basic remuneration principles and strategy for the aforementioned persons, who are subject to the remuneration principles established by the Act on Banks, are approved by the Supervisory Board's Remuneration Committee, which also monitors compliance with these principles. The Remuneration Committee conducts its activities under powers delegated by the Supervisory Board. The Supervisory Board is responsible for the adoption and upholding of the remuneration policy and monitors its implementation to ensure its proper functioning. It may delegate its responsibilities for remuneration to the Remuneration Committee or, conversely, it may at any time withdraw, in whole or in part, the Remuneration Committee's responsibilities in matters of remuneration. The Remuneration Committee cannot be given competence to approve the variable remuneration of members of the Board of Directors or to approve payments related to the early termination of an employment contract or any other relationship with members of the Board of Directors.

Members of the Remuneration Committee are actively involved in the design of remuneration policies and models. Their principal tasks include setting the remuneration strategy for executive management, for risk takers (employees with a significant influence on the Bank's risk profile resulting from their position and professional activities) and the heads of control units, ex-post and ex-ante information on material changes in variable remuneration schemes, and approving the variable remuneration model and practices for all employees (for example, approving conditions for bonus payments, instrument types, the balance of fixed and variable remuneration components, and performance indicators for members of the Board of Directors). The Remuneration Committee conducts regular reviews of remuneration policy and assesses new schemes for variable remuneration or fundamental changes in existing schemes.

In accordance with statutory requirements and rules as well as the methodology adopted by Erste Group, remuneration is divided into 2 parts - fixed and variable. The variable remuneration component may reach at most 100% of the fixed remuneration 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 the variable remuneration component paid to members of the Board of Directors. In the first arrangement, a 3-year deferment in the form of investment certificates is applied to 40% of the variable remuneration component and the remaining 60% 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 (for remuneration greater than €150,000), 60% of the awarded flexible remuneration is subject to a 3-year deferment (the "deferred part") in the form of investment certificates. The remaining 40% share of the awarded variable remuneration component is divided into two equal parts, one of which is payable immediately and the other in the form of investment certificates maturing after one year.

Payment of the variable part of the remuneration is linked to fulfilment of predetermined criteria. Individual remuneration is based on a combination of the assessment of individual work performance with the overall results for the Bank. 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 part of remuneration is subject to the conditions of zero tolerance in the event of conviction for a crime related to performance of work function, fraudulent conduct, conduct contrary to the Bank's internal guidelines 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.

Erste Group's remuneration policy stipulates that bank employees who are members of the Supervisory Board in other Erste Group companies are not entitled to remuneration for their Supervisory Board functions, unless they are employee-elected Supervisory Board members.

Implementation of remuneration principles is subject to annual review by the Internal Audit Division of Slovenská sporiteľňa. The Internal Audit review for 2018 did not find any shortcomings in the procedures and rules for calculating and awarding the variable part of remuneration. Slovenská sporiteľňa submits the review of compliance with remuneration rules to the National Bank of Slovakia by 30 June of the year following the calendar year to which the report relates.

Activities of the Board of Directors in 2018

In 2018 the Board of Directors met 45 times. The Board of Directors regularly discussed the Bank's financial results. It fulfilled 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 terrorist financing. Particular attention was paid to risk management, credit portfolio analyses, and monitoring of customer behaviour 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, regulatory requirements and market conditions were reflected 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 the adoption of the environmental protection policy. Strategic decisions on investments in information technology were implemented through projects to develop services for clients, communication and sales channels, digital technologies and company culture and values.

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 par value of one share is €1 000. The shares have not been admitted for trading on any regulated market. The shares are registered in the Central Securities Depository of the Slovak Republic 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 31.12.2018, a qualified participation of 100% in the Bank's share capital is held by Erste Group Bank AG, registered office 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 2018, 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 § 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 Meeting. The shareholder is entitled to participate at the General Meeting, 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 Meeting. The shareholder also has the right to a share in the company's profit (dividend), which the General Meeting determines for distribution based on the company's profit. The shareholder also has the right to decide on the payment of board members' fees for members of the Supervisory Board in the proposal for profit distribution. In accordance with the 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 the 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 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, the Banks Act and the Commercial Code.

Operating costs for activities related to research and development in Slovenská sporiteľňa in 2018 were of an insignificant amount.

List of companies consolidated in the financial statements to 31.12.2018:

- Služby SLSP, s.r.o., registered office Tomášikova 48, 832 01 Bratislava, ID no.: 48 247 677
- Realitná spoločnosť Slovenskej sporiteľne, a.s., registered office Tomášikova 48, 832 10 Bratislava, ID no.: 36 725 234
- LANED, a.s., registered office Tomášikova 48, 832 71 Bratislava, ID no.: 35 918 918
- Procurement Services SK, s.r.o., registered office Tomášikova 48, 832 75 Bratislava, ID no.: 35 918 918 ID no.: 36 721 972
- Slovak Banking Credit Bureau, s.r.o., registered office Tomášikova 14, 821 09 Bratislava, ID no.: 35 869 810
- Holding Card Service, s.r.o., registered office Olbrachtova 1929/62, 140 00 Prague 4, Czechia, ID no.: 04 5628 61
- Prvá stavebná sporiteľňa, a. s., registered office Bajkalská 30, 829 48 Bratislava, ID no.: 31 335 004

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 and business plans with all of these stakeholders in mind. It applies the fundamental principle of effective and responsible corporate governance as well as the principles of transparency and information disclosure at all levels and in all relations with its shareholder, customers and staff. The Bank strictly observes compliance with legal regulations and corporate governance principles. It regularly briefs its shareholder and investors of the parent company on all important information on its business, financial and operating results, and other important events. It informs its customers 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 for 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 an email address to which employees can direct their complaints, suggestions and initiatives outside the established workflow and hierarchy. 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 procedure for resolving clients' complaints and submissions that ensures their fair, objective and timely investigation in accordance with legal requirements. The banks' relations with related parties are also in accordance with the law. The approval of transactions with related parties is set aside for the Board of Directors; where a related party includes a member of the statutory body, approval falls to the Supervisory Board.

CORPORATE SOCIAL RESPONSIBILITY

- **In 2018, Slovenská sporiteľňa distributed €1.4 million in the form of direct support. The Slovenská sporiteľňa foundation invested a further €1.5 million in socially beneficial projects through partnerships and grant programmes.**
- **Most projects were again in the fields of culture, financial education and sport**
- **In the area of saving the environment and cultivating public space, the Bank has stopped using outdoor advertising, leaflets in branch and issuing ATM receipt slips**
- **For its responsible approach to business, the Bank received the prestigious Via Bona award – "responsible large enterprise"**
- **The Bank has been developing program for start-ups and for non-profit organizations**
- **Slovenská sporiteľňa remains to be a „green bank"**

Direct support by the Bank – the most significant areas are culture, financial education and sport

In 2018, Slovenská sporiteľňa directly supported a number of projects, with a total amount of €1.4 million. The strategic areas of its sponsorship activities again included music, theatre and sport.

As a responsible enterprise, the Bank, by promoting culture, seeks to contribute to positive changes in the country. And so it continued in partnerships with outstanding music festivals – Bratislava Jazz days, Viva Musica!, Pohoda and Konvergencie, as well as with leading theatre houses across Slovakia (Studio L+S, Andrej Bagar Theatre in Nitra, Slovak Chamber Theatre in Martin and the State Theatre in Košice). In the framework of partnership with the DOSKY theatre awards of the season, the Slovenská sporiteľňa Prize was for the first time awarded for the Theatre of the Season, which was decided by fans of Slovak theatres in an audience survey.

In the field of development of sport and healthy lifestyle, Slovenská sporiteľňa continued in partnerships with sports organisations and running events, such as the National Devín – Bratislava run and marathons in Banská Bystrica and Košice. The Bank also stood behind the Slovak Football Association and the Slovak Olympic Team at the Winter Olympics in PyeongChang. The positive relationship of children to movement was promoted by means of partner projects with the Matej Tóth Sports Academy and the Peter Sagan Children's Cycle Tour.

In the past year, the Bank's priorities in corporate social responsibility again included the development of financial literacy right from the elementary school stage. The Slovenská sporiteľňa foundation is particularly active in this sphere, yet also the Bank itself last year continued in supporting projects implemented jointly with Junior Chamber International Slovakia – a series of university lectures entitled "An Idea Transformed into Success".

Slovenská sporiteľňa believes that the development of a healthy civil society is important for the functioning of a modern country. Therefore, in the past it became one of the founding members of the Fund for Transparent Slovakia. The Bank also continued in its support for granting the awards Journalism Prize and also Court Ruling of the Year, and also supported the creation of the Investigative Journalism Fund of the Open Society Foundation.

Again in 2018, the Bank participated in the charity collections Daffodil Day (Cancer League) and an hour for children (Children of Slovakia Foundation), in which the branch network was actively involved.

Activities of the Slovenská sporiteľňa Foundation in 2018

In 2018, the Foundation continued to support various projects and initiatives of a public-benefit nature focused on qualitative changes in education, social assistance, cultural development, sport, promotion of health, environmental revitalisation and protection. In total 157 projects were supported in an amount of €1.5 million.

In line with its strategy, the Foundation continued to support education, particularly financial education. The Foundation deepened its long-term cooperation with the Foundation for Children of Slovakia in the project Know Your Money, and as a general partner continued in supporting the project More Than Money by Junior Achievement Slovakia.

The Foundation began developing the first phase of a financial education programme for schools in Slovakia, entitled FinQ. FinQ is the first own educational programme of Slovenská sporiteľňa aimed at improving and developing the financial culture of elementary and secondary school pupils. It helps the target groups develop critical thinking in the whole context of finance.

Improving the quality of education was also the Foundation's objective in supporting Teach for Slovakia (Manageria) by way of general partnership in the national Global Teacher Prize. It supported the conference Teaching for Life of the non-profit organization Indication, intended for modern and innovative teachers in Slovakia. Also in 2018, the Foundation supported the youth development programme – The Duke of Edinburgh's International Award Slovakia and for the second time also the Green School environmental programme for schools that want to change themselves and their surroundings.

The Foundation contributed to improving life in the regions by means of the grant programmes Municipalities Closer to You and Help Us Help. Assistance to socially disadvantaged people was directed at various regions of Slovakia. The Foundation also continued its long-running support for Danube Dance Club, which focuses on integrated dance and other activities for people with disability. Also, in 2018, the Foundation maintained a partnership with the Cancer League as part of the nationwide Daffodils Day collection. The Bank continued to support the project DOM.ov, which is focused on financial education and on the construction of own housing for Roma settlements in eastern Slovakia. It also supported a project for seniors Maltese Aid Slovakia, civic association Return, Natalia Centre for children with cerebral palsy, and many others.

In 2018 the Slovenská sporiteľňa Foundation continued its long-term support for the opinion poll of the Ekopolis Foundation – Tree of the Year and the keeping of urban bees on the roof of the Slovenská sporiteľňa head office with the non-profit organisation Živica.

Employee grant programme Euro to Euro

In 2018 the Foundation announced its 13th year of the employee programme Euro to Euro for supporting minor community-based public benefit projects. In 2018 it distributed €60,000 among

25 different projects. It supported schools, kindergartens, civic associations, sports clubs and other leisure organisations and their projects for supporting education, help for disadvantaged people, environmental protection, as well as active leisure. Through the form of volunteering, Bank employees also got involved in the realisation itself.

Support was directed also at equipping a ceramics workshop serving for support therapy for deaf and blind children Silence in Dark at Červenice. Also thanks to the Foundation's support, it was possible to reconstruct unused rooms at elementary and secondary schools in Breh into a multimedia library with a reading room. The Foundation also supported the civic association Odyseus, which through the project Effective Assistance provides social assistance to drug addicts.

Grant scheme Municipalities Closer to You

In the 6th year of the popular grant programme Municipalities Closer to You, the Foundation supported 23 projects of municipalities and towns in Slovakia in an amount totalling €100,000. The projects were focused on improving the quality of the environment and on restoring local historical and artistic monuments.

Grant Programme Help Us Help 2018

In the 3rd year of the Help Us Help programme, we supported 16 public-benefit projects across Slovakia from the field of social assistance, education and environmental protection and sport.

#mamnato grant

In August 2018, the Foundation began accepting applications to the new grant programme #mamnato for 2019. The aim is to support public-interest projects that contribute to transforming Slovakia into a modern and responsible country. The main pillars of the grant are innovation, responsibility and community. From this grant in 2019 some 35 projects will be supported with a total amount of €250,000.

Construction of multifunctional playgrounds

In 2018, the Foundation built 2 more multifunctional playgrounds – by the primary school on Štúrova Street in Myjava and by the kindergarten on Školská Street in Svit. Over the period since 2010, the Foundation has invested approximately €1.55 million in the construction of 30 playgrounds in various regions of Slovakia. The playgrounds are located near school grounds and serve pupils, and outside teaching hours also parents and the wider public.

Bank seeks to help groups having difficult access to bank services

In 2018, 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.

The Bank 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 effort 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

As a holder of the EN ISO 14001/2015 certificate, Slovenská sporiteľňa continued to pursue environmental activities also in 2018. The bank continues in its successful efforts to save electricity (and thereby produce less CO_2) both in absolute terms and relative to our headcount or floor space. Electricity consumption decreased by 14% in 2018 compared to 2017 thanks to the ongoing upgrading of IT hardware with more efficient servers.

The bank is also making progress in reducing paper consumption. In 2018 Slovenská sporiteľňa used 11% less paper than in the previous year. Economies were achieved by analysing paper consumption in individual branches and applying paper-saving measures there.

Another environmental protection measure was the pilot installation of stickers to prevent birds from crashing into the glass walls of buildings in northern parts of Slovakia. To promote cycling, the Bank has installed sheltered parking for bicycles at Bratislava headquarters along with four more showers for cyclists.

OBJECTIVES FOR 2019

Objectives for 2019

In 2019 Slovenská sporiteľňa wants to bring retail and corporate clients solutions that will simplify their lives. One of the most important priorities remains digitalisation. Last year the Bank made available the new George Internet banking, the mobile application George and worked intensively also on the corporate internet banking Business24. In 2019 it wants to expand these to include new functions and enhancements. In addition to this, clients who visit a Bank branch will find increasingly more products and processes on a tablet. Alongside traditional bank products, the Bank also wants to focus on intermediation of insurance. These and other activities should contribute to making Slovenská sporiteľňa even more attractive for new clients and lead more clients to use the Bank actively.

Slovenská sporiteľňa will continue to focus on the area of costs, striving to maintain the ratio of operating costs to operating revenues at a low level. Digitalisation, besides delivering greater convenience for clients, will create conditions for long-term cost cutting. The Bank will again continue to streamline internal processes and activities with a view to reducing costs and providing clients a better experience in using products and services. All the Bank's decisions will take account of the acceptable degree of risk.

Slovenská sporiteľňa, by means of its business activities, as well as through the activities of the Social Bank and Slovenská sporiteľňa Foundation, wants to further contribute to the prosperity of society and to move Slovakia forwards on the road towards becoming a more modern country.

Forecast economic and financial situation of Slovenská sporiteľňa

Slovenská sporiteľňa expects its balance sheet to grow by 7% in 2019, based on the expected higher volume of transactions with clients, both in loans granted and deposits taken. This increase in transactions with clients should further strengthen Slovenská sporiteľňa's leading position in the Slovak banking market. The planned growth in lending should be largely funded through deposits taken, but also through own issues of longer-maturity securities. The loan-to-deposit ratio is projected to be below 100% at the end of 2019, creating a sound basis for maintaining the Bank's stable position in terms of liquidity and funding. As regards capital parameters, the Bank forecasts that it will satisfy by a comfortable margin all indicators and parameters required by the regulator under the Capital Requirements Regulation (CRR) and Capital Requirements Directives (CRD).

Slovenská sporiteľňa expects a favourable profit at the end of 2019. This will, though, be lower than in the past year, due largely to higher provisioning and higher operating costs. Net interest income will fall slightly, due mainly to strong competition, tightening regulation and low market interest rates, which cannot be completely offset through volume growth. Conversely, the Bank expects fee and commission income to rise, with increased income from insurance intermediation also helping. The development of trading income can be very variable, since it depends on many market factors. Net operating income should rise over the year, due particularly to the growth of fee and commission income. On the costs side, the Bank expects operating costs to rise in 2019, largely in connection with growth in personnel costs. Slovenská sporiteľňa's efficiency in cost management is confirmed by its cost-to-income ratio, projected at below 50% (excluding the impact of the Deposit Protection Fund levy).

The main risks and uncertainties Slovenská sporiteľňa faces stem mainly from (i) legislative changes in the Slovak Republic and the European Union in the area of banking, including changes related to tightening balance-sheet structure requirements; (ii) credit market conditions in an environment of persistently low interest rates; and (iii) the impact of global economic situation on the domestic economy.

Two events of special significance have occurred after the end of the accounting period for which this Annual Report is prepared. Mr. Paul Formanko was elected member of the Supervisory Board by the General Meeting (in the form of a sole shareholder decision) as an independent member, effective as of 4 February 2019. On 1. march 2019 SLovenská sporiteľňa acquired 100% share in S Slovensko, spol. s r.o. (leasing company with total assets of €163.7 mil.). No other events of special significance have occurred.

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, entry: 601/B, corporate registration no.: 00151653: Ing. Peter Krutil, Chairman of the Board of Directors and CEO, and Ing. Pavel Cetkovský, 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 sporiteľňa, 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 2018, 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 over the course of 2018, was governed by statutory provisions applicable in the Slovak Republic. It fulfilled tasks arising from the Bank's Articles, 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 2018, four ordinary meetings of the Supervisory Board were held, and three votes were conducted by circular resolution. 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.

Over 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 was submitted by the risk management officer in accordance with the law.

Members of the Supervisory Board were regularly briefed by the Bank's Board of Directors on its business activity, the implementation of its business plan, the balance of the company's assets, implementation of the Bank's major projects, equity investments, sale of a part of the business and about other matters related to the company's activities and development in pursuing its licensed banking activities. Within its competence, it approved the internal audit strategy and plans 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.

In 2018 there were several changes in the membership of the Supervisory Board. Ľudovít Ódor resigned from the Supervisory Board effective from 19 February 2018 to take up the post of Deputy Governor of the National Bank of Slovakia. On 19 December 2018, the term of office of Beatrica Melichárová, Supervisory Board Member elected by employees, expired. The election of new members of the Supervisory Board is conditional upon prior approval by the regulator. As at the end of 2018, the Bank had not received the standpoint of the National Bank of Slovakia and the European Central Bank on the nominated candidates for election to the Supervisory Board.

In 2018, the Supervisory Board worked with the support of advisory committees, namely the audit, credit, remuneration and nomination committees, which are established and operate according to their own statutes. In 2018, membership of the committees of the Supervisory Board was adjusted in line with the changes in membership of the Supervisory Board.

Pursuant to Act no. 423/2015 on statutory audit and Act no. 431/2002 Coll. on accounting, as 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. In accordance with statutory requirements, the committee took responsibility for the selection procedure for a statutory auditor and recommended that the General Meeting approve PricewaterhouseCoopers Slovensko, s.r.o. to conduct the statutory audit. Within this process the Audit Committee set a deadline for the appointed statutory auditor to submit an affidavit regarding its independence. The committee held discussions with representatives of the external auditor on the annual financial statements, including the external auditor's opinion and the auditor's recommendations contained in the letter to the management. It briefed the Bank's Supervisory Board on the outcome of the statutory audit and of the procedures through which the statutory audit contributed to the integrity of the financial statements. Another important part of the agenda comprised reports on the Bank's activities in the area of compliance and operational risk management, and reports on implementation of the programme of own activity against money laundering and terrorist financing. Within the scope of its competence, the committee reviewed the suitability of provision of non-audit services and services provided by the statutory auditor and approved the procurement of non-audit services from licensed auditing companies.

The Credit Committee of the Supervisory Board decides on certain credit transactions on an ad hoc basis in accordance with the Bank's Competence Code. It did not assess any business case in 2018.

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 for board members and their evaluation for the preceding accounting period. It also approved the updated list of persons having a specific impact on the Bank's risk. In 2018 the Committee held three ordinary meetings and three circular resolution votes.

The Supervisory Board established a Nomination Committee as its advisory body in fulfilling its responsibilities relating to the nomination of new members of the Bank's Board of Directors and Supervisory Board. In 2017 the Supervisory Board of Slovenská sporiteľňa recommended the approval of the new chairman of the Board of Directors effective from 1 January 2018. Through year 2018 further recommended the nomination of Milan Hain as a member of the Board of Directors before his approval by the European Central Bank and the nomination of a candidate to the position of an independent member of the Supervisory Board and the nomination of two candidates from the ranks of the Bank's employees to stand in an election for the vacant position of an employee-elected member of the Supervisory Board.

The Supervisory Board discussed the audit of the consolidated and individual balance sheet of Slovenská sporiteľňa as well as the related profit & loss statement as at 31 December 2018. The audit was carried out and verified by PricewaterhouseCoopers Slovensko s.r.o., in accordance with International Standards on Auditing. It confirmed that the financial statements give a true and fair view of the Bank's financial situation as at 31 December 2018 in all material regards and that it has no objections to them. Consequently, the Supervisory Board recommended the General Meeting to approve the financial statements for 2018, including the proposal for profit distribution.

Gernot Mittendorfer
predseda

SUPERVISORY BOARD OF SLOVENSKÁ SPORITEĽŇA, A.S.

GERNOT MITTENDORFER
Chairman

Gernot Mittendorfer studied law at the University of Linz and has an MBA with specialisation in finance from Webster University in Vienna. He began his career with Erste Group in 1990. He has held various management positions in Erste Group companies in Austria and Czechia. He was appointed a member of the Board of Directors of Erste Group Bank AG in January 2011. His first responsibility was investment banking and large corporations followed later by risk management, compliance, security and law. He has been responsible for finance since 2013.

He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2012. He was re-elected for a further term of office in 2017.

JAN HOMAN
Member

Jan Homan graduated in economics at the Vienna University of Economics and Business. He gained banking experience in Frankfurt, New York and Düsseldorf for Chase Manhattan Bank, which he joined in 1972, and later in Bank Société Générale Alsacienne in Vienna. Since 1978 he has held management positions in the 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 elected a member of the Supervisory Board of Constantia Flexibles. In 2004 he became a member of the Supervisory Board of Erste Group Bank AG and he is currently the first deputy chairman.

He has been a member of the Supervisory Board of Slovenská sporiteľňa since 2012. He was re-elected for a further term of office in 2017.

TATIANA KNOŠKOVÁ
Member

Tatiana Knošková received her education in law at Comenius University in Bratislava and the Faculty of Law at the University of Groningen in the Netherlands. She has completed courses in commercial, tax and private law at law schools in the USA and passed the tests on Czech Accounting Standards organised by the Association of Chartered Certified Accountants (ACCA) in the Czech Republic.

She has worked in various expert teams specialising in the provision of financial, tax, accounting and legal services for financial institutions in international audit and consulting firms. She is a member of the Slovak Bar Association. She is currently a partner at WALLENBERG LEGAL.

She has been a member of the Audit Committee of the Supervisory Board of Slovenská sporiteľňa, initially as an independent member without membership of the Supervisory Board, since 2007. On 25 May 2017, she was elected a full, independent member of the Supervisory Board of Slovenská sporiteľňa.

ALENA ADAMCOVÁ
Supervisory Board Member elected by employees

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 in Slovenská sporiteľňa. She was elected a member of the Supervisory Board of Slovenská sporiteľňa with effect from 2 November 2016.

ĽUDOVÍT ÓDOR
Member

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 banking analyst, 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. He was elected to the Supervisory Board of Slovenská sporiteľňa on 1 January 2017, as an independent member. Following his appointment to the post of Deputy Governor of the National Bank of Slovakia, he resigned from the Bank's Supervisory Board with effect from 19 February 2018.

BEATRICA MELICHÁROVÁ
Supervisory Board Member elected by employees

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 took a full-time role leading 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. Employees first elected her a member of the Supervisory Board of Slovenská sporiteľňa elected in 2003. She was then repeatedly re-elected, most recently on 19 December 2013. She left the Supervisory Board at the end of her regular term of office on 19 December 2018.

Effective as of 4 February 2019, Mr. Paul Formanko was elected member of the Supervisory Board by the General Meeting (in the form of a sole shareholder decision) as an independent member.

The Bank is also in the process of conducting an election for an employee-elected Supervisory Board Member to replace Beatrica Melichárová, whose term of office ends on 19 December 2018.

ANNEXES

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 2018

(Translated version, original version in Slovak)

Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of
Slovenská sporiteľňa, a.s.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Slovenská sporiteľňa, a.s. and its subsidiaries (together the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 21 February 2019.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss for the year ended 31 December 2018;
- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the consolidated financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

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The firm's ID No. (IČO): 35 739 347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018 are disclosed in Note 7 to the consolidated financial statements.

Our audit approach

Overview

Overall Group materiality is EUR 13.2 million and was estimated based on a combination of two benchmarks, pre-tax profit from continuing operations (5%) and total equity (1%) of Slovenská sporiteľňa, a.s. on a standalone entity basis, each carrying a 50% weight.

We focused our audit work on Slovenská sporiteľňa, a.s. which is the most material consolidated reporting unit. Slovenská sporiteľňa, a.s. as a standalone reporting unit represents approximately 99.8% of the Group's total assets as at 31 December 2018 and 98.1% of the Group's net result for the year.

The audit of the credit loss allowances required our significant attention given the nature of this estimate and its significance to the consolidated financial statements.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

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Overall Group materiality	EUR 13.2 million
How we determined it	We based the materiality on a combination of two benchmarks, pre-tax profit from continuing operations and total equity of Slovenská sporiteľňa, a.s. on a standalone entity basis, each carrying 50% weight.
Rationale for the materiality benchmark applied	The performance of the Group is most commonly evaluated by financial statements' users based on the Group's profitability. However, the Group's capital is also an important indicator for many users of the financial statements and shareholder return is commonly expressed relative to the amount of the Group's capital, that is, as a return on equity. The quantitative thresholds of approximately 5% applied to pre-tax profit from continuing operations and 1% applied to total equity, which in our experience represent acceptable benchmarks.

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.

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances estimate	
As explained in Note 21, Note 22 and Note 24 to the consolidated financial statements, management estimated total credit loss allowances for loans and advances to customers, finance lease receivables and trade and other receivables amounted to EUR 354,084 thousand. The carrying value of loans and advances to customers, finance lease receivables and trade and other receivables measured at amortised costs may be materially misstated if individual or collective credit loss allowances are not appropriately identified and estimated. The estimates required for credit loss allowances are significant estimates, as explained in more detail in the Note *Significant accounting judgements, assumptions and estimates* of the consolidated financial statements. The identification of significant increase in credit risk or default; the estimation of	We assessed and tested design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans. We tested design and operating effectiveness of IT general controls, including access to programs and data, program changes and computer operations related to quantification of credit loss allowances. We verified that models used for accurate quantification of credit loss allowances are in line with IFRS 9 requirements. A sample of individually significant loan exposures was examined, in order to test accuracy of credit loss allowances calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows, by comparing them to historical performance of the customer and expected future performance as well as assessing external and internal valuations of underlying collaterals and comparing them to values used by management in the impairment quantification. On a sample basis, we assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the

Key audit matter	How our audit addressed the Key audit matter
credit loss including estimates of future cash flows and valuation of collateral; implementation of comprehensive credit models - all involve significant management judgement. Due to the significance of the amount of the credit loss allowances and material impact of creation and release of credit loss allowances on the net result for the year, we consider the credit loss allowances estimate as a key audit matter.	Group to estimate collective credit loss allowances for loans that share similar credit risk characteristics. The underlying models were assessed by our experts for financial risk management and modelling. They assessed the design and implementation of models in line with applicable reporting standards, including shifts to risk parameters due to the impact of forward looking information and accuracy of collective credit loss allowances. Our experts reviewed a validation process implemented by the Group and interpreted results of the validation report. Based on the procedures performed, we identified no material adjustments to the credit loss allowances and related impact on the net result for the year.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed. Slovenská sporiteľňa, a.s. as a standalone reporting unit represents approximately 99.8% of the Group's total assets as at 31 December 2018 and 98.1% of the Group's net result for the period. We focused our audit work on Slovenská sporiteľňa, a.s. which is the most material consolidated reporting unit. Except for Slovenská sporiteľňa, a.s., we did not identify other significant reporting units where full-scope audit procedures were performed.

Reporting on other information in the consolidated annual report

Management is responsible for the consolidated annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"), the Slovak Act on Stock Exchanges No. 429/2002 as amended and the Slovak Act on Securities and Investment Services No. 566/2001 as amended. The consolidated annual report comprises (a) the consolidated financial statements and (b) other information.

Our opinion on the consolidated financial statements does not cover the other information in the consolidated annual report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated annual report for the year ended 31 December 2018 is consistent with the consolidated financial statements; and
- the consolidated annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

Reporting on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group on 27 March 2017. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of two years.

Slovenská komora audítorov SKAU Č. licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Mgr. Martin Gallovič
UDVA licence No. 1180

Bratislava, 21 February 2019, except for the section "Reporting on other information in the consolidated annual report" of this report, for which the date of our report is 18 March 2019.

Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

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Consolidated statement of profit or loss

for the year ended 31 December 2018

EUR ths.	Notes	2017	2018
Net interest income	1	439 290	437 828
Interest income		471 999	471 042
Other similar income		x	8 291
Interest expense		(32 709)	(29 596)
Other similar expense		x	(11 909)
Net fee and commission income	2	112 708	128 821
Fee and commission income		135 950	155 765
Fee and commission expense		(23 242)	(26 944)
Dividend income	3	1 086	1 044
Net trading result	4	13 773	9 669
Gains/losses from financial instruments measured at fair value through profit or loss	5	(514)	2 145
Net result from equity method investments		2 123	1 673
Rental income from investment properties & other operating leases	6	325	310
Personnel expenses	7	(140 919)	(141 810)
Other administrative expenses	7	(96 980)	(96 504)
Depreciation and amortisation	7	(44 766)	(42 787)
Gains/losses from financial instruments not measured at fair value through profit or loss		301	x
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss		x	(93)
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(30 074)	x
Impairment result from financial instruments	9	x	(23 522)
Other operating result	10	(39 794)	(40 158)
thereof Levies on banking activities		(30 128)	(33 030)
Pre-tax profit from continuing operations		**216 559**	**236 616**
Taxes on income	11	(52 660)	(52 932)
Net result for the period		**163 899**	**183 684**
Net result attributable to non-controlling interests		**19**	**16**
Net result attributable to owners of the parent		**163 880**	**183 668**

Earnings per share

EUR ths.	2017	2018
Net result attributable to owners of the parent (in EUR ths.)	163 880	183 668
Number of outstanding shares (in pcs.)	212 000	212 000
Earnings per share (in EUR)	**773**	**866**

Diluted earnings per share equal to the disclosed basic earnings per share.

The notes on pages 81 to 201 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

EUR ths.	2017	2018
Net result for the period	**163 899**	**183 684**
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Remeasurement of net liability of defined pension plans	174	(199)
Fair value changes of equity instruments at fair value through other comprehensive income	x	11 330
Deferred taxes relating to items that may not be reclassified	128	(2 338)
Total	**302**	**8 793**
Items that may be reclassified to profit or loss		
Available for sale reserve	13 769	x
Gain/loss during the period	14 101	x
Reclassification adjustments	(332)	x
Currency translation	409	(71)
Deferred taxes relating to items that may be reclassified	(2 888)	-
Gains/losses during the period	(2 958)	-
Reclassification adjustments	70	-
Total	**11 290**	**(71)**
Total other comprehensive income	**11 592**	**8 722**
Total comprehensive income	**175 491**	**192 406**
Total comprehensive income attributable to non-controlling interests	**19**	**16**
Total comprehensive income attributable to owners of the parent	**175 472**	**192 390**

The notes on pages 81 to 201 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2018

EUR ths.	Pozn.	31.12.2017	31.12.2018
Assets			
Cash and cash balances	12	424 229	416 093
Financial assets held for trading		36 484	42 941
Derivatives	13	36 484	42 941
Financial assets at fair value through profit or loss	14	5 602	x
Non-trading financial assets at fair value through profit or loss	15	x	29 242
Equity instruments		x	5 620
Debt securities		x	23 622
Financial assets available for sale	16	1 020 620	x
thereof pledged as collateral		191 439	x
Financial assets at fair value through other comprehensive income	17	x	56 395
Equity investments		x	56 395
Financial assets held to maturity	18	2 644 402	x
thereof pledged as collateral		59 010	x
Loans and receivables to credit institutions	19	177 616	x
Loans and receivables to customers	20	11 719 733	x
thereof pledged as collateral		1 462 588	x
Financial assets at amortised cost	21	x	16 380 498
thereof pledged as collateral		x	1 905 870
Debt securities		x	3 550 631
Loans and advances to banks		x	47 796
Loans and advances to customers		x	12 782 071
Finance lease receivables	22	x	129 516
Hedge accounting derivatives	23	6 761	9 905
Property and equipment	28	149 564	141 963
Investment property	28	2 031	1 879
Intangible assets	29	55 457	39 041
Investments in subsidiaries and associates	25	31 123	31 662
Current tax assets	26	10 634	4 639
Deferred tax assets	26	33 711	44 968
Trade and other receivables	24	x	95 952
Other assets	27	25 145	18 212
Total assets		**16 343 112**	**17 442 906**
Liabilities and Equity			
Financial liabilities held for trading		33 344	41 062
Derivatives	13	33 344	41 062
Financial liabilities measured at amortised cost	30	14 624 693	15 742 939
Deposits from banks		488 564	251 300
Deposits from customers		12 477 892	13 653 163
Debt securities in issue		1 567 216	1 803 287
Other financial liabilities		91 021	35 189
Hedge accounting derivatives	23	42 100	41 348
Provisions	31	25 067	20 677
Current tax liabilities	26	1	91
Other liabilities	32	82 236	83 444
Total liabilities		**14 807 441**	**15 929 561**
Equity attributable to non-controlling interests		31	28
Equity attributable to owners of the parent	33	1 535 640	1 513 317
Subscribed capital		212 000	212 000
Additional paid-in capital		150 000	150 000
Retained earning and other reserves		1 173 640	1 151 317
Total equity		**1 535 671**	**1 513 345**
Total liabilities and equity		**16 343 112**	**17 442 906**

The notes on pages 81 to 201 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2018

EUR ths.	Subscribed capital	Other capital instruments	Legal reserve fund	Other funds	Retained earnings	Available for sale reserve	Fair value 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 1.1.2017	**212 000**	**150 000**	**79 795**	**39 326**	**998 138**	**106 303**	**x**	**(386)**	**(782)**	**(22 326)**	**1 562 068**	**36**	**1 562 104**
Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNC5	-	-	-	-	(202 195)	-	x	-	-	-	(202 195)	(24)	(202 219)
Reclassification	-	-	-	(222)	222	-	x	-	-	-	-	-	-
Other changes	-	-	-	-	295	-	x	-	-	-	295	-	295
Total comprehensive income	**-**	**-**	**-**	**-**	**163 880**	**13 769**	**-**	**409**	**174**	**(2 760)**	**175 472**	**19**	**175 491**
Net result for the period	-	-	-	-	163 880	-	x	-	-	-	163 880	19	163 899
Other comprehensive income	-	-	-	-	-	13 769	-	409	174	(2 760)	11 592	-	11 592
Change from remeasurement of defined pension plans	-	-	-	-	-	-	x	-	174	-	174	-	174
Change in revaluation reserve	-	-	-	-	-	13 769	x	-	-	-	13 769	-	13 769
Change in currency translation reserve	-	-	-	-	-	-	x	409	-	-	409	-	409
Change in tax	-	-	-	-	-	-	x	-	-	(2 760)	(2 760)	-	(2 760)
As of 31.12.2017	**212 000**	**150 000**	**79 795**	**39 104**	**960 340**	**120 072**	**x**	**23**	**(608)**	**(25 086)**	**1 535 640**	**31**	**1 535 671**

EUR ths.	Subscribed capital	Other capital instruments	Legal reserve fund	Other funds	Retained earnings	Available for sale reserve	Fair value 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 31.12.2017	**212 000**	**150 000**	**79 795**	**39 104**	**960 340**	**120 072**	**x**	**23**	**(608)**	**(25 086)**	**1 535 640**	**31**	**1 535 671**
Changes of initial application of IFRS 9	-	-	-	-	3 683	(120 200)	31 133	-	128	25 215	(60 041)	-	(60 041)
Restated balance as of 1 January 2018	**212 000**	**150 000**	**79 795**	**39 104**	**964 023**	**x**	**31 133**	**23**	**(480)**	**x**	**1 475 598**	**31**	**1 475 629**
Dividends paid / Distribution for Investment certificate 2015 SLSP AT1 PNC5	-	-	-	-	(154 538)	x	-	-	-	x	(154 538)	(19)	(154 557)
Other changes	-	-	-	-	(133)	x	-	-	-	x	(133)	-	(133)
Total comprehensive income	**-**	**-**	**-**	**-**	**183 668**	**-**	**8 951**	**(71)**	**(158)**	**-**	**192 390**	**16**	**192 406**
Net result for the period	-	-	-	-	183 668	x	-	-	-	x	183 668	16	183 684
Other comprehensive income	-	-	-	-	-	-	8 951	(71)	(158)	-	8 722	-	8 722
Change from remeasurement of	-	-	-	-	-	x	-	-	(158)	x	(158)	-	(158)
Change in revaluation reserve	-	-	-	-	-	x	8 951	-	-	x	8 951	-	8 951
Change in currency translation	-	-	-	-	-	x	-	(71)	-	x	(71)	-	(71)
As of 31.12.2018	**212 000**	**150 000**	**79 795**	**39 104**	**993 020**	**x**	**40 084**	**(48)**	**(638)**	**x**	**1 513 317**	**28**	**1 513 345**

The notes on pages 81 to 201 are an integral part of these consolidated financial statements.

In 2017 Deferred tax was disclosed separately and related to items Available for sale reserve and Remeasurement of net liability of defined pension plans. After the transition to IFRS 9 management of the Group decided to include Deferred tax into Fair value reserve and Remeasurement of net liability of defined pension plans. Impact of initial application of IFRS 9 on equity is explained in the note Be).

Currency translation contains changes from Euro conversion (Skk to Eur) in 2009 and the movement during the year 2017 and 2018 includes impact from associate Holding Card Service, spol. s r.o., which use functional currency Czk.

Consolidated statement of cash flows

for the year ended 31 December 2018

EUR ths.	2017	2018
Profit before income taxes	**216 559**	**236 616**
Adjustments for:		
Loss allowances for loans and advances, Provisions for off-balance sheet	72 834	23 641
Provisions for liabilities and other liabilities	9 799	(461)
Impairment of tangible and intangible assets net	(786)	470
Depreciation and amortisation	44 766	42 787
Profit/(loss) on disposal of fixed assets	3 879	2 151
Transfer of interest for financing activity	16 098	14 102
Transfer of interest for investing activity	(88 583)	(108 762)
Cash flows from operations before changes in operating assets and liabilities	**274 566**	**210 544**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	79 276	(1 034)
Financial assets held for trading	8 330	(6 457)
Financial assets at fair value through profit or loss	516	x
Non-trading financial assets at fair value through profit or loss	x	(157)
Debt securities	x	(157)
Financial assets - available for sale	56 470	x
Financial assets at fair value through other comprehensive income:	x	(256)
Financial assets held to maturity	83 223	x
Loans and receivables to credit institutions	(118 652)	x
Loans and receivables to customers	(1 542 084)	x
Financial assets at amortised cost	x	(1 027 335)
Debt securities	x	75 141
Loans and advances to banks	x	129 820
Loans and advances to customers	x	(1 232 296)
Finance lease receivables	x	(52 575)
Hedge accounting derivatives	944	(3 144)
Trade and other receivables	x	(27 163)
Other assets from operating activities	(11 257)	12 866
Increase / (decrease) in operating liabilities:		
Financial liabilities held for trading	(9 468)	7 718
Financial liabilities measured at amortised cost	1 394 975	882 175
Deposits from banks	210 371	(237 269)
Deposits from customers	1 093 583	1 175 276
Other financial liabilities	91 021	(55 832)
Hedge accounting derivatives	(10 289)	(752)
Provisions	(4 253)	(1 063)
Other liabilities from operating activities	(71 661)	(6 335)
Net cash flows provided by / (used in) operating activities before income tax	**130 636**	**(12 968)**

EUR ths.	2017	2018
Net cash flows provided by / (used in) operating activities before income tax	**130 636**	**(12 968)**
Income taxes paid	(69 814)	(42 459)
Net cash flows provided by / (used in) operating activities	**60 822**	**(55 427)**
Cash flows from investing activities		
Dividends received from subsidiaries, associates and other investments	2 063	20
Purchase of share in subsidiaries and associates	-	(6)
Purchase of intangible assets, property and equipment	(21 755)	(23 015)
Proceeds from sale of intangible assets, property and equipment	3 337	1 777
Net cash flows provided by / (used in) investing activities	**(16 355)**	**(21 224)**
Cash flows from financing activities		
Dividends paid	(202 195)	(154 538)
Drawing of subordinated debt	-	15 762
Repayment of subordinated debt	-	(22 876)
Interest paid on subordinated debt	(1 001)	(976)
Issue of the bonds	411 148	581 842
Repayment of the bonds	(161 839)	(343 201)
Interest paid to the holders of the bonds	(14 596)	(8 582)
Net cash flows provided by / (used in) financing activities	**31 517**	**67 431**
Effect of foreign exchange rate changes on cash and cash equivalents	(433)	51
Net increase / (decrease) in cash and cash equivalents	**75 551**	**(9 169)**
Cash and cash equivalents at beginning of period	**348 040**	**423 590**
Cash and cash equivalents at end of period	**423 591**	**414 421**
Operational cash flows from interest and dividends		
Income taxes paid	(69 814)	(42 459)
Interest paid	(22 813)	(15 745)
Interest received	428 057	470 664
Dividends received	1 008	998

The notes on pages 81 to 201 are an integral part of these consolidated financial statements.

Cash and cash equivalents are equal to cash in hand, cash balances at central banks and other demand deposits. During the years 2018 and 2017 there were no significant non-cash movements from investing and financing activities.

Notes to the consolidated financial statements

A. GENERAL INFORMATION

Slovenská sporiteľňa, a.s. (hereafter 'the Bank' or 'the Group') 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. The tax identification number of the Bank 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 of 31 December 2018, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ('ERSTE Foundation'), a foundation, holds together with its partners to shareholder agreements approximately 29,99% (2017:29,62%) of the shares in Erste Group Bank AG and is with 16,21% (2017: 15,62%) main shareholder. The Erste Foundation is holding 6,50% (2017: 6,50%) of the shares directly, the indirect participation of the ERSTE Foundation amounts to 9,71% (2017: 9,12%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated company of the ERSTE Foundation. 0,78% (2017:1,00%) are held directly by Austrian savings banks respectively saving banks foundations acting together with the ERSTE Foundation and affiliated with Erste Group Bank AG through the Haftungsverbund. 9,92% (2017:9,92%) of the subscribed capital is held by the ERSTE Foundation on the basis of a shareholder agreement with CaixaBank S.A. 3,08% (2017: 3,08%) are held by other partners to other shareholder agreements. The financial statements of Erste Group Bank AG (the parent) will be available after their completion on the Austrian court Firmenbuchgericht Wien, Marxergasse 1a, Vienna 1030.

The Board of Directors of the Group had five members as at 31 December 2018:
Ing. Peter Krutil (chairman), Mag. Alexandra Habeler-Drabek (member), Mgr., Ing. Zdeněk Románek, MBA (member),
Ing. Pavel Cetkovský (member) a RNDr. Milan Hain, PhD. (member).

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 Group had four members as at 31 December 2018:
Mag. Gernot Mittendorfer (chairman), Mag. Jan Homan (vice-chairman), Mgr. Tatiana Knošková (member) and
Mgr. Alena Adamcová (member).

Effective from 4 February 2019 the General Meeting of the Group (in the form of a single shareholder's decision) selected a member of the Supervisory Board Mr. Paul Formanko, MBA as an independent member. There is also an internal process of election for the new member of the Supervisory Body performed by the employees for the vacant position created after the administration period of JUDr. Beatrica Melichárová terminated on the 19 December 2018.

The Group 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 Group 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 25.

B. SIGNIFICANT ACCOUNTING POLICIES

a) 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 consolidated financial statements of the Group for the year ended 31 December 2018 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 these consolidated financial statements if they were applicable as at the presented balance sheet date. Information on application of new and amended IAS / IFRS standards are detailed in the note f).

b) 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. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2018, which were signed and authorised for issue by the Board of Directors of the Bank on 13 February 2019 and are available at its registered office or on the web page.

The Group's consolidated financial statements the prior period (the year ended 31 December 2017) were signed and authorised for issue on 13 February 2018.

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 and liabilities held for trading, financial assets and liabilities at fair value through profit or loss, financial assets and liabilities at fair value through other comprehensive income, as well as hedging derivatives and related hedged items, 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 (Eur), which is the functional currency of the Group besides the associate Holding Card Service, spol. s r.o., which has Czech crown (Czk) as functional currency. 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 statements are those presented in the Consolidated statement of financial positions as at 31 December 2017 and the Consolidated statement of profit or loss and and the Consolidated statement of other comprehensive income for the year ended 31 December 2017.

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'.

c) 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 2018.

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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and 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

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 2018 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.

Changes in the scope of consolidation during 2018 and 2017

The group structure of Slovenská sporiteľňa, a.s. is presented in the note 25. 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 2018 and 2017.

d) Accounting and measurement methods

IFRS 9 Financial Instruments implementation impact

As at 1 January 2018 the Group has applied IFRS 9 Financial Instruments as issued by IASB in July 2014. This application caused changes in the accounting methods related to classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9: Financial instruments significantly modifies IFRS 7: Financial Instruments: Disclosures, and therefore the disclosures for financial instruments were revised.

According to the transition provisions of IFRS 9 the Group has decided not to adjust information published for the previous period. As a result, the comparative figures in the financial statements for the year 2018 are presented in the structure of financial statements as dislosed in consolidated financial statements for the year ended 31 december 2017. Disclosures in Notes to financial statements related to comparative period are prepared in accordance with the original classification and measurement as required by IAS 39 (predecessor of IFRS 9) and IFRS 7 (before changes related to implementation of IFRS 9). Because of this transition the accounting and measurement methods as required by IAS 39 are also presented. The Group has decided to continue with full application of the hedge accounting requirements according to IAS 39, as permitted by IFRS 9.

I. CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table presents the changes in measurement categories and carrying amounts according IAS 39 and IFRS 9 on transition to IFRS 9 on 1 January 2018. In order to present the impact of application, the changes are disclosed based on original structure of balance sheet as required by IAS 39:

EUR ths.	Original classification under IAS 39		New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
	Portfolio	Measurement method	Measurement method		
Financial assets					
Cash and cash balances	Amortised cost	AC	Amortised cost	424 229	424 229
Derivatives	Held-for-trading	FVTPL	Held-for-trading (FVTPL)	36 484	36 484
Derivatives - hedge accounting	Hedge accounting	FV	Hedge accounting	6 761	6 761
Loans and recivables to credit institutions	Loans and receivables	AC	Amortised cost	177 616	177 616
Loans and recivables to customers	Loans and receivables	AC	Amortised cost	11 574 003	11 575 799
Loans and recivables to customers	Loans and receivables	Finance Lease	Finance Lease	76 941	76 941
Loans and recivables to customers	Loans and receivables	Trade receivables and other receivables (AC)	Trade receivables and other receivables (AC)	68 789	68 789
Financial assets - available for sale (Debt instruments)	AFS	FVTOCI	Amortised cost	972 734	894 339
Financial assets - available for sale (Equity instruments)	AFS	FVTOCI	FVTPL	3 077	3 077
Financial assets - available for sale (Equity instruments)	AFS	FVTOCI	FVTOCI	44 808	44 808
Financial assets - held to maturity	Held-to-maturity	AC	Amortised cost	2 624 336	2 624 335
Financial assets - held to maturity	Held-to-maturity	AC	Mandatorily at FVTPL	20 065	20 406
Financial assets - at fair value through profit at loss	FV option	FVTPL	Mandatorily at FVTPL	5 602	5 602
Total financial assets				**16 035 446**	**15 959 187**
Financial liabilities					
Derivatives	Held-for-trading	FVTPL	Held-for-trading (FVTPL)	33 344	33 344
Derivatives - hedge accounting	Hedge accounting	FV	Hedge accounting	42 100	42 100
Financial liabilities - measured at amortised cost	AC	AC	Amortised cost	14 624 693	14 624 693
Total financial liabilities				**14 700 136**	**14 700 136**

II. RECONCILIATION OF CARRYING AMOUNTS OF FINANCIAL ASSETS ACCORDING CAGETORIES

The following table presents relevant changes related to transition to IFRS 9 on 1 January 2018:

EUR ths. **Oceňovacia kategória**	**IAS 39 carrying amount as at 31.12.2017**	**Reclassifications +/-**	**Remeasurement +/- (effects of both revaluation and impairment changes)**	**IFRS 9 carrying amount as at 1.1.2018**	**Retained earnings effects +/-**	**OCI effects +/-**
Amortised cost	**14 889 039**	**-**	**-**	**14 889 039**	**-**	**-**
Additions:						
from IAS39 FVTOCI (AFS)	-	972 734	(78 395)	894 339	281	78 115
from IAS 39 AC (L&R, HTM) (impairment remeasurement)	-	-	1 795	1 795	(1 795)	-
Subtractions:						
to IFRS 9 Mandatorily at FVTPL (IAS 39: HTM)	-	(20 065)	-	(20 065)	-	-
Total change to Amortised cost	**-**	**952 669**	**(76 600)**	**876 069**	**(1 515)**	**78 115**
Amortised cost balances, reclassification and remeasurement at 1.1.2018	**14 889 039**	**952 669**	**(76 600)**	**15 765 108**	**(1 515)**	**78 115**
Fair value through other comprehensive income	**1 020 620**	**-**	**-**	**1 020 620**	**-**	**-**
Fair value through other comprehensive income - debt instruments	**972 734**	**-**	**-**	**972 734**	**-**	**-**
Subtractions:						
to IFRS 9 AC (IAS 39: AFS)	-	(972 734)	-	(972 734)	-	-
Subtotal change to Fair value through other comprehensive income - debt instruments	**-**	**(972 734)**	**-**	**(972 734)**	**-**	**-**
Fair value through other comprehensive income - equity instruments	**47 886**	**-**	**-**	**47 886**	**-**	**-**
Subtractions:						
to IFRS 9 FVTPL (IAS 39: AFS)	-	(3 077)	-	(3 077)	-	-
Subtotal change to Fair value through other comprehensive income - equity instruments	**-**	**(3 077)**	**-**	**(3 077)**	**-**	**-**
Total change to Fair value through other comprehensive income	**-**	**(975 812)**	**-**	**(975 812)**	**-**	**-**
Fair value through other comprehensive income balances, reclassification and remeasurement at 1.1.2018	**1 020 620**	**(975 812)**	**-**	**44 808**	**-**	**-**
Fair value through Profit or Loss	**42 085**	**-**	**-**	**42 085**	**-**	**-**
Additions:						
from IAS39 AC (HTM, IFRS 9: Mandatorily at FVTPL)	-	20 065	341	20 406	(341)	-
from IAS39 FVTOCI (Equity instruments: AFS)	-	3 077	-	3 077	(2 393)	2 393
Total change to Fair value through Profit or Loss	**-**	**23 143**	**341**	**23 483**	**(2 734)**	**2 393**
Fair value through Profit or Loss balances, reclassification and remeasurement at 1.1.2018	**42 085**	**23 143**	**341**	**65 569**	**(2 734)**	**2 393**
Total Financial balances, reclassification and remeasurement at 1.1.2018	**15 951 744**	**-**	**(76 259)**	**15 875 485**	**(4 249)**	**80 508**

There was no change in classification or remeasurement in connection to implementation of IFRS 9 for financial liabilities.

The main drivers for changes in measurement categories resulting from new IFRS 9 classification and measurement requirements for financial assets are:

- Reclassification of debt instruments in amount of 972,7 mil. Eur that are currently classified as financial assets available for sale to amortised cost measurement category according to IFRS 9 due to fulfillment of held-to-collect business model. Such debt instruments also meets SPPI criteria for such measurement.

- Reclassification of two debt instruments in amount of 20,4 mil. Eur that are currently classified as financial assets held to maturity to fair value through profit or loss measurement category according to IFRS 9 due contractual features that do not meet criteria of solely payment of principal and interest.

- Reclassification of equity instruments in amount of 3,0 mil. Eur that are currently classified as non-trading financial assets at fair value through profit or loss measurement category according to IFRS 9 due to application of this standard.

Investments in shares fund were classified as property investments till the end of 2017. The main driver for classification was the economic substance, where share of participant represents the property of the fund. In 2018 the Group changed the classification of investment in shares funds to the debt security. The main driver of the change was the possibility of redemption, which meets the criteria for the definition of liability according IAS 32. According IAS 32 the investments in the fund are defined as debt security from both the issuer and the investor points of view. However the tables presenting the impact of transition to IFRS 9 do not contain movements between investment and debt securities, therefore the investment in the shares funds are presented as the debt security under IAS 32.

III. Reconciliation of impairment allowance

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017 to opening expected credit losses allowance determined according to IFRS 9 as at 1 January 2018:

EUR ths.	31.12.2017 (IAS 39/IAS 37)	Reclassifications +/-	Remeasurement +/-	1.1.2018 (IFRS 9)
Debt instruments at AC	(360 929)	15	1 651	(359 263)
Debt instruments at FVTOCI	-	-	-	-
Finance lease receivables	(737)	-	-	(737)
Trade and other receivables	(3 453)	-	-	(3 453)
Off-balance sheet exposures (loan commitments and guarantees given)	(15 091)	-	721	(14 369)
Total	**(380 209)**	**15**	**2 372**	**(377 823)**

IV. Impact of IFRS 9 on deferred tax assets and deferred tax liabilities

The following table presents impact of IFRS 9 on deferred tax assets and deferred tax liabilities:

EUR ths.	Closing balance as at 31.12.2017 (IAS39)	Opening balance as at 1.1.2018 (IFRS9)	Retained earnings effects +/-	OCI effects +/-
Changes in deferred tax assets (DTA)	33 711	50 143	(474)	16 907
Changes in deferred tax liabilities (DTL)	-	-	-	-

FINANCIAL INSTRUMENTS

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.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

I. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the contractual life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all the contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR (apart from financial instruments at fair value through profit or loss) and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ("POCI", see part 'Impairment of financial instruments under IFRS 9') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Under IAS 39 the EIR is applied to the gross carrying amount of the financial assets and, for financial assets which are individually impaired, to the amortised cost.

Interest expense is calculated by applying the effective interest rate to the amortised cost of a financial liability.

II. Fair value

Fair value is the price that would be received if an asset were sold or paid, if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities.

Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in note 41.

III. Initial recognition and measurement

Initial recognition

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 the settlement date, which is the date when an asset is delivered.

Initial measurement

Financial instruments are measured initially at their fair value including transaction costs. In case of financial instruments at fair value through profit or loss, for which transaction costs are not taken into consideration at initial measurement, are recognised directly in profit or loss. The fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets under IFRS 9

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

1) the business model for managing the financial assets - the assessment is focused on whether the financial asset is part of a portfolio,
   - where the assets are held in order to collect contractual cash flows,
   - to both collect the contractual cash flows and sell the assets, or
   - they are held in other business models,

2) the cash flow characteristics of the financial assets - the assessment is focused on whether 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 amount outstanding.

I. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows meet the SPPI criteria.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', ‘Finance lease receivables’, ‘Trade and other receivables’ and ‘Cash and cash balances’. Cash balances include only deposits against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line ‘Net interest income’ in the statement of income. Impairment gains or losses are included in the line ‘Impairment result from financial instruments’. Gains and losses from derecognition (such as sales) of the assets are reported under the line item ‘Other gains/losses from derecognition of financial Instruments not measured at fair value through profit of loss’.

The financial assets of the Group measured at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers, interbank lending business (including reverse repo transactions), deposits with central banks, amounts in the course of settlement, trade and other receivables. Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationship, substitution of loan business or other yield enhancement activities). Significant and frequent sales of such securities are not expected by the Group. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the “Business model assessment” part in chapter d) Significant accounting judgements, assumptions and estimates.

II. Financial assets at fair value through other comprehensive income

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. On the balance sheet they are included as ‘Debt securities’ under the line ‘Financial asset at fair value through other comprehensive income’.

Interest income on these assets is calculated using the effective interest method and is included under the line ‘Net interest income’ in the statement of income. Impairment gains and losses are recognised in profit or loss in the line ‘Impairment result from financial instruments’. As a result, the measurement impact recognised in profit or loss is the same as for financial assets measured at amortised cost.

The difference between the fair value at which the assets are carried in the balance sheet and the amortised cost component is recognised as accumulated OCI in equity specifically under ‘Fair value reserve’ in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line ‘Debt instruments at fair value through other comprehensive income’. However part of this change that relates to change in credit risk is subsequently reclassified from respective position in OCI into income statement position ´Impairment result from financial instruments´. When the financial asset is derecognised the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line ‘Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss’.

The Group classifies investments in debt securities as measured at FVOCI. They are part of ‘held to collect and sell’ business models. Similarly to debt instruments assets measured at amortised cost, they relate to different business objectives such as fulfilling internal/external liquidity risk requirements and an efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield enhancement activities. The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise the fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

For certain investments in equity instruments which are not held for trading, the Group can use the option to measure them at FVOCI. This election is made at initial recognition and is not revocable. This election is applied to strategic, significant banking business relationship investments (except for insurance business). The fair value gains or losses for the period are reported as OCI in the line ‘Fair value changes of equity instruments’ of the statement of comprehensive income. The cumulative gains or losses are included under ‘Fair value reserve’ in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. Dividends received on these investments are reported under the line ‘Dividend income’ of the statement of income. On the balance sheet financial assets measured at fair value through OCI are included as ‘Equity instruments’ under the line ‘Financial asset at fair value through other comprehensive income’.

III. Financial assets at fair value through profit or loss

There are different reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets.

Financial assets whose contractual cash flows are not considered as SPPI are automatically measured at FVPL.

Other source of FVPL measurement relates to financial assets which are part of residual business models, i.e. they are neither held to collect contractual cash flows, nor held either to collect contractual cash flows, or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. Such business models are typical of assets which are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales.

The Group also can use the option to designate some financial assets as measured at FVPL at initial recognition. Such a classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

On the balance sheet, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to customers'). Non-trading financial assets consist of two sub-categories disclosed in note 15, which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI or they are held as part of residual business models which are other than held for trading.

Investments in equity instruments which are held for trading (i.e. financial assets held by the trading function of the Group) are measured at FVPL. They are included in the balance sheet under the line 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments which are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the balance sheet under 'Non-trading financial assets at fair value through profit or loss', sub-item 'Equity instruments', sub-category 'mandatorily at fair value through profit or loss' in note 15.

In the statement of income, the profit or loss effects of financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' and is calculated by applying the EIR to the amortised cost component of the financial assets. The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income and they also include transaction costs and origination fees. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL. For investments in funds, which are not consolidated, the interest or dividend component is not separated from the fair value gains or losses.

IV. Classification and subsequent measurement of financial liabilities under IFRS 9

Financial liabilities are measured at amortised cost, if they are not measured at fair value through profit and loss.

V. Financial liabilities at amortised cost

For presentation on the balance sheet, the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

VI. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

Non-derivative financial liabilities held for trading are those which are incurred principally for the purpose of repurchasing them in the short term. Non-derivative held-for-trading liabilities are largely comprise short sales. On the balance sheet such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the statement of income.

The Group makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition if:

- such classification eliminates or significantly reduces an accounting discrepancy between the financial liability otherwise measured at amortised cost and the related derivative measured at FVPL; or
- the entire hybrid contract is designated at FVPL due to the existence of a non-closely related embedded derivative.

Financial liabilities designated at FVPL are reported on the balance sheet under the line item 'Financial liabilities designated at fair value through profit or loss' and are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Interest incurred is reported in the statement of income under the line item 'Net interest income'. Gains and losses resulting from changes in fair value are recognised net of the interest expense under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'.

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Liability own credit risk reserve' in the statement of changes in equity. The cumulative amount is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time. For the purpose of calculation of the present value of the liability, the original credit spread remains fixed over the whole life of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and at the beginning of the period.

Classification, subsequent measurement and balance sheet line items of financial instruments under IAS 39

As regards the comparative period information on financial instruments in accordance with IAS 39, 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, and

- financial liabilities measured at amortised cost.

The line items as presented on the balance sheet are not necessarily corresponding with the IAS 39 categories of financial instruments. The correspondence between the balance sheet line items and the categories of financial instruments is described below.

I. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

II. Derivative financial instruments

Please refer to the part Derivative financial instruments below.

III. Financial assets and financial liabilities held for trading

Financial assets and financial liabilities held for trading comprise derivatives described in part (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. In the balance sheet, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets / financial liabilities – held for trading'.

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

If securities purchased under an 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 within 'Other trading liabilities'.

IV. Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition as fair value option.

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, the performance of the portfolio is evaluated and regularly reported to the management board.

Financial assets designated at fair value through profit or loss are recorded on the balance sheet at fair value under the line item 'Financial assets at fair value through profit or loss', with changes in fair value recognised in the statement of income under the line item 'Gains/losses from financial assets and liabilities measured at fair value through profit or loss'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

The Group uses the fair value option in the case of some hybrid financial liabilities. This is relevant when:

- 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
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The change in the fair value resulting from changes in own credit risk from financial liabilities measured at FVPL is calculated by method described in IFRS 7 standard. This change represents difference between present value of liability and observed market price of liability at the end of period. The discount rate used for liability represents subtotal of actual interest rate (comparative) at the end of period and component on internal return specific for particular instrument established at the beginning of the period.

Financial liabilities designated at fair value through profit or loss are reported on the balance sheet under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the statement of income under the line item 'Gains/losses from financial assets and liabilities measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income'.

V. Financial assets available for sale

Available-for-sale financial assets include debt and equity securities as well as other interests in 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 that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. On the balance sheet, available-for-sale financial assets are disclosed under the line item 'Financial assets available for sale'.

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

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

VI. Financial assets held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported on the balance sheet as 'Financial assets held to maturity' if the Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

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

VII. Loans and receivables

The balance sheet line items 'Loans and receivables to financial institutions' and 'Loans and receivables to customers' include financial instruments which are allocated to the financial instrument category loans and receivables regardless of their contractual maturity. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under 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 Group 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, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter ‚Leasing'. Interest income earned is included under the line item 'Net interest income' in the statement of income.

Impairment losses arising from loans and receivables are recognised in the statement of income under the line item 'Net impairment loss on financial assets'.

Valuation of finance lease receivables is described in the chapter Leasing.

VIII. Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are presented on the balance sheet on the line item 'Financial liabilities measured at amortised cost' and are further broken down to '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 expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss', net.

Overview of financial Instruments and valuation methods in relation to individual balance sheet items

Balance sheet position	Measurement principle			Financial instrument category
	Fair value	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 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 which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

Impairment of financial instruments under IFRS 9

The Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments. The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Group distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset (as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

12-month expected credit loss is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in note 40.

The loss allowances decrease the value of the financial assets measured at amortised cost. i.e. for financial assets measured at amortised cost the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. For financial assets measured at FVOCI the change of credit risk (impairment loss) is recognised as part of revaluation of that asset and presented in accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity and presented under the line Retained earnings and other reserve on the balance sheet. Loss allowances for loan commitments and financial guarantees are presented under the balance sheet line item 'Provisions'.

For financial assets which are credit-impaired at initial recognition (purchased or originated credit-impaired – POCI - financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. As a result, no loss allowance is recognised at inception. Subsequently only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments are presented in the line item 'Impairment result from financial instruments'.

Impairment of financial assets and credit risk losses of contingent liabilities under IAS 39

The Group assesses as 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 group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred '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 interest or claim satisfaction of the credit exposure from the means securing such credit obligation);
- the obligor is subject to bankruptcy or similar creditor protection proceedings.

For assessment at portfolio level, the Group uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Group at the moment of default.

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.

Financial assets measured 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 the financial assets.

Reconciliation of changes in loss allowance accounts is presented in the notes 19 and 20. 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'.

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.

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.

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 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.

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'.

Write-offs of financial assets

The Group writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

Derecognition of financial instruments

I. Derecognition of financial assets

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

- the contractual rights to receive cash flows from the asset have

expired, or
- the Group transferred its contractual rights to receive cash flows from the asset to third party, or
- the Group has assumed 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:
  - it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - it 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.

II. Derecognition of financial liabilities

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

Derivative financial instruments

The Group uses different derivative financial Instruments. Derivatives used by the Group mainly include interest rate swaps and currency swaps, forwards, futures, interest rate options and currency options.

For presentation purposes derivatives are split into:
- Derivatives – held for trading
- Derivatives – hedge accounting

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those, which are not designated as hedging instruments for hedge accounting. They are presented in the balance sheet line item 'Derivatives' under the heading 'Financial assets / Financial liabilities held for trading'. All type of non-hedging derivatives regardless to their internal classification, i.e. both derivatives held in the trading book and banking book, are presented in this line item.

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

Derivatives – hedge accounting are those which are designated as hedging instruments in hedge accounting relationships fulfilling the conditions of IAS 39 (please refer to the Hedge Accounting part). On the balance sheet, they are presented in the line item 'Hedge accounting derivatives' on the asset or liability side.

Changes in the fair value (clean price) of derivatives – held for trading are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related both to held-for-trading and hedging derivatives is presented in the statement of income under the line item 'Net interest income'.

The effective part of changes in the fair value (dirty price) of derivatives in cash flow hedges is reported as other comprehensive income in the line item 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated other comprehensive income is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective part of changes in the fair value (dirty price) of derivatives in cash flow hedges is reported in the statement of income under the line item 'Net trading result'.

Embedded derivatives

As a part of ordinary business activity the Group issues complex debt instruments, which contain embedded derivatives.

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

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item 'Derivatives' in financial assets held for trading and financial liabilities held for trading. Derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds containing interest caps, floors or collers, or contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

Repo transactions and reversal repo transactions

Transactions involving sales of securities under an agreement to repurchase them at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold in such transactions are not derecognised from the balance sheet, as the Group retains substantially all the risks and rewards of ownership, because the securities are repurchased at a fixed price when the repo transaction ends. Financial assets transferred to another person under a repurchase agreement remain in the Group's balance sheet and are measured according to the rules that are valid for the balance sheet item. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Group or are reflected in the repurchase price.

The cash received upon sale of securities is recognised on the balance sheet with a corresponding obligation to return under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the statement of income under the line item 'Net interest income' and is accrued over the life of the agreement.

Financial assets transferred out by the Group under repurchase agreements remain on the Group's balance sheet and are presented separately under the original balance sheet items in the 'thereof pledged as collateral' lines. The measurement of the transferred financial assets does not change.

Conversely, 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 under the line item 'Financial assets at amortised cost', sub-items 'Loans and advances to banks' and 'Loans and advances 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 interest income and is accrued over the life of the agreement and recorded in the statement of income under the line item 'Net interest income'.

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 duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lending. Securities lent are presented separately under the original balance sheet items in the 'thereof pledged as collateral' lines. Fee income from securities lending transactions is presented in the statement of income under the line 'Net fee and commission income'.

Securities borrowed are not recognised on the balance sheet unless they are then sold to third parties. The obligation to return the securities is recorded on the balance sheet as a short sale within 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. Fee expense incurred on securities borrowing transactions is presented in the statement of income in the line 'Net fee and commission income'.

Hedge accounting

The Group makes use of derivative instruments to hedge exposures to interest rate risk and foreign currency risk. In order for the derivatives and the exposures to qualify for hedge accounting, at inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Group are specified internally in the hedge accounting guidance. As permitted by the transitional provisions of IFRS 9, the Group has elected to continue to apply hedge accounting requirements of IAS 39.

The Group uses fair value hedges for decrease of market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the statement of income under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the statement of income under the line item 'Net trading result' and adjusts the carrying amount of the hedged item. Interest income / expenses from hedged item are recognised in the statement of income under the line item 'Net interest income'.

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported 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 on a net basis or to realise the asset and settle the liability simultaneously.

Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39 the financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a 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 in the position of being a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as collateral when determining the impairment of the guaranteed asset.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium. They are presented on the balance sheet under the line 'Provisions'. In the comparative period the financial guarantee contracts were reviewed for the possibility that provision recognition under IAS 37 was required. The premium received is recognised in the statement of income under the line item 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

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 at the Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at the Group are classified as operating leases.

I. The Group as a lessor

In the case of a finance lease the Group reports a receivable from the lessee under the line item 'Finance lease receivables'. 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 statement of income under the line item 'Net interest income'.

In the case of operating leases of the real estates, the leased asset is reported by the lessor in the balance sheet line item 'Investment property' and is depreciated in accordance with the principles applicable to the assets involved. Income from operating leases is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties and other operating leases'.

II. The Group as a lessee

As a lessee, the Group has not entered into any leasing contract meeting the conditions of finance leases.

As a lessee, the Group participates only in operational leasing contracts. Operating lease payments are recognised as an expense in the statement of income on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

Foreign currency translations

These consolidated 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 recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

For foreign currency translation, exchange rates quoted by the European Central Bank are used.

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 and 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 2017 and 2018
Own buildings and structures	30 years
Rented premises	per contract
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 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. 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 2017 and 2018
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'.

Defined employee pension plans

Defined employee pension 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 pension plans, whereas working anniversary benefits are other long-term employee pension plans.

Obligations resulting from the defined employee pension 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 remeasurement of net liability of defined pension plans and the amount of respective provisions are disclosed in the note 31.

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.

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'. Information on provisions are detailed in the note 31.

Levies

The Group recognises a liability or a provision for the levy of selected bank institutions in according with IFRIC 21.

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.

Fiduciary assets

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

Dividends on ordinary shares

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

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 financial assets at amortised cost 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.

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 fees from lending business, payment services, securities transactions, as well as commissions from collective investment, custody and insurance products distribution.

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.

The Group provides services of insurance products distribution. Once the insurance contract is signed, the performance obligation is fulfilled and the Group is entitled for the transaction price. Transaction price consists of consideration received in the year when the insurance contract is signed and consideration received in the subsequent years. Consideration received in the first year is subject of claw backs in the current year or in the future. Considerations received in the subsequent years are variable considerations depending on the early cancellation of the insurance contract.

The Group shall include in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Dispite the performance obligation is fulfilled in the first year, variable consideration is recognized only once uncertainty is resolved. Based on IFRS 15, the Group recognizes fee and commission income from insurance products distribution on the ´cash flow basis´ subject to claw back adjustments.

III. Dividend income

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

This line item includes dividends 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 associates.

IV. Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. The net trading result also includes foreign exchange gains and losses.

This item also includes any ineffective portions recorded in fair value and cash flow hedge transactions.

V. Gains/losses from financial instruments measured at fair value through profit or loss

Under this line item the changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss are presented.

VI. Rental income from investment properties and 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.

Furthermore, restructuring provisions expenses may be part of personnel expenses (severance payments and jubilee obligations).

VIII. Other administrative expenses

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

Furthermore, the line item contains deposit insurance contributions expenses.

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 from derecognition of financial assets measured at amortised cost

This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/losses relate to derecognition of financial assets in Stage 3 they are included in the line item 'Impairment result from financial instruments'.

XI. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL, such as finance lease receivables or financial guarantees. However, if such gains/losses relate to financial assets in Stage 3 they are included in the line item 'Impairment result from financial instruments'.

XII. Impairment result from financial instruments

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, financial assets held to maturity and financial assets held for trading. 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.

Impairment result from financial instruments comprises impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies. The impairment result also includes recoveries on written-off financial assets. Moreover, gains/losses from derecognition of financial assets in Stage 3 are included as part of the impairment result.

XIII. Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Group's ordinary activities. Furthermore, levies on banking activities are considered as part of the other operating result.

Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. This item also includes any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. In the comparative period, other operating result also included income from the release of and expenses for allocations to provisions for credit risk.

The following line items in the statement of income which are relevant only for the comparative period:

XIV. 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 available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of the 'Net impairment loss on financial assets'.

XV. Net impairment loss on financial assets

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio level.

This line item also includes recoveries on written-off loans removed from the balance sheet.

e) Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of accounting judgements. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Group, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, the Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a decrease in the interest rates upon early termination or prepayment. The evaluation is normally performed on a portfolio level. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level prepayment fees and their acceptance by authorities.

For project financing loans the Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

The most critical area of SPPI judgements in the business of the Group comprises loans with interest mismatch features. Interest mismatches relate to floating rate financial assets (loans and some debt securities, also referred to as 'deals') where:

- the reference rate's – type of variable interest rate of tenor different to the rate reset frequency (such as 3-month EURIBOR for other than three month interest period,
- the interest rate is fixed prior to the start of the interest period (such as 3-month EURIBOR fixed 2 months before the interest period starts), or interest rate arise from average rates over previous periods,or
- combinations of these features.

For this purpose, the Group has developed a so called 'benchmark test' to assess whether the interest mismatch feature could result in contractual cash flows from financial assets that are significantly different from contractual cash flows from benchmark assets. The benchmark deal does not have the interest mismatch feature, but otherwise its terms correspond to the financial asset in the test.

For assets with interest mismatches resulting only from prior and average rates the SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month. This is supported by a quantitative analysis performed by the bank for this purpose.

The quantitative benchmark test is performed at the deal's initial recognition and uses 250 forward-looking simulations of future market interest rates over the life of the deal. Ratios between the simulated cash flows from the actual deal and the benchmark deal are calculated for each quarter (so called 'periodic cash flow ratio'), and cumulatively over the life of the deal ('cumulative cash flow ratio'). The 5% of outcomes with the highest deviations are considered as extreme and are disregarded. The significance threshold for the periodic cash flow ratio is set to 10%. If simulated cash flows of the tested deal in a specific quarter are less than 1% of the total cash flows over the life of the deal ('de minimis threshold') they are disregarded. For the cumulative cash flow ratio the quantitative significance threshold is set to 5%. If any of the two significance thresholds is breached, the benchmark test is not passed and the financial asset has to be measured at fair value through profit or loss.

Generally, the quantitative benchmark test results are more sensitive to the level of the periodic quantitative significance threshold compared to the cumulative one. Decreasing the periodic cash flow ratio threshold to 5% could lead to a significant increase in the volume of loans measured at fair value through profit or loss. The Group does not consider that lowering the threshold would properly capture those interest mismatch features which should lead to FVPL measurement since, based on a quantitative study performed for this purpose, it could lead fair value measurement even for loans which are generally deemed as basic lending agreements. The Group has prepared qualitative studies to document the accuraccy of significance threshold used as reasonable.

Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Group has to assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since the asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected and a different measurement method may seem to be appropriate. In accordance with IFRS 9 such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Group, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Group performs a prospective test. If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets in the portfolio would be classified in a different business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, the Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistic of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of different scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of prepayment possibilities and in respect of behavioural life of revolving credit facilities.

Under the IAS 39 incurred loss impairment model used for the comparative period, the Group reviewed 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 statement of income. In particular, this involved determining whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and estimating the amount and timing of future cash flows when determining an impairment loss.

From 1. January 2018 the new methodology for impairment of financial instruments was introduced under IFRS9. The Group applies staging with relevant credit risk parameters. IFRS 9 establishes a three stage approach for impairment of financial assets, based on whether there has been a significant deterioration in the credit risk of a financial asset. Disclosures on methodology for impairment of financial Instruments are described in note 40.

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 using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible. Where observable market data are not available judgement is required to establish fair values. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 41.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

f) 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 2018:

Effective standards and interpretations

The following standards, their amendments and interpretation have become mandatory for our financial year 2018, endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2014 2016 Cycle (amendments to IAS 28 and IFRS 1)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration

The effects of application of IFRS 9 and IFRS 15 are decribed in chapter d) Accounting and measurement methods' above. Otherwise application of the above mentioned amendments and interpretation did not have a significant impact on the Group's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 16: Leases
- Amendments to IFRS 9: Prepayment features with negative compensation
- IFRIC 23: Uncertainty over Income Tax Treatments

Following standards, amendments and interpretations have not yet been endorsed by the EU until the date of preparation of this financial statements:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

IFRS 16: Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Based on currently available information, the Group estimates at the transition date to IFRS 16 that the right of use assets and lease liabilities will increase the balance sheet by an amount of approximately 45,1 mil. Eur. All of the lease contracts refer to real estate. The effect of the CET 1 ratio is immaterial.

Amendments to IFRS 9: IFRS 9 "Financial Instruments" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. Application of these amendments is not expected to have a significant impact on Group's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments. (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. Application of the interpretation is not expected to have a significant impact on Group's financial statements.

Amendments to IFRS 3: Definition of a Business. Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 1 and IAS 8: Definition Material. Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures. Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginnig on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Annual Improvements to IFRSs 2015 - 2017 Cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). Application of these amendments is not expected to have a significant impact on Group's financial statements.

C. NOTES

1. Net interest income

EUR ths.	2017	2018
Interest and other similar income		
Financial assets at amortised cost	457 664	x
Financial assets - held to maturity	87 013	x
Loans and receivables	370 651	x
Financial assets at amortised cost	x	471 042
Demand deposits	x	7
Loans and advances	x	364 015
Debt securities	x	107 020
Financial assets measured at fair value through other comprehensive income	23 483	x
Financial assets - available for sale	23 483	x
Derivatives - hedge accounting, interest rate risk	(9 145)	x
Financial assets at fair value through profit or loss	(3)	x
Interest income	**471 999**	**471 042**
Non-trading financial assets at fair value through profit or loss	x	168
Financial assets - held for trading	x	14 511
Derivatives - hedge accounting, interest rate risk	x	(9 252)
Other assets	x	1 855
Negative interest from financial liabilities	x	1 009
Other similar income	**x**	**8 291**
Total interest income	**471 999**	**479 333**
Interest and other similar expenses		
Financial liabilities measured at amortised cost	(33 498)	(29 596)
Deposits	(17 421)	(13 805)
Debt securities in issue	(16 077)	(15 791)
Derivatives - hedge accounting, interest rate risk	860	x
Other liabilities	(71)	x
Interest expenses	**(32 709)**	**(29 596)**
Financial liabilities - held for trading	x	(13 433)
Derivatives - hedge accounting, interest rate risk	x	1 689
Other liabilities	x	(165)
Other similar expenses	**x**	**(11 909)**
Total Interest expenses	**(32 709)**	**(41 505)**
Net interest income	**439 290**	**437 828**

Interest income for the year 2018 included interests related to impaired financial assets in the amount of 8,1 mil. Eur (2017: 8,2 mil. Eur).

Interest income from hedging instruments relates to the hedged items presented in the line item 'Financial assets at amortised cost'. Interest expense from hedging instruments relates to the hedged items presented in the line item 'Financial liabilities measured at amortised cost'.

Negative interest from financial assets for the year 2018 amounted 0,1 mil. Eur (2017: 0,3 mil. Eur). Negative interest from financial liabilities for the year 2018 amounted 1,7 mil. Eur (2017: 1,5 mil. Eur). These amounts related to the business with financial institutions and are recognized under respective position of Net interest income. Moreover under position 'negative interest income from financial liabilities' is disclosed separately negative interest from deposit products with customers.

The line item ´Other similar income´ in 2018 additionally comprises interest income from derivative Instruments held for trading, which were in 2017 presented under the line item ´Net trading result´.

2. Net fee and commission income

EUR ths.	2017	2018
Fee and commission income		
Securities	2 476	1 895
Issuances	-	483
Transfer orders	1 484	308
Other	992	1 104
Asset management	7 753	7 876
Custody	718	1 176
Collective investment	497	418
Other	221	758
Payment services	91 464	97 116
Card business	36 066	37 842
Others	55 398	59 274
Customer resources distributed but not managed	16 700	26 613
Collective investment	570	-
Insurance products (as agent)	15 658	26 590
Other	472	23
Lending Business	16 327	20 399
Loan commitments given	87	3 846
Financial guarantees given	2 943	3 680
Other lending business	13 297	12 873
Other	512	690
Total	**135 950**	**155 765**
Fee and commission expense		
Securities	(837)	(779)
Transfer orders	-	(766)
Other	(837)	(13)
Custody	(525)	(837)
Payment services	(12 240)	(16 342)
Card business	(11 636)	(12 493)
Others	(604)	(3 849)
Customer resources distributed but not managed	(1 604)	(1 919)
Insurance products (as agent)	(1 604)	(1 919)
Lending Business	(8 006)	(7 032)
Financial guarantees received	-	(17)
Other lending business	(8 006)	(7 015)
Other	(30)	(35)
Total	**(23 242)**	**(26 944)**
Net fee and commission income	**112 708**	**128 821**

3. Dividend income

EUR ths.	2017	2018
Financial assets designated at fair value through profit or loss	375	-
Non-trading financial assets at fair value through profit or loss	x	715
Available-for-sale financial assets	711	x
Financial assets at fair value through other comprehensive income	x	329
Dividend income	**1 086**	**1 044**

4. Net trading 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 local banks within the 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.	2017	2018
Securities and derivatives trading	5 866	2 751
Foreign exchange transactions	7 611	7 122
Result from hedge accounting	296	(204)
Net Trading Result	**13 773**	**9 669**

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

The line item ´Securities and derivatives trading´ in 2018 does not comprise interest income from derivative instruments held for trading, which are recorded in Net interest income under the line item ´Other similar income´.

5. Gains / losses from financial instruments measured at fair value through profit or loss

EUR ths.	2017	2018
Result from measurement/sale of financial assets designated at fair value through profit or loss	(514)	-
Result from financial assets and liabilities designated at fair value through profit or loss	**(514)**	**-**
Result from measurement/sale of financial assets mandatorily at fair value through profit or loss	-	2 145
Gains/losses from financial instruments measured at fair value through profit or loss	**(514)**	**2 145**

6. Rental income from investment properties and other operating leases

EUR ths.	2017	2018
Investment properties	324	310
Other operating leases	1	-
Rental income from investment properties & other operating leases	**325**	**310**

Rental income is generated from rented premises classified as investment properties.
Operating leases included transactions provided by subsidiary Realitná spoločnosť Slovenskej sporiteľne, a.s. (100% subsidiary of Služby SLSP, s.r.o.), which ended its business activities during reported period of the year 2017.

7. General administrative expenses

EUR ths.	2017	2018
Personnel expenses	**(140 919)**	**(141 810)**
Wages and salaries	(101 903)	(102 042)
Compulsory social security	(35 348)	(34 883)
Long-term employee provisions	1 654	(250)
Other personnel expenses	(5 322)	(4 635)
Other administrative expenses	**(96 980)**	**(96 504)**
Deposit insurance contribution	(800)	(866)
IT expenses	(33 947)	(37 802)
Expenses for office space	(23 387)	(22 818)
Office operating expenses	(10 875)	(9 851)
Advertising/marketing	(14 885)	(14 620)
Legal and consulting costs	(3 607)	(3 754)
Sundry administrative expenses	(9 479)	(6 793)
Depreciation and amortisation	**(44 766)**	**(42 787)**
Software and other intangible assets	(24 925)	(23 469)
Owner occupied real estate	(10 921)	(10 692)
Investment properties	(223)	(211)
Office furniture and equipment and sundry property and equipment	(8 697)	(8 415)
General administrative expenses	**(282 665)**	**(281 101)**

As at 31 December 2018 the Group had 4 105 employees, thereof five members of the Board of Directors.
As at 31 December 2017 the Group had 4 250 employees, thereof five members of the Board of Directors.

Average number of employees in the year 2018 was 4 147 and in the year 2017 average number of employees was 4 228.

The Group is legally obliged to make a contribution to the Deposit Protection Fund, which is accounted for in accordance with the IFRIC 21. 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 2018.

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.	2017	2018
Audit fees	(505)	(489)
Other assurance services	(98)	(98)
Tax consulting services	-	-
Other non-audit services	(8)	(28)
Total	**(611)**	**(615)**

Other assurance services in the amount of 98 ths. Eur (2017: 98 ths. Eur) related to a review of the special-purpose standard reporting forms for the period ending 30 June 2018 and 30 June 2017. Other non-audit services in the amount of 28 ths. Eur (2017: 8 ths. Eur) related to agreed-upon procedures on the Group's compliance with the covenants of the loan agreement between the Group and the European Bank for Reconstruction and Development in 2018 and 2017; report on compliance with articles 71h - 71k of the Act No. 566/2001 Coll. on securities and investment services in 2018 and 2017; providing of general data used for human resources management in 2018 and providing of trainings of the general character in 2018.

8. Net impairment loss on financial assets not measured at fair value through profit or loss

EUR ths.	2017	2018
Loans and receivables	(30 024)	x
Allocation to risk provisions for loans and receivables	(305 885)	x
Release of risk provisions for loans and receivables	270 241	x
Direct write-offs of loans and receivables	(882)	x
Recoveries on written-off loans and receivables	6 502	x
Financial assets held to maturity	(50)	x
Total	**(30 074)**	**x**

9. Impairment result from financial instruments

EUR ths.	2017	2018
Financial assets at amortised cost	x	(26 018)
Net allocation to risk provisions	x	(29 293)
Direct write-offs	x	(1 260)
Recoveries recorded directly to the income statement	x	4 535
Finance lease	x	72
Net allocation of provisions for commitments and guarantees given	x	2 424
Net impairment loss on financial instruments	**x**	**(23 522)**

10. Other operating result

EUR ths.	2017	2018
Other operating expenses	**(70 234)**	**(40 743)**
Allocation to other provisions	(906)	(465)
Allocation to provisions for commitments and guarantees given	(28 070)	x
Levies on banking activities	(30 128)	(33 030)
Banking tax	(27 372)	(30 306)
Resolution fund	(2 756)	(2 724)
Other taxes	(208)	(216)
Losses from derecognition of tangible and intagible assets (other than goodwill)	(1 190)	(260)
Other	(9 732)	(6 772)
Other operating income	**30 440**	**585**
Release of other provisions	320	585
Release of provisions for commitments and guarantees given	24 519	x
Other	5 601	-
Other operating result	**(39 794)**	**(40 158)**

There are two significant items within other operating result for the year 2018 presented in the line item 'Levies on banking activities':

- levy of selected financial institutions ('bank tax') in the amount of 30,3 mil. Eur (2017: 27,4 mil. Eur);
- contribution to the National Resolution Fund ('resolution fund') in the amount of 2,7 mil. Eur (2017: 2,8 mil. Eur).

The Group is legally obliged to make a contribution to the National resolution fund ('Resolution fund'), which is accounted for in accordance with the IFRIC 21. Estimated amount of contribution is during the year recorded on the balance sheet line item 'Provisions'. When the actual amount of contribution is announced, the Group records the payment as utilisation of particular provision.

11. Taxes on income

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

EUR ths.	2017	2018
Pre-tax profit / loss	216 559	235 062
Statutory tax rate	21%	21%
Theoretical income tax expense	45 477	49 363
Impact of tax rate change	11	-
Impact of tax-exempt earnings	(2 864)	(1 579)
Impact of tax non-deductible expenses	10 281	5 086
Net impact of non-valued fiscal losses for the year	54	-
Current tax effects of foreign withholding taxes	(288)	-
Tax expenses / earnings not attributable to the reporting period	(11)	62
Total	**52 660**	**52 932**

EUR ths.	2017	2018
Current tax expense / income	(55 248)	(50 094)
current period	(55 248)	(50 094)
Deferred tax expense / income	2 588	(2 838)
current period	2 588	(2 838)
Total	**(52 660)**	**(52 932)**

Expiration of tax losses

EUR ths.	2017	2018
2018	2 098	-
2019	832	832
2020	768	769
2021	-	-
2022	-	-
Total	**3 698**	**1 601**

Tax losses carried forward represent results of the former subsidiaries, which were merged with the Bank during prior years.

Further information on tax assets and liabilities are disclosed in the note 26.

12. Cash and cash balances

EUR ths.	31.12.2017	31.12.2018
Cash on hand	369 787	407 193
Cash balances at central banks	640	1 704
Other demand deposits to credit institutions	53 802	7 196
Cash and cash balances	**424 229**	**416 093**

As at 31 December 2018 the balances at central banks included a mandatory reserve deposit in the amount of 1,7 mil. Eur (2017: 0,6 mil. Eur). For the period covering the year-end 2018 the prescribed average balance of the mandatory reserve deposit amounted 134,4 mil. Eur (2017: 123,0 mil. Eur) and the actual fulfilment was 100,05% (2017: 100,08%).

For the purpose of the Statement of cash flows, cash and cash equivalents include accounts with central banks and accounts with other credit institutions repayable on demand. The mandatory reserve deposit is excluded from cash and cash equivalents. This deposit is repayable on demand, however it is not used for a day-to-day operation, as the Group is required to meet a defined average balance during a monitored period.

13. Derivatives held for trading

EUR ths.	31.12.2017			31.12.2018		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**1 933 472**	**36 484**	**33 344**	**1 733 868**	**42 272**	**40 368**
Interest rate instruments and related derivatives	1 468 213	12 197	10 148	1 434 030	10 285	8 468
Equity instruments and related derivatives	72 744	345	345	1 451	-	-
Foreign exchange trading and related derivatives	361 508	23 774	22 686	298 387	31 987	31 900
Commodities and related derivatives	31 007	168	165	-	-	-
Derivatives held in the banking book	**-**	**-**	**-**	**65 771**	**669**	**693**
Interest rate instruments and related derivatives	-	-	-	-	-	-
Equity instruments and related derivatives	-	-	-	65 088	669	669
Foreign exchange trading and related derivatives	-	-	-	683	-	24
Total gross amounts	**1 933 472**	**36 484**	**33 344**	**1 799 639**	**42 941**	**41 061**

In banking book the Group disclosed derivative instruments that are used for economical hedging of financial Instruments on asset or liability side and are not designated as hedge accounting.

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.

14. 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.	31.12.2017	31.12.2018
Equity instruments	5 602	x
Financial assets at fair value through profit or loss	**5 602**	**x**

During 2017 the financial assets at fair value through profit or loss were presented under IAS 39. As part of transition to IFRS 9 the Group changed the presentation of financial Instruments that are now disclosed under 'Non-trading financial assets at fair value through profit or loss'.

15. Non-trading financial assets at fair value through profit or loss

EUR ths.	31.12.2017		31.12.2018	
	Designated at fair value	Mandatorily at fair value	Designated at fair value	Mandatorily at fair value
Equity instruments	x	x	-	5 620
Debt securities	x	x	-	23 622
Credit institutions	x	x	-	20 170
Other financial corporations	x	x	-	3 452
Non-trading financial assets at fair value through profit or loss	**x**	**x**	**-**	**29 242**

Debt securities classified under category ´Mandatorily at fair value´ represents financial assets, which do not comply with the SPPI criteria under IFRS 9. For ´Equity Instruments´ presented under category ´Mandatorily at fair value´ the Group apply the same criteria with combination of business model.

As a result of merger of investment in the company Poisťovňa SLSP, a. s. Vienna Insurance Group with insurance company KOOPERATIVA, a. s. effective as at 1 April 2018 the Group ceased to exist as the shareholder of the company Poisťovňa SLSP, a. s. Vienna Insurance Group. At the same date (1 April 2018) the Group acquired investment in company KOOPERATIVA poisťovňa, a. s. in the notional amount of 763 ths. Eur, which represents the share of 1,53% in the share capital of the company.
As at 31 December 2018 was this investment revalued to the fair value of 5,6 mil. Eur.

16. Financial assets available for sale

EUR ths.	31.12.2017	31.12.2018
Equity instruments	47 886	x
Debt securities	972 734	x
General governments	800 553	x
Credit institutions	51 204	x
Non-financial corporations	120 977	x
Financial assets at fair value through profit or loss	**1 020 620**	**x**

During 2017 the financial assets available for sale were presented under IAS 39. Due to implementation of new standard IFRS 9 these financial assets were reclasified to new portfolios as at 1st January 2018, note Bd) i, ii.

In January 2017 the Group sold its share in the company R.V.S., a.s., previously recognized in the line item "Financial assets - available for sale" at nill carrying amount. The sale proceeds amounted 0,3 mil. Eur.

In July 2017 the company S Rail Lease s.r.o. was established, in which the Group holds 3% share and the Group disclosed this investment in the line item "Financial assets - available for sale". As at 31 December 2017 financial assets available for sale measured at fair value amounted less than 0,1 mil. Eur and comprised of other equity investments in Burza cenných papierov v Bratislave, a.s. and S Rail Lease s.r.o.

As at 31 December 2017 the Group held the investment in Poisťovňa Slovenskej sporiteľne, a.s. VIG in the amount of 3,1 mil. Eur as a financial asset available for sale measured at fair value.

17. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include only Equity instruments in amount of 56,4 mil. Eur that the Group holds for strategic business decisions and are not subject to any impairment requirements. All the accumulated fair value movements for these investments are presented solely in other comprehensive income (OCI) with no subsequent presentation in Profit or loss at any time point allowed.

18. Financial assets held to maturity

EUR ths.	Gross carrying amount		Collective allowances		Net carrying amount	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
General governments	2 542 292	x	(238)	x	2 542 054	x
Credit institutions	92 205	x	(53)	x	92 153	x
Non-financial corporations	10 232	x	(37)	x	10 195	x
Financial assets held to maturity	**2 644 729**	**x**	**(328)**	**x**	**2 644 402**	**x**

During 2017 the financial assets held to maturity were presented under IAS 39. Due to implementation of new standard IFRS 9 these financial assets were reclassified to new portfolios as at 1st January 2018, note Bd) i, ii.

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

19. Loans and receivables to credit institutions

Loans and receivables to credit institutions

EUR ths. As of 31.12.2017	Gross carrying amount	Collective allowances	Net carrying amount
Loans and receivables			
Credit institutions	177 616	–	177 616
Loans and receivables to credit institutions	**177 616**	**–**	**177 616**

During 2017 loans and receivables to credit institutions were presented under IAS 39. As part of transition to IFRS 9 the Group changed the presentation of financial Instruments that are now disclosed under 'Financial assets at amortised cost – loans and advances to banks'.
The amounts represent the maximum exposure to credit risk.

As at 31 December 2017 the Group had no reverse repo agreements.

Allowances for loans and receivables to credit institutions

EUR ths.	1.1.2017	Allocations	Releases	31.12.2017
Collective allowances				
Loans and receivables				
Credit institutions	(36)	(599)	635	-
Total	**(36)**	**(599)**	**635**	**-**

20. Loans and receivables to customers

Loans and receivables to customers

EUR ths. As of 31.12.2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Loans and receivables				
General governments	209 500	(1)	(294)	209 206
Other financial corporations	95 196	(300)	(227)	94 669
Non-financial corporations	2 618 652	(86 957)	(16 407)	2 515 287
Households	9 161 175	(202 537)	(58 067)	8 900 571
Loans and receivables to customers	**12 084 523**	**(289 795)**	**(74 995)**	**11 719 733**

During 2017 loans and receivables to customers were presented under IAS 39. As part of transition to IFRS 9 the Group changed the presentation of financial instruments that are now disclosed under 'Financial assets at amortised cost – loans and advances to customers'.

Allowances for loans and receivables to customers

EUR ths.	1.1.2017	Alloca-tions	Use	Releases	Interest income from impaired loans	Other changes (+/-)	31.12.2017	Recove-ries of amounts previously written off	Amounts written off
Specific allowances	**(253 698)**	**(173 156)**	**9 272**	**123 504**	**8 214**	**(3 933)**	**(289 795)**	**6 502**	**(882)**
Loans and receivables									
General governments	(1)	-	-	-	-	-	(1)	-	-
Other financial corporations	(7)	(298)	3	1	-	-	(300)	-	-
Non-financial corporations	(94 663)	(27 277)	7 639	29 760	560	(2 977)	(86 957)	1 041	(141)
Households	(159 027)	(145 581)	1 630	93 743	7 654	(956)	(202 537)	5 461	(741)
Collective allowances	**(88 966)**	**(132 129)**	**41 420**	**146 100**	**-**	**(41 420)**	**(74 995)**	**-**	**-**
Loans and receivables									
General governments	(252)	(181)	-	139	-	-	(294)	-	-
Other financial corporations	(257)	(1 734)	6	1 763	-	(6)	(227)	-	-
Non-financial corporations	(22 041)	(22 057)	2 594	27 691	-	(2 594)	(16 407)	-	-
Households	(66 416)	(108 157)	38 821	116 507	-	(38 821)	(58 067)	-	-
Total	**(342 664)**	**(305 285)**	**50 693**	**269 604**	**8 214**	**(45 354)**	**(364 790)**	**6 502**	**(882)**

As at 31 December 2017, 15 largest customers accounted for 5,4% of the gross loan portfolio amounting to 652,4 mil. Eur.

21. Financial assets at amortised cost

Gross carrying amounts and credit loss allowances

EUR ths. As of 31.12.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	**3 551 013**	**-**	**-**	**-**	**3 551 013**	**(382)**	**-**	**-**	**-**	**(382)**	**3 550 631**
General governments	3 301 947	-	-	-	3 301 947	(263)	-	-	-	(263)	3 301 684
Credit institutions	127 676	-	-	-	127 676	(75)	-	-	-	(75)	127 601
Other financial corporations	25 277	-	-	-	25 277	(24)	-	-	-	(24)	25 253
Non-financial corporations	96 113	-	-	-	96 113	(20)	-	-	-	(20)	96 093
Loans and advances to banks	**47 819**	**1**	**-**	**-**	**47 820**	**(24)**	**-**	**-**	**-**	**(24)**	**47 796**
Credit institutions	47 819	1	-	-	47 820	(24)	-	-	-	(24)	47 796
Loans and advances to customers	**12 362 873**	**327 849**	**338 895**	**102 781**	**13 132 397**	**(35 401)**	**(33 865)**	**(229 723)**	**(51 337)**	**(350 326)**	**12 782 071**
General governments	230 021	111	-	-	230 133	(193)	(2)	-	-	(195)	229 938
Other financial corporations	154 560	93	10	-	154 663	(164)	(12)	(8)	-	(184)	154 479
Non-financial corporations	2 699 507	73 359	25 040	97 682	2 895 587	(6 972)	(4 084)	(16 906)	(48 396)	(76 358)	2 819 229
Households	9 278 785	254 286	313 845	5 099	9 852 014	(28 072)	(29 767)	(212 809)	(2 941)	(273 589)	9 578 425
Total	**15 961 705**	**327 850**	**338 895**	**102 781**	**16 731 230**	**(35 807)**	**(33 865)**	**(229 723)**	**(51 337)**	**(350 732)**	**16 380 498**

The amounts represent the maximum exposure to credit risk. As at 31 December 2018 the Group had no reverse repo agreements.

As at 31 December 2018, 15 largest customers accounted for 5,2% of the gross loan portfolio amounting to 688,5 mil. Eur.

EUR ths. As of 1.1.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	**3 519 134**	**-**	**-**	**-**	**3 519 134**	**(459)**	**-**	**-**	**-**	**(459)**	**3 518 675**
General governments	3 291 978	-	-	-	3 291 978	(306)	-	-	-	(306)	3 291 672
Credit institutions	120 840	-	-	-	120 840	(71)	-	-	-	(71)	120 769
Non-financial corporations	106 316	-	-	-	106 316	(82)	-	-	-	(82)	106 234
Loans and advances to banks	**177 616**	**-**	**-**	**-**	**177 616**	**-**	**-**	**-**	**-**	**-**	**177 616**
Credit institutions	177 616	-	-	-	177 616	-	-	-	-	-	177 616
Loans and advances to customers	**11 036 082**	**434 961**	**347 031**	**116 530**	**11 934 604**	**(35 603)**	**(39 736)**	**(223 927)**	**(59 539)**	**(358 805)**	**11 575 799**
General governments	209 246	167	1	-	209 414	(189)	(3)	(1)	-	(193)	209 221
Other financial corporations	94 566	81	22	281	94 950	(210)	(5)	(19)	(281)	(515)	94 435
Non-financial corporations	2 190 062	132 853	38 016	109 525	2 470 456	(8 570)	(6 148)	(26 355)	(54 834)	(95 907)	2 374 549
Households	8 542 208	301 860	308 992	6 724	9 159 784	(26 634)	(33 580)	(197 552)	(4 424)	(262 190)	8 897 594
Total	**14 732 832**	**434 961**	**347 031**	**116 530**	**15 631 354**	**(36 062)**	**(39 736)**	**(223 927)**	**(59 539)**	**(359 264)**	**15 272 090**

Allowances for financial assets at amortised cost

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Debt securities									
Stage 1	**(459)**	**(24)**	**21**	**77**	**3**	**-**	**-**	**-**	**(382)**
General governments	(306)	(2)	3	43	-	-	-	-	(262)
Credit institutions	(71)	(15)	18	(7)	-	-	-	-	(75)
Other financial corporations	-	(7)	-	19	(37)	-	-	-	(25)
Non-financial corporations	(82)	-	-	22	40	-	-	-	(20)
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total allowances for debt securities	**(459)**	**(24)**	**21**	**77**	**3**	**-**	**-**	**-**	**(382)**

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Loans and advances to banks									
Stage 1	**-**	**(1 972)**	**1 992**	**(44)**	**-**	**-**	**-**	**-**	**(24)**
Credit institutions	-	(1 972)	1 992	(44)	-	-	-	-	(24)
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total allowances for loans and advances to banks	**-**	**(1 972)**	**1 992**	**(44)**	**-**	**-**	**-**	**-**	**(24)**

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Loans and advances to customers									
Stage 1	**(35 603)**	**(28 573)**	**1 439**	**11 187**	**16 109**	**-**	**40**	**-**	**(35 401)**
General governments	(189)	(76)	-	22	50	-	-	-	(193)
Other financial corporations	(210)	(655)	3	699	(1)	-	-	-	(164)
Non-financial corporations	(8 570)	(15 292)	420	13 934	2 536	-	-	-	(6 972)
Households	(26 634)	(12 550)	1 016	(3 468)	13 524	-	40	-	(28 072)
Stage 2	**(39 736)**	**(6 410)**	**461**	**19 591**	**(7 915)**	**-**	**145**	**-**	**(33 865)**
General governments	(3)	(16)	-	17	-	-	-	-	(2)
Other financial corporations	(5)	(8)	1	6	(6)	-	-	-	(12)
Non-financial corporations	(6 148)	(1 785)	68	5 715	(1 952)	-	18	-	(4 084)
Households	(33 580)	(4 601)	392	13 853	(5 957)	-	127	-	(29 767)
Stage 3	**(223 927)**	**(4 692)**	**3 753**	**(25 188)**	**(32 262)**	**-**	**52 593**	**-**	**(229 723)**
General governments	(1)	-	-	-	-	-	1	-	-
Other financial corporations	(19)	(6)	-	3	-	-	14	-	(8)
Non-financial corporations	(26 355)	(1 763)	17	1 147	(2 656)	-	12 705	-	(16 906)
Households	(197 552)	(2 923)	3 736	(26 338)	(29 606)	-	39 873	-	(212 809)
POCI	**(59 539)**	**-**	**896**	**1 317**	**-**	**-**	**5 990**	**-**	**(51 337)**
Other financial corporations	(281)	-	-	281	-	-	-	-	-
Non-financial corporations	(54 834)	-	663	194	-	-	5 581	-	(48 396)
Households	(4 424)	-	233	842	-	-	409	-	(2 941)
Total allowances for loans and advances to customers	**(358 805)**	**(39 675)**	**6 549**	**6 907**	**(24 068)**	**-**	**58 768**	**-**	**(350 326)**

Movement table of credit loss allowances above represents changes in allowances disclosed based on the reason of the change and is prepared on Year-to-Date bases. The table contains allocations, releases, reclassifications between stages as well as use of the credit loss allowances. Not all of these movements are accounted through income statement, so the full reconciliation to 'Impairment result from financial instruments' line in the Statement of profit or loss is not achievable. Furthermore certain expenses such as write offs, sales and unwinding are recognised in the balance sheet line ´Financial assets at amortised cost´ and are not disclosed in the movement table.

Transfers of gross carrying amount between impairment stages

EUR ths.	2018
Transfers between Stage 1 and Stage 2	**356 656**
To Stage 2 from Stage 1	171 369
To Stage 1 from Stage 2	185 287
Transfers between Stage 2 and Stage 3	**63 831**
To Stage 3 from Stage 2	47 228
To Stage 2 from Stage 3	16 603
Transfers between Stage 1 and Stage 3	**82 636**
To Stage 3 from Stage 1	63 029
To Stage 1 from Stage 3	19 607

Mandate loans

During the year 2018 the Group cooperated with 4 external companies (2017: 13 companies). Following mandate contracts the management and administration of certain non-performing receivables is outsourced. In case of mandate loans, the Group maintains risks and rewards associated with the underlying exposures and shares recoveries with the external service providers.

As at 31 December 2018 the total amount of gross loans outsourced was 145,5 mil. Eur (2017: 104,7 mil. Eur).

Write off and sale of receivables

During the year 2018 the Group sold loan receivables in the amount of 47,8 mil. Eur (2017: 80,1 mil. Eur) for a consideration of 7,1 mil. Eur (2017: 14,8 mil. Eur) and used the corresponding allowances amounting 43,4 mil. Eur (2017: 71,2 mil. Eur). Once loan receivables are sold, the Group transfers all risks and rewards attributable to them and does not have any continuing involvement in the loan receivables subsequent to their sale.

In the year 2018 the Group has written off loans and finance lease receivables in the amount of 17,3 mil. Eur (2017: 10,4 mil. Eur) and used the respective allowances amounting 15,8 mil. Eur (2017: 9,4 mil. Eur).

22. Finance lease receivables

The principal assets held under lease arrangements include cars and other technical equipment. As at 31. December 2017 finance lease receivables were disclosed under the line loans and receivables to customers. As at 31 December 2017 finance lease receivables were disclosed under the line loans and receivables to customers in amout of 77,7 mil. Eur.

Gross carrying amounts and credit loss allowances

EUR ths. As of 31.12.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	57	-	-	-	57	-	-	-	-	-	57
Other financial corporations	349	-	-	-	349	-	-	-	-	-	349
Non-financial corporations	127 569	168	289	-	128 026	(80)	-	(107)	-	(187)	127 839
Households	1 261	11	3	-	1 275	(1)	-	(3)	-	(4)	1 271
Total	**129 236**	**179**	**292**	**-**	**129 707**	**(81)**	**-**	**(110)**	**-**	**(191)**	**129 516**

EUR ths. As of 1.1.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	87	-	-	-	87	-	-	-	-	-	87
Other financial corporations	246	-	-	-	246	(1)	-	-	-	(1)	245
Non-financial corporations	75 595	-	815	-	76 410	(194)	-	(493)	-	(687)	75 723
Households	887	-	48	-	935	(1)	-	(48)	-	(49)	886
Total	**76 815**	**-**	**863**	**-**	**77 678**	**(196)**	**-**	**(541)**	**-**	**(737)**	**76 941**

Allowances for finance lease receivables

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Stage 1	**(196)**	**(98)**	**2**	**211**	**-**	**-**	**-**	**-**	**(81)**
Other financial corporations	(1)	(1)	-	2	-	-	-	-	-
Non-financial corporations	(194)	(96)	-	210	-	-	-	-	(80)
Households	(1)	(1)	2	(1)	-	-	-	-	(1)
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**(541)**	**-**	**-**	**217**	**(28)**	**-**	**242**	**-**	**(110)**
Non-financial corporations	(493)	-	-	183	(28)	-	231	-	(107)
Households	(48)	-	-	34	-	-	11	-	(3)
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(737)**	**(98)**	**2**	**428**	**(28)**	**-**	**242**	**-**	**(191)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2018
Transfers between Stage 1 and Stage 2	**475**
To Stage 2 from Stage 1	475
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	**-**
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**159**
To Stage 3 from Stage 1	159
To Stage 1 from Stage 3	-

Minimum lease payments

As at 31 December 2018 the accumulated allowances for uncollectible minimum lease payments receivable amounted to 0,2 mil. Eur (2017: 0,7 mil. Eur).

EUR ths.	31.12.2017	31.12.2018
Gross investment in finance leases	**81 034**	**136 946**
Thereof:		
< 1 year	22 241	32 777
1-5 years	50 017	82 246
> 5 years	8 776	21 923
Unearned income	**(3 356)**	**(7 239)**
Net investment in finance leases	**77 678**	**129 707**
Thereof:		
< 1 year	20 978	30 505
1-5 years	48 055	78 089
> 5 years	8 645	21 113

23. Hedge accounting derivatives

EUR ths.	31.12.2017			31.12.2018		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**397 821**	**6 761**	**42 100**	**895 521**	**9 905**	**41 348**
Interest rate	397 821	6 761	42 100	895 521	9 905	41 348
Cash flow hedges	-	-	-	-	-	-
Total gross amounts	**397 821**	**6 761**	**42 100**	**895 521**	**9 905**	**41 348**

Fair value hedge of assets

As at 31 December 2018 the Group held in portfolio of financial assets at amortised cost fixed rate bonds denominated in Eur with nominal value of 381,2 mil. Eur (2017: 381,2 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 2018 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 0,6 mil. Eur (2017: net gain 10,4 mil. Eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 0,6 mil. Eur (2017: net loss 10,1 mil. Eur).

Fair value hedge of liabilities

In July 2007 the Group for the first time issued fixed rate mortgage bonds with maturity in July 2027. As at 31 December 2018 the Group holds hedged covered bonds (former mortgage bonds) in total notional value of 514,3 mil. Eur (2017: 16,6 mil. Eur). The list of bonds is disclosed in the note 30.

During the year 2018 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 2,5 mil. Eur (2017: net loss 1,0 mil. Eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 2,7 mil. Eur (2017: net gain 0,9 mil. Eur).

24. Trade and other receivables

Gross carrying amounts and credit loss allowances

EUR ths. As of 31.12.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	-	9	-	-	9	-	-	-	-	-	9
Other financial corporations	100	56	-	-	157	-	-	-	-	-	157
Non-financial corporations	93 460	2 281	3 111	-	98 852	(307)	(8)	(2 855)	-	(3 170)	95 682
Households	105	-	397	-	502	-	-	(398)	-	(398)	104
Total	**93 665**	**2 346**	**3 508**	**-**	**99 520**	**(307)**	**(8)**	**(3 253)**	**-**	**(3 568)**	**95 952**

EUR ths. As of 1.1.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Non-financial corporations	68 912	-	2 874	-	71 786	(247)	-	(2 826)	-	(3 073)	68 713
Households	76	-	380	-	456	-	-	(380)	-	(380)	76
Total	**68 988**	**-**	**3 254**	**-**	**72 242**	**(247)**	**-**	**(3 206)**	**-**	**(3 453)**	**68 789**

As at 31. December 2018 trade and other receivables comprise receivables from factoring transactions and other trade receivables. As at 31. December 2017 receivables from factoring transactions were disclosed under the line 'Loans and receivables to customers' in amount of 72,2 mil. Eur and other trade receivables were disclosed under the line ´Other assets'.

Allowances for trade and other receivables

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Stage 1	**(247)**	**(3 008)**	**2 066**	**882**	**-**	**-**	**-**	**-**	**(307)**
General governments	-	(3)	-	3	-	-	-	-	-
Other financial corporations	-	(4)	-	4	-	-	-	-	-
Non-financial corporations	(247)	(2 969)	2 055	854	-	-	-	-	(307)
Households	-	(32)	11	21	-	-	-	-	-
Stage 2	**-**	**-**	**-**	**(8)**	**-**	**-**	**-**	**-**	**(8)**
Non-financial corporations	-	-	-	(8)	-	-	-	-	(8)
Stage 3	**(3 206)**	**-**	**-**	**(232)**	**(2)**	**-**	**187**	**-**	**(3 253)**
Non-financial corporations	(2 826)	-	-	(215)	(2)	-	187	-	(2 856)
Households	(380)	-	-	(17)	-	-	-	-	(397)
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(3 453)**	**(3 008)**	**2 066**	**642**	**(2)**	**-**	**187**	**-**	**(3 568)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2018
Transfers between Stage 1 and Stage 2	**1 597**
To Stage 2 from Stage 1	1 597
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	**-**
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**388**
To Stage 3 from Stage 1	388
To Stage 1 from Stage 3	-

25. Investments in subsidiaries and associates

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

Investments in subsidiaries of Slovenská sporiteľňa, a.s.

Business name	Place of business	Main business activity	Ownership held	Voting rights held
Služby SLSP, s.r.o.	Tomášikova 48 Bratislava 832 01 Slovak republic	Ancillary bank services	100,00%	100,00%
Realitná spoločnosť Slovenskej sporiteľne, a.s. (100% subsidiary of Služby SLSP, s.r.o.)	Tomášikova 48 Bratislava 832 10 Slovak republic	Real estate agency	100,00%	100,00%
LANED, a.s. (100% subsidiary of Služby SLSP, s.r.o.)	Tomášikova 48 Bratislava 832 71 Slovenská republika	SPE-Real estate company	100,00%	100,00%
Procurement Services SK, s.r.o.	Tomášikova 48 Bratislava 832 75 Slovak republic	Procurement	51,00%	51,00%

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.	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Place of business	Bajkalská 30 829 48 Bratislava Slovenská republika		Mlynské nivy 14 821 09 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%	9.98%	33.33%	33.33%	30,99%	24,62%
Voting rights held	35.00%	35.00%	33.33%	33.33%	30,99%	24,62%
IFRS Classification (JV/A)	Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO	
Dividend income received	2 038	-	-	-	-	-
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	435	163	211	235	7	10
Other financial assets	2 864 354	2 954 682	20	6	-	-
Non-financial assets	78 783	80 495	2	-	24 016	30 011
Current liabilities	2 684 222	2 776 229	27	5	-	-
Non-current liabilities	24 150	18 199	6	-	7	3
Operating Income	42 392	(28 735)	63	39	(4)	(22)
Post-tax result from continuing operations	16 943	14 091	55	37	(4)	(22)
Other comprehensive income	1 221	-	-	-	-	-
Total comprehensive income	18 164	14 091	55	37	(4)	(22)
Depreciation and amortisation	(3 966)	(4 126)	(7)	(1)	-	-
Interest income	99 151	95 183	-	-	-	-
Interest expense	(45 338)	(43 516)	(1)	(1)	-	-
Tax expense/income	(5 363)	(4 715)	-	-	-	-

As at 31 December 2018 the Group held 9,98% share of Prvá stavebná sporiteľňa, a.s. (hereafter 'PSS'), alike in the year 2017. In accondance with a contract with Erste Group Bank AG, the Bank acts on behalf of its parent company, which held 25,02% shares 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 Group has established significant influence in PSS and therefore the Bank's investment in PSS is presented as an associate.

Changes during the year 2018

In January 2018 the share in the company Holding Card Service, spol. s r.o. decreased from 30,99% to 24,62%. The value of share represents 7 046 ths. Eur as at 31 December 2018. Change of share related to increase in equity of the company Holding Card Service, spol. s r.o. because of the additional contribution to the funds and transfer of 10% share owned by Česká spořitelna, a. s. from Global Payments, s. r. o. to Holding Card Service, spol. s r.o. The sole depositor was Česká spořitelna, a. s.

26. Tax assets and liabilities

The structure of tax assets and liabilities was as follows:

EUR ths.	Tax assets		Tax liabilities		Impact of IFRS 9	Through PL	Through OCI	Total
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	Net variance 2018			
Assets								
Financial assets at fair value through other comprehensive income	-	-	(25 094)	(10 567)	16 433	473	(2 379)	14 527
Financial assets at amortised cost & trade & other receivables	46 612	44 692	-	-	-	(1 920)	-	(1 920)
Property and equipment & investment property	88	386	(2 005)	(1 676)	-	628	-	628
Other assets	-	44	-	-	-	44	-	44
Tax loss carried forward	777	336	-	-	-	(441)	-	(441)
Liabilities								
Provisions	3 450	2 685	-	-	-	(765)	-	(765)
Provisions Employee benefits Pensions and other post retirement benefit obligations - pension	626	667	-	-	-	(0)	42	41
Other liabilities	9 257	8 400	-	-	-	(857)	-	(857)
Gross deferred taxes	**60 810**	**57 211**	**(27 099)**	**(12 243)**	**16 433**	**(2 838)**	**(2 338)**	**11 257**
Net deferred taxes	33 711	44 968	-	-	-	-	-	-
Total current taxes	10 634	4 639	1	91	-	-	-	-
Total taxes	**44 345**	**49 607**	**1**	**91**	**-**	**-**	**-**	**-**

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. Further information on taxes on income are disclosed in the note 11.

27. Other assets

EUR ths.	31.12.2017	31.12.2018
Client settlement	6 813	11 058
Trade receivables	10 203	-
Personnel balances	6 033	5 256
State budget, social and health insurance, taxes	1 663	1 275
Sundry assets	433	623
Other assets	**25 145**	**18 212**

As at 31. December 2018 the Group reclassified trade receivables from ´Other assets´ to ´Trade and other receivables´.

28. 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 at 1 January 2017	**275 642**	**66 576**	**58 985**	**2**	**401 205**	**6 661**
Additions	6 255	3 661	3 740	-	13 656	-
Disposals	(18 821)	(6 983)	(15 028)	(2)	(40 833)	-
Reclassification	404	-	-	-	403	(404)
Balance as at 31 December 2017	**263 480**	**63 254**	**47 697**	**-**	**374 431**	**6 257**
Additions	6 015	3 774	6 269	-	16 058	-
Disposals	(11 180)	(4 902)	(715)	-	(16 797)	(371)
Reclassification	(377)	-	-	-	(377)	377
Balance as at 31 December 2018	**257 938**	**62 126**	**53 251**	**-**	**373 315**	**6 263**

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 at 1 January 2017	**(136 576)**	**(57 070)**	**(45 409)**	**3**	**(239 055)**	**(4 272)**
Depreciation	(10 911)	(3 640)	(5 058)	-	(19 608)	(233)
Disposals	11 829	6 823	15 022	(3)	33 673	-
Impairment	(4 028)	-	-	-	(4 028)	-
Reversal of impairment	4 389	-	-	-	4 389	41
Reclassification	(237)	-	-	-	(237)	237
Merger (+/-)	-	-	-	-	-	-
Balance as at 31 December 2017	**(135 534)**	**(53 887)**	**(35 445)**	**-**	**(224 866)**	**(4 227)**
Depreciation	(10 692)	(3 753)	(4 662)	-	(19 107)	(211)
Disposals	7 729	4 700	715	-	13 144	225
Impairment	(1 531)	-	-	-	(1 531)	(11)
Reversal of impairment	798	-	-	-	798	48
Reclassification	208	-	-	-	208	(208)
Balance as at 31 December 2018	**(139 022)**	**(52 940)**	**(39 392)**	**-**	**(231 354)**	**(4 384)**

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 2017	**127 946**	**9 366**	**12 252**	**149 564**	**2 031**
Balance as at 31 December 2018	**118 920**	**9 184**	**13 859**	**141 963**	**1 879**

Cost of property and equipment, which are fully depreciated but still used by the Group as at 31 December 2018 amounted 75,7 mil. Eur (2017: 73,2 mil. Eur) and includes various types of tangible fixed assets.

As at 31 December 2018 the Group owned property and equipment not yet put in use in the amount of 1,0 mil. Eur (2017: 3,6 mil. Eur). Tangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

Investment properties

As at 31 December 2018 the carrying amount of investment properties was 1,9 mil. Eur (2017: 2,0 mil. Eur). Total rental income earned on this property for the year 2018 amounted 0,3 mil. Eur (2017: 0,3 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 2018 amounted 0,2 mil. Eur (2017: 0,2 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.	31.12.2017	31.12.2018
< 1 year	7 418	5 952
1-5 years	13 817	5 863
> 5 years	922	1 897
Total	**22 157**	**13 712**

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

29. Intangible assets

Cost

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2017	**220 728**	**51 177**	**3 166**	**275 071**
Additions	8 500	-	1	8 500
Disposals	-	(75)	(24)	(99)
Balance as at 31 December 2017	**229 228**	**51 103**	**3 143**	**283 472**
Additions	6 990	-	64	7 054
Disposals	-	-	-	-
Balance as at 31 December 2018	**236 223**	**51 098**	**3 207**	**290 526**

Accumulated amortisation

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2017	**(185 424)**	**(14 788)**	**(2 903)**	**(203 116)**
Amortisation	(16 997)	(7 764)	(164)	(24 925)
Disposals	-	-	24	24
Balance as at 31 December 2017	**(202 421)**	**(22 552)**	**(3 043)**	**(228 017)**
Amortisation	(16 856)	(6 537)	(76)	(23 469)
Balance as at 31 December 2018	**(219 277)**	**(29 089)**	**(3 119)**	**(251 486)**

Carrying amount

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2017	**26 806**	**28 551**	**100**	**55 457**
Balance as at 31 December 2018	**16 945**	**22 009**	**87**	**39 041**

Cost of intangible assets, which are fully depreciated but still used by the Group as at 31 December 2018 amounted 139,8 mil. Eur (2017: 110,1 mil. Eur).

As at 31 December 2018 the Group owned intangible assets not yet put in use in the amount of 2,4 mil. Eur (2017: 5,8 mil. Eur). During the year 2018 the Group put in use upgrade of the core banking system, which amounted 8,0 mil. Eur (2017: 7,1 mil. Eur). Intangible assets are insured for standard risks, such as theft, robbery, vandalism, natural disasters etc.

30. Financial liabilities measured at amortised cost

Deposits from banks

EUR ths.	31.12.2017	31.12.2018
Overnight deposits	3 086	4 710
Term deposits	406 621	195 744
Repurchase agreements	78 857	50 846
Deposits from banks	**488 564**	**251 300**

Deposits from customers

EUR ths.	31.12.2017	31.12.2018
Overnight deposits	**6 843 731**	**7 880 091**
Non-savings deposits	6 843 731	7 880 091
General governments	84 854	73 317
Other financial corporations	262 002	256 347
Non-financial corporations	1 344 789	1 622 482
Households	5 152 086	5 927 945
Term deposits	**5 634 161**	**5 773 072**
Deposits with agreed maturity	2 814 788	2 556 253
Non-savings deposits	2 814 788	2 556 253
General governments	351 532	491 455
Other financial corporations	264 724	319 099
Non-financial corporations	320 705	213 557
Households	1 877 827	1 532 142
Deposits redeemable at notice	2 819 373	3 216 819
Households	2 819 373	3 216 819
Deposits from customers	**12 477 892**	**13 653 163**
General governments	436 386	564 772
Other financial corporations	526 726	575 446
Non-financial corporations	1 665 494	1 836 039
Households	9 849 286	10 676 906

As at 31 December 2018, no embedded derivatives were included in deposits from customers (neither at the year-end 2017).

As at 31 December 2018, no deposits from customers were collateralised by securities (neither at the year-end 2017).

As at 31 December 2018 liabilities related to settlement of securities transactions and clearing of payment transactions in the amount of 35,2 mil. Eur are disclosed in the line item 'Other finacial liabilities' (2017: 91,0 mil. Eur) .

Debt securities issued

EUR ths.	31.12.2017	31.12.2018
Subordinated issues	77 446	72 792
Other debt securities issued	1 489 770	1 730 495
Bonds/certificates	185 656	248 580
Mortgage covered bonds	1 304 114	1 481 915
Debt securities issued	**1 567 216**	**1 803 287**

Subordinated debt securities issued

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

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Subordinated Bonds	August 2010	August 2020	4,30%	10 000	1 000	EUR	12 945	13 453
Subordinated Bonds*	June 2011	June 2018	-	0	10 000	EUR	6 956	0
Subordinated Bonds	August 2011	August 2021	4,30%	10 000	1 000	EUR	12 420	12 918
Subordinated Bonds	June 2011	June 2018	-	0	50 000	EUR	6 611	0
Subordinated Bonds*	October 2011	October 2018	-	0	10 000	EUR	5 345	0
Subordinated Bonds*	November 2011	November 2023	4,58%	4 250	1 000	EUR	5 114	5 341
Subordinated Bonds*	December 2011	December 2018	-	0	10 000	EUR	3 965	0
Subordinated Bonds*	June 2012	June 2022	5,80%	11 000	1 000	EUR	13 721	14 475
Subordinated Bonds*	November 2012	November 2022	4,30%	9 000	1 000	EUR	10 371	10 844
Subordinated Bonds	September 2018	September 2028	2,88%	33	100 000	EUR	0	3 326
Subordinated Bonds	September 2018	September 2028	1,73%	33	100 000	EUR	0	3 316
Subordinated Bonds	November 2018	November 2028	2,45%	91	100 000	EUR	0	9 119
Total							**77 446**	**72 792**

The subordinated debt securities issued listed in the following table and marked as 'Subordinated bonds*' included embedded derivatives, which were separated and disclosed on the balance sheet line item 'Financial liabilities – held for trading'. As at 31 December 2018 fair value of these derivatives amounted 0,0 mil. Eur (2017: 0,2 mil. Eur).

Other debt securities issued

All securities listed in the following table 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 2018, other debt securities issued included embedded derivatives (equity and commodities) in the amount of -0,7 mil. Eur (2017: 0,3 mil. Eur), which were separated and are disclosed in the line items 'Financial assets – held for trading' and 'Financial liabilities – held for trading'.

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

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Covered Bonds	July 2007	July 2027	4,95%	250	66 388	EUR	23 283	22 928
Covered Bonds	April 2008	April 2021	5,00%	250	66 388	EUR	17 184	17 183
Covered Bonds	September 2012	September 2018	-	0	1 000	EUR	10 008	-
Senior Unsecured Bonds	December 2012	December 2018	-	0	1 000	EUR	1 839	-
Covered Bonds	December 2012	December 2019	2,50%	66	50 000	EUR	3 305	3 305
Covered Bonds	January 2013	January 2025	3,10%	87	50 000	EUR	4 412	4 412
Covered Bonds	February 2013	February 2018	-	0	50 000	EUR	23 353	-
Covered Bonds	February 2013	February 2019	2,30%	4 913	1 000	EUR	4 986	4 954
Covered Bonds	March 2013	March 2019	2,30%	4 824	1 000	EUR	4 929	4 857
Covered Bonds	April 2013	April 2019	2,30%	4 843	1 000	EUR	4 930	4 867
Covered Bonds	June 2013	June 2028	3,00%	132	50 000	EUR	6 615	6 615
Covered Bonds	June 2013	December 2019	2,00%	4 153	1 000	EUR	4 168	4 156
Covered Bonds	July 2013	January 2020	2,00%	2 223	1 000	EUR	2 247	2 244
Covered Bonds	August 2013	August 2019	2,00%	2 538	1 000	EUR	2 586	2 559
Covered Bonds	August 2013	August 2019	2,00%	4 237	1 000	EUR	4 306	4 267
Covered Bonds	September 2013	September 2019	2,00%	6 387	1 000	EUR	6 422	6 422
Covered Bonds	October 2013	October 2019	2,00%	5 829	1 000	EUR	5 893	5 851
Covered Bonds	November 2013	November 2019	2,00%	6 651	1 000	EUR	6 668	6 666
Senior Unsecured Bonds	December 2013	December 2019	13,00%	572	1 000	EUR	610	624
Covered Bonds	December 2013	December 2019	2,05%	70	50 000	EUR	3 504	3 504
Covered Bonds	December 2013	December 2018	-	0	50 000	EUR	30 002	-
Investment Certificates	December 2013	December 2018	-	0	1 000	EUR	635	-
Covered Bonds	December 2013	December 2019	2,00%	9 579	1 000	EUR	9 616	9 585
Covered Bonds	February 2014	August 2020	2,00%	9 876	1 000	EUR	10 017	9 955
Covered Bonds	February 2014	February 2029	2,80%	97	50 000	EUR	4 899	4 899
Covered Bonds	March 2014	March 2018	-	0	50 000	EUR	20 197	-
Investment Certificates	March 2014	March 2019	5,25%	514	5 000	PLN	640	609
Investment Certificates	March 2014	March 2019	4,00%	784	1 000	EUR	822	798
Covered Bonds	March 2014	March 2021	2,00%	8 365	1 000	EUR	8 534	8 411
Covered Bonds	March 2014	March 2022	2,00%	220	50 000	EUR	11 111	11 124
Covered Bonds	May 2014	May 2021	1,90%	4 925	1 000	EUR	4 988	4 938
Covered Bonds	June 2014	June 2021	1,75%	9 410	1 000	EUR	9 460	9 420
Covered Bonds	July 2014	July 2021	1,55%	3 509	1 000	EUR	3 540	3 534
Covered Bonds	August 2014	August 2018	-	0	50 000	EUR	45 058	-
Senior Unsecured Bonds	September 2014	September 2019	1,07%	1 000	100 000	EUR	100 296	100 295
Senior Unsecured Bonds	September 2014	September 2019	1,50%	13 872	1 000	EUR	14 414	13 925
Covered Bonds	November 2014	November 2020	0,88%	150	100 000	EUR	15 016	15 017
Covered Bonds	February 2015	February 2022	0,88%	350	100 000	EUR	35 256	35 261
Covered Bonds	February 2015	February 2019	0,11%	500	100 000	EUR	50 021	50 023
Covered Bonds	March 2015	March 2020	1,25%	4 205	1 000	EUR	4 262	4 222
Covered Bonds	March 2015	March 2018	-	0	100 000	EUR	25 102	-
Covered Bonds	March 2015	March 2018	-	0	100 000	EUR	10 035	-
Covered Bonds	March 2015	March 2018	-	0	100 000	EUR	24 000	-
Covered Bonds	June 2015	June 2020	1,20%	4 891	1 000	EUR	4 950	4 894
Covered Bonds	July 2015	July 2020	1,20%	4 856	1 000	EUR	4 998	4 882
Covered Bonds	July 2015	July 2020	0,88%	500	100 000	EUR	50 116	50 142
Covered Bonds	August 2015	August 2025	1,38%	100	100 000	EUR	9 997	10 004
Covered Bonds	August 2015	August 2022	1,00%	100	100 000	EUR	10 012	10 018
Covered Bonds	August 2015	August 2020	1,20%	4 975	1 000	EUR	5 018	4 996
Covered Bonds	September 2015	September 2020	1,20%	4 294	1 000	EUR	4 329	4 308

Table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Covered Bonds	October 2015	October 2020	1,20%	3 542	1 000	EUR	3 559	3 549
Investment Certificates	November 2015	November 2018	-	0	1 000	EUR	595	-
Covered Bonds	November 2015	November 2020	0,63%	400	100 000	EUR	40 028	40 031
Covered Bonds	November 2015	November 2020	1,20%	2 991	1 000	EUR	3 008	2 994
Covered Bonds	December 2015	December 2021	0,63%	170	100 000	EUR	20 000	17 001
Investment Certificates	February 2016	February 2020	4,10%	121	5 000	EUR	726	644
Covered Bonds	February 2016	February 2021	0,50%	500	100 000	EUR	50 216	50 218
Investment Certificates	February 2016	February 2020	4,20%	210	1 000	EUR	233	224
Investment Certificates	March 2016	March 2018	-	0	1 000	EUR	1 284	-
Covered Bonds	March 2016	March 2021	1,05%	6 967	1 000	EUR	7 015	6 990
Covered Bonds	March 2016	March 2019	0,13%	60	100 000	EUR	6 002	6 002
Covered Bonds	March 2016	March 2018	-	0	100 000	EUR	62 052	-
Investment Certificates	March 2016	March 2018	-	0	1 000	EUR	746	-
Covered Bonds	March 2016	March 2026	1,00%	90	100 000	EUR	8 986	8 996
Investment Certificates	April 2016	April 2019	3,40%	639	1 000	EUR	674	650
Covered Bonds	April 2016	April 2021	1,05%	4 949	1 000	EUR	4 973	4 961
Covered Bonds	May 2016	May 2021	1,00%	4 976	1 000	EUR	4 996	4 984
Covered Bonds	May 2016	November 2020	0,14%	500	100 000	EUR	50 007	50 008
Covered Bonds	June 2016	June 2021	0,00%	3 942	1 000	EUR	3 871	3 853
Investment Certificates	June 2016	June 2020	3,70%	400	1 000	EUR	438	423
Investment Certificates	July 2016	July 2019	2,80%	340	1 000	EUR	361	350
Covered Bonds	July 2016	July 2021	0,90%	4 915	1 000	EUR	5 012	4 936
Covered Bonds	August 2016	August 2021	0,80%	4 959	1 000	EUR	5 011	4 975
Covered Bonds	August 2016	August 2021	0,75%	4 906	1 000	EUR	5 002	4 919
Investment Certificates	August 2016	August 2020	3,00%	339	1 000	EUR	373	361
Covered Bonds	September 2016	September 2021	0,70%	4 943	1 000	EUR	4 962	4 952
Covered Bonds	October 2016	October 2021	0,65%	4 965	1 000	EUR	4 981	4 971
Covered Bonds	November 2016	November 2021	0,25%	1 000	100 000	EUR	100 000	100 005
Covered Bonds	December 2016	December 2021	0,65%	9 829	1 000	EUR	9 946	9 831
Senior Unsecured Bonds	December 2016	December 2021	0,65%	4 914	1 000	EUR	4 978	4 915
Covered Bonds	March 2017	March 2025	0,75%	1 000	100 000	EUR	100 305	100 347
Senior Unsecured Bonds	March 2017	March 2022	0,60%	4 674	1 000	EUR	5 003	4 695
Investment Certificates	April 2017	April 2018	-	0	10 000	EUR	627	-
Senior Unsecured Bonds	April 2017	April 2022	0,60%	30	100 000	EUR	3 013	3 013
Senior Unsecured Bonds	April 2017	April 2022	0,60%	4 857	1 000	EUR	4 981	4 877
Covered Bonds	May 2017	May 2019	0,00%	300	100 000	EUR	99 932	29 994
Senior Unsecured Bonds	May 2017	May 2022	0,60%	4 810	1 000	EUR	4 985	4 827
Covered Bonds	June 2017	June 2022	0,38%	50	100 000	EUR	4 996	4 999
Investment Certificates	July 2017	July 2018	-	0	5 000	EUR	656	-
Senior Unsecured Bonds	July 2017	July 2022	0,60%	4 853	1 000	EUR	5 008	4 865
Senior Unsecured Bonds	August 2017	August 2022	0,63%	4 815	1 000	EUR	4 979	4 826
Senior Unsecured Bonds	September 2017	September 2022	0,63%	4 972	1 000	EUR	5 009	4 981
Senior Unsecured Bonds	September 2017	September 2022	0,63%	9 797	1 000	EUR	9 916	9 813
Covered Bonds	October 2017	October 2022	0,50%	1 500	100 000	EUR	149 924	149 974
Senior Unsecured Bonds	November 2017	November 2027	1,38%	44	100 000	EUR	4 398	4 399
Investment Certificates	November 2017	November 2018	-	0	5 000	EUR	1 741	-
Investment Certificates	November 2017	November 2018	-	0	5 000	EUR	1 497	-
Senior Unsecured Bonds	November 2017	November 2022	2,00%	4 998	1 000	USD	4 180	4 376
Senior Unsecured Bonds	February 2018	February 2023	2,15%	3 678	1 000	USD	-	3 274
Senior Unsecured Bonds	February 2018	February 2023	0,65%	9 980	1 000	EUR	-	10 038

Table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Senior Unsecured Bonds	March 2018	March 2021	0,25%	142	100 000	EUR	-	14 216
Senior Unsecured Bonds	March 2018	March 2023	0,65%	9 964	1 000	EUR	-	10 013
Senior Unsecured Bonds	April 2018	April 2021	2,30%	3 675	1 000	USD	-	3 260
Investment Certificates	May 2018	May 2019	8,00%	200	5 000	EUR	-	1 086
Investment Certificates	May 2018	May 2019	8,00%	137	5 000	EUR	-	743
Senior Unsecured Bonds	June 2018	June 2019	6,20%	327	5 000	EUR	-	1 747
Senior Unsecured Bonds	June 2018	June 2020	2,00%	1 898	1 000	USD	-	1 675
Senior Unsecured Bonds	June 2018	June 2024	0,75%	5 081	1 000	EUR	-	5 100
Senior Unsecured Bonds	July 2018	July 2019	9,35%	165	5 000	EUR	-	909
Senior Unsecured Bonds	July 2018	July 2019	9,00%	80	5 000	EUR	-	439
Senior Unsecured Bonds	August 2018	August 2019	8,00%	87	5 000	EUR	-	474
Covered Bonds	August 2018	August 2025	0,63%	2 500	100 000	EUR	-	252 153
Senior Unsecured Bonds	August 2018	August 2024	0,70%	4 980	1 000	EUR	-	4 992
Senior Unsecured Bonds	September 2018	September 2024	0,70%	4 984	1 000	EUR	-	4 994
Senior Unsecured Bonds	September 2018	September 2019	7,50%	90	5 000	EUR	-	489
Senior Unsecured Bonds	October 2018	January 2019	9,30%	123	50 000	NOK	-	634
Senior Unsecured Bonds	November 2018	November 2024	0,75%	5 000	1 000	EUR	-	5 003
Covered Bonds	December 2018	December 2024	0,50%	2 500	100 000	EUR	-	249 846
Senior Unsecured Bonds	December 2018	December 2024	0,75%	5 000	1 000	EUR	-	5 003
Total							**1 489 770**	**1 730 495**

31. Provisions

EUR ths.	31.12.2017	31.12.2018
Commitments and guarantees given *	15 091	12 065
Provisions for commitments and financial guarantees in Stage 1	x	3 143
Provisions for commitments and financial guarantees in Stage 2	x	723
Provisions for commitments and financial guarantees in Stage 3	x	601
Provisions for commitments and financial guarantees - POCI	x	7 598
Long-term employee benefits provisions	2 982	3 178
Pending legal issues and tax litigation	5 653	5 353
Other provisions	1 341	81
Restructuring	1 341	77
Other	-	4
Provisions	**25 067**	**20 677**

*Provisions for commitments and financial guarantees as at 31 December 2017 are measured in accordance with IAS 39.
As at 31 December 2018 these provisions are measured in line with IFRS 9.

Commitments and guarantees given

Provisions for commitments and guarantees given were created to cover losses expected 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 used for discounting).

EUR ths.	1.1.2018 IFRS 9	31.12.2018 IFRS 9
Commitments and guarantees given		
Provisions for commitments and financial guarantees in Stage 1	4 488	3 143
Provisions for commitments and financial guarantees in Stage 2	1 201	723
Provisions for commitments and financial guarantees in Stage 3	444	601
Provisions for commitments and financial guarantees - POCI	8 236	7 598
Provisions	**14 369**	**12 065**

The following table presents movements in the provision for commitments and financial guarantees:

EUR ths.	1.1.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2018
Provisions for contingent credit risk liabilities	14 369	35 271	(13 343)	(24 232)	1 225	12 065
Total	**14 369**	**35 271**	**(13 343)**	**(24 232)**	**1 225**	**12 065**

EUR ths.	1.1.2017	Additions	Use	Release	Exchange-rate and other changes	31.12.2017
Provisions for contingent credit risk liabilities	11 494	28 109	-	(24 519)	7	15 091
Total	**11 494**	**28 109**	**-**	**(24 519)**	**7**	**15 091**

Long-term employee pension provisions

The Group 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 7.

The amount of long-term employee pension provisions is calculated using an actuarial model based on the projected unit credit method. The Group performes 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 pension provisions recognised on the balance sheet and the income statement were as follows:

EUR ths.	Pension provision	Working anniversaries provision	Total
As at 1 January 2017	**2 873**	**2 294**	**5 167**
Service cost	223	36	259
Interest cost	19	15	34
Payments	(322)	(69)	(391)
Actuarial (gains)/losses	(174)	(1 913)	(2 087)
from changes in demographic assumptions	14	4	17
from changes in financial assumptions	(233)	(113)	(345)
from changes in experience assumptions	45	(1 804)	(1 759)
Merge	-	-	-
As at 31 December 2017	**2 619**	**363**	**2 982**
Service cost	180	35	215
Interest cost	38	5	43
Payments	(248)	(49)	(297)
Actuarial (gains)/losses	199	36	235
from changes in financial assumptions	199	36	235
As at 31 December 2018	**2 788**	**390**	**3 178**

In the year 2017 the working anniversaries provision decreased due to changes in the employee benefit program conditions.

The actuarial calculation of pension provision used the following assumptions:

Pension provision	2017	2018
Annual discount rate	1,46%	1,45%
Annual rate of salary increase in future	0,00%	0,00%
Annual employee turnover	5,96% - 15,88%	6,47% - 13,79%
Retirement age	62 years	62 years

The actuarial calculation of working anniversaries provision used the following assumptions:

Working anniversary provision	2017	2018
Annual discount rate	1,46%	1,45%
Annual rate of salary increase in future	0,00%	0,00%
Annual employee turnover	5,96% - 15,88%	6,47% - 13,79%
Retirement age	62 years	62 years

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

Provisions for pending legal issues and tax litigation

Provisions for legal issues and tax litigation relate to legal cases where the Group is sued and which arose from normal banking activities.

Other provisions

The item 'Other provisions' includes provision on contribution to Resolution fund and provision on contribution to Deposit protection fund during the year. During the year the estimated value of these contributions are recorded as provision and when the actual amount of contributions is announced, the payment is accounted for as utilisation of particular provision. For the year 2018 all contributions were paid , therefor no balance of other provisions is recognised.

In 2017 the Group created the provision for restructuring in amount of 1,3 mil. Eur. During 2018 the provision was used in the amount of 0,5 mil. Eur and the residual amount of provision was released.

The folowing table presents development of provision:

EUR ths.	2017	Additions	Use	Release	2018
Restructuring provision	1 341	3 694	(4 063)	(895)	77
Pending legal issues and tax litigation	5 653	466	(181)	(585)	5 353
Other provisions	-	4	-	-	4
Total	**6 994**	**4 164**	**(4 244)**	**(1 480)**	**5 434**

EUR ths.	2016	Additions	Use	Release	2017
Restructuring provision	-	1 341	-	-	1 341
Pending legal issues and tax litigation	5 765	905	(697)	(320)	5 653
Other provisions	-	8 500	(3 556)	(4 944)	-
Total	**5 765**	**10 746**	**(4 253)**	**(5 264)**	**6 994**

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

32. Other liabilities

EUR ths.	31.12.2017	31.12.2018
Client settlement	-	4 841
Trade payables	41 397	35 475
Personnel balances and social fund	36 252	38 421
State budget, social and health insurance, taxes	4 587	4 707
Other liabilities	**82 236**	**83 444**

Social fund liability, which is included in the line item 'Other liabilities', developed as follows:

EUR ths.	2017	2018
As at 1 January	**1 030**	**1 267**
Additions	2 231	2 808
Withdrawals	(1 994)	(2 052)
As at 31 December	**1 267**	**2 023**

33. Equity

Share capital

The approved share capital was fully paid and consists of the following:

EUR ths.	31.12.2017	31.12.2018
Nominal value of share (in EUR)	1 000	1 000
Number of shares (in pcs.)	212 000	212 000
Share capital (in EUR)	**212 000 000**	**212 000 000**

The following table presents distribution of individual profits of the bank for the years 2017 (approved) and 2018 (proposed):

Profit distribution	2017	2018
Profit for the year (in EUR ths.)	162 056	180 176
Distribution for Investment certificate 2015 SLSP AT1 PNC5	11 700	11 700
Dividends paid to shareholder from profit for the year	142 838	87 608
Transfer to retained earnings	7 518	80 868
Number of shares with nominal value of EUR 1 000 (in pcs.)	212 000	212 000
Dividend per share (in EUR)	**674**	**413**

Dividends for the year 2017 were paid in March 2018 following the resolution of General Assembly of the Bank dated 27 March 2018.

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 2018 Legal reserve fund amounted to 79,8 mil. Eur (2017: 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 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 2018 Statutory fund amounted 39,1 mil. Eur (2017: 39,1 mil. Eur).

Available for sale reserve

Available for sale reserve represents the unrealised revaluation of the securities available for sale according to IAS 39. This reserve is not available for distribution to the shareholder. As at 31 December 2017 available for sale reserve amounted 94,9 mil. Eur, net of deferred tax. This reserve was released during the transition process to IFRS 9 in 2018.

Fair value reserve

Fair value reserve represents the unrealised revaluation of financial assets measured at fair value through other comprehensive income. This reserve is not available for distribution to the sharefolder. As at 31 December 2018 the revaluation of financial assets measures at fair value through other comprehensive income amounted to 40,1 mil. Eur, net of deferred tax.

Remeasurement of net liability of defined pension plans

This equity component reflects the results of actuarial calculations related to the pension provision. As at 31 December 2018 the remeasurement of the pension provision amounted 0,6 mil. Eur (2017: 0,5 mil. Eur), net of deferred tax.

34. 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.

Transactions with related parties occur in the normal course of business and primarily include loans and deposits. These transactions are performed at arm's length, i.e. the terms and conditions applied respect market conditions.

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

EUR ths.	Erste Group Bank AG		Companies of Erste Group		Associates	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Assets Cash and cash balances	3 467	4 248	49 835	130	-	-
Derivatives	2 218	1 948	93	380	-	-
Derivatives – Hedge accounting	-	3 657	-	-	-	-
Securities	-	-	-	-	-	5 255
Loans and receivables to credit institutions	135 716	311	41 812	8 724	-	-
Loans and receivables to customers	-	77	49 621	73 003	-	1
Other assets	4 345	3 288	935	-	-	-
Total	**145 746**	**13 529**	**142 296**	**82 237**	**-**	**5 256**
Liabilities Derivatives held for trading	31 358	39 500	1	-	-	-
Deposits from banks	200 594	53 289	690	1 695	-	-
Deposits from customers	-	-	2 616	3 151	-	-
Debt securities issued	683 619	875 977	-	-	-	-
Derivatives – hedge accounting	42 100	41 348	-	-	-	-
Other liabilities	1 123	62	4 728	1 067	-	-
Total	**958 794**	**1 010 176**	**8 035**	**5 913**	**-**	**-**

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

EUR ths.	Erste Group Bank AG		Companies of Erste Group		Associates	
	2017	2018	2017	2018	2017	2018
Interest income	(8 707)	(9 057)	1 025	1 682	-	73
Interest expense	(3 801)	(4 150)	(26)	(13)	-	(3)
Dividend income	-	-	-	566	2 038	-
Net fee and commisssion income	83	(230)	7 482	6 470	-	3
Net trading and fair value result	21 269	165	285	380	-	-
General administrative expenses	(5 197)	(4 370)	(9 579)	(10 374)	-	-
Other operating result	509	352	2 538	1 165	-	-
Total	**4 156**	**(17 290)**	**1 725**	**(124)**	**2 038**	**73**

The amounts with Erste Group Bank AG reported in the line items 'Interest income' and 'Net trading 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 (see note 33).

As at 31 December 2018 the Group has received a guarantee from its parent company Erste Group Bank AG covering exposures towards Erste Group Immorent Slovensko s.r.o. in the amount of 23,2 mil. Eur (2017: 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 (2017: 2,2 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. as at 31 December 2018 in the maximum amount of the guarantee was 17,0 mil. Eur (2017: 27,6 mil. Eur).

The Group received guarantees from its sister company Česká spořitelna, a.s. covering clients' exposures in the amount of 0,8 mil. Eur as at the reporting date (2017: 0,9 mil. Eur).

The Group 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 (2017: 0,1 mil. Eur).

As at 31 December 2018 the Group owned a share in real estate fund Sporo realitny fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of of 3,4 mil. Eur (2017: 5,5 mil. Eur).

As at 31 December 2018, the Group did not receive any dividends from its associates (2017: 2,0 mil. Eur).

Transactions with key management personnel

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2018 in form of short-term employee benefits amounted to 2,0 mil. Eur (2017: 2,2 mil. Eur). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

35. 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 conditions. 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 loan commitment. 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.	31.12.2017	31.12.2018
Guarantees provided	319 122	368 083
Guarantees from letter of credit	10 618	10 168
Loan commitments and undrawn loans	1 289 425	1 223 703
Total	**1 619 165**	**1 601 954**

As at 31 December 2018 the value of payment guarantees represented 83,03 mil. Eur (2017: 77,24 mil. Eur), the value of non-payment guarantees represented 276,78 mil. Eur (2017: 233,46 mil. Eur) and the value of other guarantees represented 8,27 mil. Eur (2017: 8,42 mil. Eur).

36. Collaterals

The Group 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 held against loans and advances to banks, except for securities held as a part of reverse repurchase agreements commented in the note 19.

Collaterals received

As at 31 December 2018 the Group had collateralized loans in the amount 9 524,4 mil. Eur (2017: 8 670,5 mil. Eur). The uncollateralized loans amounted 3 920,5 mil. Eur (2017: 3 226,8 mil. Eur).

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

31.12.2018	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral
EUR ths.			Guarantees	Real estate	Other		
Cash and cash balances - other demand deposits	7 196	-	-	-	-	-	7 196
Financial assets at amortised cost	16 731 229	186 053	37 958	7 555 336	238 890	7 832 185	8 899 045
Loans and advances to banks	47 820	-	48	-	-	48	47 772
Loans and advances to customers	13 132 396	186 053	19 892	7 555 336	238 890	7 814 119	5 318 278
of which: Lending for house purchase	7 519 839	131 789	-	6 648 973	39	6 649 012	870 827
'of which: Credit for consumption	1 807 046	17	-	51	312	363	1 806 683
'of which: Corporate loans and others	3 805 511	54 246	19 892	906 312	238 539	1 164 743	2 640 767
Debt securities	3 551 013	-	18 018	-	-	18 018	3 532 995
Finance lease receivables	129 707	229	-	-	91 705	91 705	38 001
Trade and other receivables	99 517	-	-	-	-	-	99 517
Non-trading financial assets at fair value through profit or loss - 'Debt securities	23 622	-	-	-	-	-	23 622
Financial assets - held for trading	42 941	-	-	-	-	-	42 941
Positive fair value of derivatives	9 905	-	-	-	-	-	9 905
Total credit risk exposure on-balance	**17 044 117**	**186 282**	**37 958**	**7 555 336**	**330 595**	**7 923 890**	**9 120 227**
Off-balance	1 601 954	35 140	54 903	95 638	42 772	193 313	1 408 641
Total credit risk exposure	**18 646 071**	**221 422**	**92 861**	**7 650 974**	**373 367**	**8 117 203**	**10 528 868**

31.12.2017 EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Collateral total	Credit risk exposure net of collateral
Cash and cash balances - other demand deposits	53 802	-	-	-	-	-	53 802
Loans and advances to banks	177 616	-	37	-	-	37	177 580
Loans and advances to customers	12 084 524	194 379	33 553	6 796 181	250 731	7 080 465	5 004 058
of which: Lending for house purchase	6 950 023	132 054	-	5 889 055	41	5 889 095	1 060 927
of which: Credit for consumption	1 715 672	4	-	62	302	364	1 715 307
of which: Corporate loans and others	3 268 909	61 715	33 553	907 064	182 636	1 123 253	2 145 656
of which: Finance lease receivables	77 678	606	-	-	67 752	67 752	9 926
of which: Trade and other receivables	72 242	-	-	-	-	-	72 242
Held to maturity	2 644 730	-	-	-	-	-	2 644 730
Available for sale	972 734	-	18 052	-	-	18 052	954 683
Positive fair value of derivative financial instruments	43 244	-	-	-	-	-	43 244
Total credit risk exposure on-balance	**15 976 650**	**194 379**	**51 642**	**6 796 181**	**250 731**	**7 098 554**	**8 878 097**
Off-balance	1 619 165	35 644	40 373	101 826	38 442	180 641	1 438 524
Total credit risk exposure	**17 595 815**	**230 023**	**92 015**	**6 898 007**	**289 173**	**7 279 195**	**10 316 621**

Assets pledged as collaterals

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

EUR ths. As of 31.12.2018	Carrying amount of transferred assets: Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Carrying amount of associated liabilities: Total	Repurchase agreements	Other associated liabilities
Financial assets at amortised cost								
Debt securities	208 946	45 657	51 098	112 191	-	225 156	50 846	174 310
Loans and advances to customers	1 696 924	-	-	1 696 924	-	1 390 015	-	1 390 015
Assets pledged as collateral	**1 905 870**	**45 657**	**51 098**	**1 809 115**	**-**	**1 615 171**	**50 846**	**1 564 325**

EUR ths. As of 31.12.2017	Carrying amount of transferred assets: Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Carrying amount of associated liabilities: Total	Repurchase agreements	Other associated liabilities
Financial assets - available for sale	191 439	79 547	40 634	63 299	7 958	169 781	78 857	90 924
Loans and receivables to customers	1 462 588	-	-	1 462 589	-	1 211 162	-	1 211 162
Financial assets - held to maturity	59 010	-	10 061	48 949	-	49 836	-	49 836
Assets pledged as collateral	**1 713 037**	**79 547**	**50 695**	**1 574 837**	**7 958**	**1 430 779**	**78 857**	**1 351 922**

37. Offsetting of financial assets and financial liabilities

31.12.2018 EUR ths.	Gross amounts of recognised financial instruments	Net amounts of financial instruments in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting Non-cash financial collateral pledged	Net amount after potential offsetting
Assets				
Derivatives	42 941	42 941	-	42 941
Derivatives - hedge accounting	9 905	9 905	-	9 905
Total assets	**52 846**	**52 846**	**-**	**52 846**
Liabilities				
Derivatives	41 062	41 062	35 780	5 282
Derivatives - hedge accounting	41 348	41 348	21 196	20 152
Repurchase agreements	50 846	50 846	50 846	-
Total liabilities	**133 256**	**133 256**	**107 822**	**25 434**

31.12.2017 EUR ths.	Gross amounts of recognised financial instruments	Net amounts of financial instruments in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting Non-cash financial collateral pledged	Net amount after potential offsetting
Assets				
Derivatives	36 484	36 484	-	36 484
Derivatives - hedge accounting	6 761	6 761	-	6 761
Total assets	**43 245**	**43 245**	**-**	**43 245**
Liabilities				
Derivatives	33 344	33 344	26 152	7 191
Derivatives - hedge accounting	42 100	42 100	20 714	21 386
Repurchase agreements	78 857	78 857	78 857	-
Total liabilities	**154 301**	**154 301**	**125 723**	**28 577**

38. Assets under administration

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

As at 31 December 2018 the Group held assets for collective investment undertakings in the amount of 1 211,2 mil. Eur (2017: 1 261,5 mil. Eur).

As at 31 December 2018 the Group also held assets for customers other than collective investment undertakings in the amount of 6 384,8 mil. Eur (2017: 6 339,2 mil. Eur).

39. 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 are introduced in the segment reporting of the Group accordingly and aligned with the Group governance. Consequently the segment structure in force is used for internal and external reporting from 1 January 2016. The overarching principles of internal regular reporting of the segments´ performance to the Board of directors of the Group is described in the Group Segment reporting policy.

The segment report represents the single source of truth for reporting of financial performance of the Group's segments and serves as the basis for business steering of all individual segments, as well as consolidated result of the Group. All the areas of the 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 the Group. It is the responsibility of the respective area to assure that the alignment is achieved. Segment reporting in the Group has to be aligned with Erste 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 Group's segment structure serves as a basis for budgeting, forecasting, strategic discussions, setting and tracking of key performance indicators (KPIs).

Business segments

The segment reporting was aligned with Erste group segment principles in order to present the Group's 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 activities with private individuals, free professionals and micros, which are in the responsibility of account managers in the Retail network. Retail products and services, including current accounts and savings, loans pledged by real estate, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance, asset management products 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, 42 areas and 250 branches (status as at 31 December 2018).

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

- Small and medium-sized enterprises (SME) are small, medium and local 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 Group's 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 Local Corporate Center includes received dividends and 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. This segment is divided on Treasury trading and market services (GMT) and Financial institutions (GMFI).

- Trading and Market services (GMT) comprises all activities related to active risk taking and managing in regulatory trading books of the Group, additional to that the execution of trades against the market using the trading books of the Bank 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 (GMFI) 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 a rate of return on allocated equity and cost/income ratio are used. ROE (return on allocated capital) is defined as the net result for the period before minorities in relation to the average allocated equity of the respective segment. Cost/income ratio is calculated for each segment and 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 result, gains/losses from financial instruments measured at fair value through profit or loss, net result from equity method investments, rental income from investment properties & other operating leases).

Business Segments EUR ths.	Retail		Corporates		Group markets		Asset Liability Management and Local Corporate Center		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Net interest income	380 516	373 126	61 697	71 269	4 012	3 989	(6 935)	(10 555)	439 290	437 829
Net fee and commission income	91 167	108 209	13 138	16 532	6 330	6 959	2 073	(2 879)	112 708	128 821
Dividend income	-	-	25	-	-	-	1 061	1 044	1 086	1 044
Net trading result	3 646	3 646	3 523	2 332	3 607	3 372	2 997	318	13 773	9 669
Gains/losses from financial instruments measured at fair value through PL	-	-	-	-	-	-	(514)	2 145	(514)	2 145
Net result from equity method investments	2 123	1 673	-	-	-	-	-	-	2 123	1 673
Rental income from investment properties & other operating leases	-	-	-	-	-	-	325	310	325	310
General administrative expenses	(243 919)	(241 247)	(34 641)	(34 614)	(5 230)	(5 075)	1 125	(166)	(282 665)	(281 101)
Gains/losses from financial assets and liabilities not at FVPL, net **	-	x	-	x	-	x	301	x	301	x
Other gains/losses from derecognition of financial instruments not at FVPL	x	-	x	-	x	-	x	(93)	x	(93)
Net impairment loss on financial assets	(40 215)	x	9 815	x	43	x	283	x	(30 074)	x
Impairment result from financial instruments	x	(32 768)	x	9 106	x	(13)	x	154	x	(23 522)
Other operating result	(20 903)	(21 440)	(6 149)	(3 937)	(1 275)	(1 608)	(11 467)	(13 173)	(39 794)	(40 158)
Levies on banking activities	(20 083)	(21 440)	(3 370)	(3 937)	(1 336)	(1 608)	(5 339)	(6 045)	(30 128)	(33 031)
Pre-tax profit from continuing operations	**172 415**	**191 199**	**47 409**	**60 688**	**7 487**	**7 624**	**(10 238)**	**(22 894)**	**216 559**	**236 616**
Taxes on income	(36 207)	(39 800)	(9 956)	(12 744)	(1 572)	(1 601)	(4 925)	1 214	(52 660)	(52 932)
Net result for the period	**136 207**	**151 398**	**37 453**	**47 493**	**5 915**	**6 023**	**(15 162)**	**(21 680)**	**163 899**	**183 684**
Net result attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**19**	**16**	**19**	**16**
Net result attributable to owners of the parent	**136 207**	**151 398**	**37 453**	**47 493**	**5 915**	**6 023**	**(15 181)**	**(21 696)**	**163 880**	**183 668**
Operating income	477 452	486 654	78 384	90 133	13 949	14 320	(994)	(9 617)	568 791	581 490
Operating expenses	(243 918)	(241 247)	(34 641)	(34 614)	(5 230)	(5 075)	1 125	(166)	(282 664)	(281 101)
Operating result	**233 534**	**245 407**	**43 743**	**55 519**	**8 718**	**9 245**	**132**	**(9 783)**	**286 127**	**300 389**
Risk-weighted assets (credit risk, eop)*	2 606 851	2 863 273	2 419 866	2 900 738	25 707	37 922	422 131	586 721	5 474 555	6 388 654
Average allocated capital**	309 891	414 716	171 155	260 123	6 538	7 917	185 763	231 617	673 347	914 373
Cost/income ratio	0,0%	49,6%	0,0%	38,4%	0,0%	35,4%	0,0%	-1,7%	0,0%	48,3%
Return on allocated capital	0,0%	36,5%	0,0%	18,4%	0,0%	76,1%	0,0%	-9,4%	0,0%	20,1%
Total assets (eop)	9 032 269	9 737 402	2 865 121	3 441 390	246 089	59 728	4 199 632	4 204 387	16 343 111	17 442 906
Total liabilities excluding equity (eop)	10 306 680	11 200 595	1 299 051	1 430 259	598 756	639 127	2 602 954	2 659 670	14 807 441	15 929 651
Impairments										
Net impairment loss on financial assets	**(40 215)**	**x**	**9 815**	**x**	**43**	**x**	**283**	**x**	**(30 074)**	**x**
Net impairment loss on loans and receivables to credit institutions/customers	(40 215)	x	9 853	x	43	x	295	x	(30 024)	x
Net impairment loss on other financial assets	-	x	(38)	x	-	x	(12)	x	(50)	x
Impairment result from financial instruments	**x**	**(32 768)**	**x**	**9 105**	**x**	**(13)**	**x**	**154**	**x**	**(23 521)**
Net impairment loss on financial instruments AC	x	(33 136)	x	6 878	x	(10)	x	250	x	(26 017)
Net impairment loss on financial instruments Leasing	x	-	x	-	x	-	x	72	x	72
Impairments and provisions for commitments and guarantees given	(821)	368	(2 779)	2 227	61	(3)	(13)	(168)	(3 552)	2 424
Net impairment on other non-financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**(1 088)**	**436**	**(1 088)**	**436**

*Credit RWA (Eop) after intercompany transactions according to Pillar 1, calculated by Erste group for the purpose of segment report and management purposes.
** Average allocated capital is calculated based on Erste group controlling methodology.

40. 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.

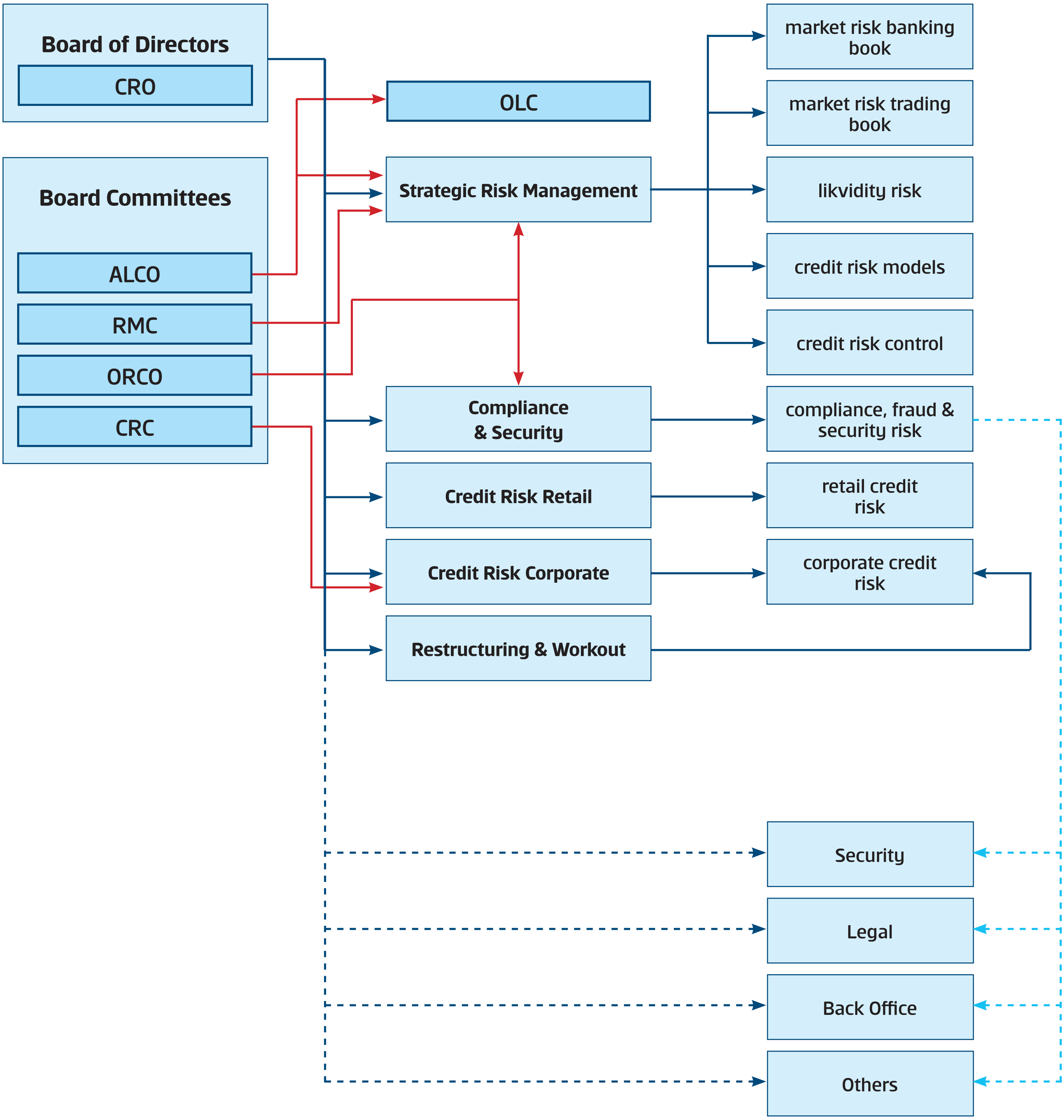
Risk taking is an inseparable part of the Group's operations and Group business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

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 an internal capital management process (ICAAP).

The Group is also committed to follow the risk management provisions defined by both local, as well as 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, Balance Sheet Management (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, collateral management and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models.
- 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 operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue / dashed lines in the chart).
- Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. 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 limits' 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 2018 the utilization of the economic capital was below 55%.

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 thousand 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 (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 Control department, is the independent risk control unit in line with capital requirements regulation and directive. 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 capital requirements regulation and directive 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 or Credit Committee) are determined and monitored by SRM.

Retail Credit Risk Management Division
Retail Credit Risk Management Division formulates the credit policy and internal actions 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 and late collection and retail collateral management.

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.

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.

Credit risk classification

For the disclosure of asset quality the Group assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with the Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention. Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may en-counter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. There are exposure meet criteria according default definition mentioned above. The Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

In order to enhance the comparability of the Group's asset quality, in 2018 Erste Group developed and implemented a new model for the assignment of exposures to risk categories. Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Compared to the method used for the assignment of credit exposures to risk categories until 2017, the most prominent impact concerns the migration of exposures in the category "low risk" to "management attention" (11% as at 31 December 2018). Less significant changes include the migration from "management attention" to "substandard" (3%) and from "low risk" to "substandard" (4% as at 31.12.2018). The "non-performing" risk category was not affected by the change in the methodology. As the newly developed model was implemented during 2018, the disclosure of comparative figures is not appropriate.

Credit risk under IFRS9

SLSP applies IFRS9 from 01.01.2018 for classification and measurement of financial instruments. Due to new methodology raised by IFRS9 we apply staging with relevant credit risk parameters.

IFRS 9 sets out guidance to assist entities in identifying information to be used to determine when a provision for lifetime expected credit losses is required. The application guidance sets out a wide range of potential sources of such information which includes:

- Significant change in internal price
- Other changes in the rates or terms of an existing financial instrument
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same term
- An actual or expected significant change in the financial instrument's external credit rating
- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally
- Significant changes in operating results of the borrower
- A significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations
- Significant changes in the value of the collateral
- Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument
- Significant changes in the expected performance and behaviour of the borrower
- Changes in the entity's credit management approach in relation to the financial instrument

The standard contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than predefined threshold days past due. This means that when payments are more than predefined threshold days past due, the financial asset is considered to have moved from Stage 1 to Stage 2, and lifetime expected credit losses are recognised. Past due is defined as failure to make a payment when that payment was contractually due.

IFRS 9 sets out a new 'expected loss' impairment model for financial assets and replaced the existing 'incurred loss' model in IAS 39 Financial Instruments: Recognition and Measurement. Under IFRS 9, the impairment model is more forward looking in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised.

For financial assets that are measured at amortised cost or FVOCI and other instruments in scope of IFRS 9 impairment requirements, the Group will always recognise (at a minimum) 12 months expected losses in profit or loss. Lifetime expected losses will be recognised on instruments for which there is a significant increase in credit risk after initial recognition.

The following financial assets and other instruments are included within the scope of the impairment requirements:

- Originated, purchased, reclassified or modified debt instruments (including trade recievables) that are measured at amortised cost in accordance with IFRS 9
- Debt instrument assets that are required to be measured at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9
- Other debt instruments in the scope of IFRS9 impairment requirements (finance/operating lease receivables, contract assets)
- Loan commitments given (including loan commitments which would result in non-trading loans measured mandatorily at FVPL)
- Financial guarantees contracts to which IFRS 9 applied (except those measured at FVPL)

IFRS 9 establishes a three stage approach for impairment of financial assets, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognised (as well as the amount of interest revenue):

- STAGE 1: If credit risk for a financial instrument has not increased significantly since initial recognition an entity shall measure the loss allowance for instrument at an amount equal to 12-month expected credit losses (ECLs)
- STAGE 2: For non-defaulted financial instruments whose credit risk has significantly increased since initial recognition, lifetime ECLs shall be recognised, i.e. estimated lifetime losses from default events that are possible over the entire residual life of the instruments. In this stage, interest revenues are recognised based on the gross carrying amount of the financial assets. The assessment of the significant increase in credit risk since initial recognition contains the days past due, the absolute and relative change of PD and forbearance criteria.
- STAGE 3: A financial assets reaches stage 3 if it is specifically identified as credit-impaired. As for Stage 2, the loss allowance equals full lifetime ECLs. In this stage, recognition of interest revenue is based on the net carrying amount. In general SLSP classifies defaulted exposures as being in Stage 3. From this perspective also defaulted off-balance exposures - loan commitments and financial guarantees – can belong to Stage 3 even when they generate no interest revenue.

The calculation of credit loss allowances is done on a daily basis on single exposure level and in the contractual currency of the exposure.

Calculated expected loss is discounted product of exposure at default (EAD) that includes as well credit conversion factor in case of off balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per definition of default), either over next 12 month (1Y PD) or over remaining lifetime (LT PD);
- EAD is based on the amounts the bank expects to be owed at the time of default, over next 12 months (1Y EAD) or over re-maining lifetime (LT EAD). bank includes to the estimation current balance, expected repayments and expected drawings up to the current contractual limit by the time of default, should it occur;
- LGD represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit expo-sure at the time of default (EAD).

The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band or credit rating band.

12-month expected credit loss is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. From risk management perspective 12-month probabilities of default are relevant for the calculation.

Lifetime expected credit loss is defined as the expected credit losses that result from all possible default events over the expected life of a financial instrument. i.e. from credit risk management perspective it reflects the probabilities of default throughout the expected maturity of the instrument.

In case of product without contractual maturity (typically revolving product such as credit card and overdraft) the expected lifetime credit losses is defined based on expected maturity.

IFRS 9 guideline indicates that an entity should measure expected credit losses with all reasonable and supportable information that is available without undue cost or effort at the reporting date. This includes information about past events, current conditions and forecasts of future economic conditions. Forecasts of future economic conditions are available at Erste Group and are therefore included in the IFRS 9 ECL calculation.

In addition to that, the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) noted in 2015 that, if there is a nonlinear relationship between the different forward-looking scenarios and their associated credit losses, using a single forward-looking scenario would not result in an unbiased estimator of the ECL. Instead, more than one forward-looking scenario would need to be incorporated into the measurement of expected credit losses. The risk parameters in ECL calculation are therefore adjusted to reflect forward-looking information.

Parameters are determined to reflect the risk as a "point-in-time" measure and with consideration of forward-looking information ("FLI"), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic varia-bles. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Erste Group's research department. Given multiple scenarios, the "neu-tral" PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is in-corporated for first year of ECL measurement. Measurement of the remaining life time returns back to through the cycle ob-servations in the year two immediately.

Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroe-conomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development.

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:
- cash and cash balances - other demand deposits;
- financial assets held for trading – derivatives (without equity instruments);
- non-trading financial assets at fair value through profit or loss (FVTPL) (without equity instruments);
- financial assets at fair value through other comprehensive income (FVTOCI) (without equity instruments);
- financial assets at amortised cost;
- finance lease receivables;
- positive fair value of derivatives – hedge accounting;
- trade and other receivables;
- off-balance sheet positions (financial guarantees, irrevocable loan and other commitments).

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet positions) this means the amount without taking into account loan loss allowances, provisions for guarantees, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.

The gross carrying amount of the credit risk exposure increased by 5,57% to 18,646 bil. Eur (2017: 17,596 bil. Eur).

The following table presents the reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure:

31.12.2018 EUR ths.	Gross carrying amount	Credit loss allowances				Net carrying amount
		Stage 1	Stage 2	Stage 3	POCI	
Cash and cash balances - other demand deposits	7 196	-	-	-	-	7 196
Financial assets at amortised cost	16 731 229	35 806	33 865	229 722	51 337	16 380 498
Loans and advances to banks	47 820	23	0	-	-	47 796
Loans and advances to customers	13 132 396	35 401	33 865	229 722	51 337	12 782 071
of which: Lending for house purchase	7 519 839	12 431	12 886	85 026	280	7 409 216
of which: Credit for consumption	1 807 046	14 456	15 062	120 330	199	1 657 001
of which: Corporate loans and others	3 805 511	8 514	5 918	24 367	50 858	3 715 855
Debt securities	3 551 013	382	-	-	-	3 550 631
Finance lease receivables	129 707	81	0	110	-	129 516
Trade and other receivables	99 517	307	8	3 252	-	95 952
Non-trading financial assets at fair value through profit or loss - 'Debt securities	23 622	-	-	-	-	23 622
Financial assets - held for trading	42 941	-	-	-	-	42 941
Hedge accounting derivatives	9 905	-	-	-	-	9 905
Total credit risk exposure on-balance	**17 044 117**	**36 194**	**33 874**	**233 085**	**51 337**	**16 689 630**
Off-balance	1 601 954	3 147	723	601	7 598	1 589 885
Total credit risk exposure	**18 646 071**	**39 341**	**34 597**	**233 686**	**58 935**	**18 279 515**

EUR ths. 31.12.2017	Gross carrying amount	Specific allowances for individually assessed financial assets	Specific allowances for collectively assessed financial assets	Collective allowances for incurrred but not reported losses	Net carrying amount
Cash and cash balances	53 802	-	-	-	53 802
Loans and receivables to credit institutions	177 616	-	-	0	177 616
Loans and receivables to customers	12 084 524	82 730	207 065	74 995	11 719 733
of which: Lending for house purchase	6 950 023	3 805	80 339	24 875	6 841 004
of which: Credit for consumption	1 715 672	3	105 156	30 138	1 580 374
of which: Corporate loans and others	3 418 829	78 922	21 570	19 982	3 298 355
Financial assets - held to maturity	2 644 730	-	-	328	2 644 402
Financial assets - held for trading	-	-	-	-	-
Financial assets - at fair value through profit or loss	-	-	-	-	-
Financial assets - available for sale	972 734	-	-	-	972 734
Positive fair value of derivatives	43 244	-	-	-	43 244
Total Credit Rsik Exposure On-Balance	**15 976 650**	**82 730**	**207 065**	**75 323**	**15 611 532**
Off-balance	1 619 165	8 117	461	6 513	1 604 074
Total	**17 595 815**	**90 847**	**207 526**	**81 836**	**17 215 606**

Stage 1 and Stage 2 comprise not impaired credit risks while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated,

The defaulted part of POCI amounted to 131,176 mil. Eur, the non-defaulted part to 21,139 mil. Eur.

Adjustments include impairments for financial assets measured at amortised cost, provisions for off-balance sheet positions as well as changes to the carrying amount for financial assets at fair value through other comprehensive income.

On the next pages the credit risk exposure is presented according to the following criteria:

- industry and risk category;
- country of risk and financial instruments;
- impairment view;
- neither past due, not impaired;
- industry;
- Basel 3 exposure class and financial instrument.

The following table presents credit risk exposure by industry and risk category:

EUR ths. 31.12.2018	Low Risk	Management attention	Substandard	Non-performing loans	Total
Agriculture and forestry	76 282	44 627	2 505	1 783	125 197
Mining	42 444	152	3 366	-	45 962
Manufacturing	946 944	68 038	38 981	15 452	1 069 415
Energy and water supply	351 169	3 103	64 286	84	418 642
Construction	218 788	22 822	43 264	7 869	292 743
Development of building projects	16 368	62	16 295	16	32 741
Trade	566 992	81 527	30 066	14 557	693 142
Transport and communication	619 712	44 431	4 450	3 126	671 719
Hotels and restaurants	31 633	7 854	33 323	4 506	77 316
Financial and insurance services	474 240	2 342	35 595	47	512 224
Holding companies	107 979	697	5 099	-	113 775
Real estate and housing	757 564	8 632	329 912	112 103	1 208 211
Services	100 167	25 988	30 541	5 377	162 073
Public administration	3 414 055	18	125 540	18	3 539 631
Education, health and art	71 371	4 318	7 375	155	83 219
Private households	6 493 547	2 430 222	499 781	321 975	9 745 525
Other	22	84	946	-	1 052
Total	**14 164 930**	**2 744 158**	**1 249 931**	**487 052**	**18 646 071**

EUR ths. 31.12.2017	Investment grade	Subinvestment grade	Non-performing loans	Gross carrying amount
Agriculture and forestry	80 066	33 949	1 931	115 947
Mining	42 873	4 506	-	47 378
Manufacturing	812 974	80 143	21 081	914 198
Energy and water supply	413 267	5 866	77	419 210
Construction	222 653	10 932	13 451	247 036
Development of building projects	32 651	-	1 849	34 500
Trade	514 718	66 121	20 007	600 846
Transport and communication	584 608	11 754	5 320	601 681
Hotels and restaurants	70 445	4 551	4 904	79 901
Financial and insurance services	571 798	515	305	572 618
Holding companies	24 614	-	280	24 894
Real estate and housing	1 001 558	16 517	114 792	1 132 866
Services	111 830	17 859	6 432	136 121
Public administration	3 558 327	2 114	-	3 560 440
Education, health and art	50 164	2 575	282	53 022
Private households	8 250 211	545 977	318 003	9 114 192
Other	25	333	1	359
Total	**16 285 517**	**803 712**	**506 586**	**17 595 815**

The following table presents credit risk exposure by risk category:

EUR ths. 31.12.2018	Low Risk	Management attention	Substandard	Non-performing	Gross carrying amount
Cash and cash balances - other demand deposits	7 196	-	-	-	7 196
Financial assets at amortised cost	12 649 484	2 589 430	1 058 608	433 707	16 731 229
Loans and advances to banks	47 819	1	-	-	47 820
Loans and advances to customers	9 050 652	2 589 429	1 058 608	433 707	13 132 396
of which: Lending for house purchase	5 418 870	1 630 158	301 170	169 640	7 519 839
of which: Credit for consumption	792 007	693 867	175 637	145 536	1 807 046
of which: Corporate loans and others	2 839 775	265 404	581 801	118 531	3 805 511
Debt securities	3 551 013	-	-	-	3 551 013
Finance lease receivables	122 465	6 196	753	292	129 707
Trade and other receivables	55 394	5 104	35 511	3 508	99 517
Non-trading financial assets at fair value throu-gh profit or loss - 'Debt securities	23 570	-	52	-	23 622
Derrivatives - held for trading	39 074	195	3 668	5	42 941
Hedge accounting derivatives	9 753	-	152	-	9 905
Total credit risk exposure on-balance	**12 906 936**	**2 600 925**	**1 098 744**	**437 512**	**17 044 117**
Off-balance	1 257 992	143 235	151 188	49 539	1 601 954
Total credit risk exposure	**14 164 928**	**2 744 160**	**1 249 932**	**487 051**	**18 646 071**

The following table presents credit risk exposure by industry and IFRS9 stage:

EUR ths. 31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Not subject to stage assessment	Total credit risk exposure
Agriculture and forestry	115 921	7 393	1 355	447	81	125 197
Mining	45 891	20	-	-	50	45 961
Manufacturing	1 023 914	27 268	10 418	5 077	2 739	1 069 416
Energy and water supply	370 983	13 290	84	-	34 285	418 642
Construction	277 356	3 134	2 755	8 812	686	292 743
Development of building projects	32 285	14	12	4	425	32 740
Trade	659 882	11 111	9 900	4 679	7 568	693 140
Transport and communication	662 141	5 615	2 154	993	816	671 719
Hotels and restaurants	55 684	1 223	3 989	15 788	632	77 316
Financial and insurance services	474 664	705	46	-	36 808	512 223
Holding companies	113 775	-	-	-	-	113 775
Real estate and housing	1 076 157	17 950	460	111 643	2 002	1 208 212
Services	151 161	5 597	4 378	825	113	162 074
Public administration	3 539 493	120	18	-	-	3 539 631
Education, health and art	81 672	1 349	155	23	21	83 220
Private households	9 178 441	252 218	310 811	4 028	27	9 745 525
Other	211	33	-	-	808	1 052
Total	**17 713 571**	**347 026**	**346 523**	**152 315**	**86 636**	**18 646 071**

The following table presents credit risk exposure by region and financial instrument:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - ,Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
			Loans and advances to customers									
		Loans and advances to banks	of which: Lending for house purchase	of which: Credit for consump-tion	of which: Corporate loans and others	Debt securities						
Slovakia	-	31	7 514 774	1 805 884	3 718 935	3 250 396	129 707	71 835	3 400	40 485	1 546 917	18 082 364
Central and Eastern Europe	4 378	9 036	1 993	424	37 905	23 138	-	7 295	-	6 275	36 282	126 726
Austria	4 248	311	142	15	2	-	-	456	-	6 235	5 094	16 503
Czech Republic	54	1	1 244	270	37 898	23 138	-	4 509	-	40	28 911	96 065
Hungary	56	8 724	61	23	2	-	-	1 595	-	-	2 229	12 690
Croatia	19	-	112	32	1	-	-	391	-	-	2	557
Romania	1	-	252	47	1	-	-	337	-	-	43	681
Serbia	-	-	182	37	1	-	-	7	-	-	3	230
Other EU	2 726	38 752	1 294	194	48 617	272 403	-	17 257	20 222	6 085	18 200	425 750
Other industrialised countries	92	-	331	79	9	5 076	-	1 828	-	-	5	7 420
Emerging markets	-	1	1 447	466	45	-	-	1 302	-	-	550	3 811
Total	**7 196**	**47 820**	**7 519 839**	**1 807 047**	**3 805 511**	**3 551 013**	**129 707**	**99 517**	**23 622**	**52 845**	**1 601 954**	**18 646 071**

31.12.2017 EUR ths.	Cash and cash balances	Loans and receivables to credit institutions	Loans and receivables to customers			Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - available for sale	Positive fair value of derivatives	Off-balance	Total credit risk exposure
			of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others							
Slovakia	-	79	6 944 768	1 714 487	3 350 262	2 398 418	-	-	881 217	32 893	1 577 604	16 899 728
Central and Eastern Europe	53 302	177 532	1 840	479	33 429	-	-	-	44 139	3 210	34 952	348 882
Austria	3 467	135 718	186	18	493	-	-	-	-	3 120	2 516	145 518
Czech Republic	49 764	39 139	1 152	316	30 679	-	-	-	44 139	90	32 116	197 396
Hungary	57	2 675	66	0	1 583	-	-	-	-	-	273	4 654
Croatia	11	-	-	46	253	-	-	-	-	-	2	312
Romania	3	-	344	51	420	-	-	-	-	-	42	860
Serbia	-	-	93	47	1	-	-	-	-	-	2	142
Other EU	341	4	1 500	212	33 499	246 312	-	-	40 634	7 141	3 670	333 313
Other industrialised countries	159	-	344	38	104	-	-	-	6 744	-	6	7 396
Emerging markets	-	1	1 570	456	1 535	-	-	-	-	-	2 934	6 496
Total	**53 802**	**177 616**	**6 950 023**	**1 715 672**	**3 418 829**	**2 644 730**	**-**	**-**	**972 734**	**43 244**	**1 619 165**	**17 595 815**

The following table presents credit risk exposure according to impairment view:

31.12.2018 EUR ths.	Non-impaired loans							Impaired loans	Total Credit risk exposure
	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due non Impaired		
K 31.12.2018									
Cash and cash balances - other demand deposits	-	-	-	-	-	-	7 196	-	7 196
Financial assets at amortised cost	327 632	298 489	17 607	10 681	82	775	15 979 231	424 366	16 731 229
Loans and advances to banks	50	50	-	-	-	-	47 770	-	47 820
Loans and advances to customers	327 582	298 438	17 607	10 681	82	775	12 380 449	424 366	13 132 396
of which: Lending for house purchase	139 963	123 887	10 663	5 061	15	337	7 217 250	162 626	7 519 839
of which: Credit for consump-tion	84 490	73 627	6 063	4 553	7	240	1 579 113	143 443	1 807 046
of which: Corporate loans and others	103 129	100 924	881	1 067	60	197	3 584 085	118 297	3 805 511
Debt securities	-	-	-	-	-	-	3 551 013	-	3 551 013
Finance lease receivables	30 343	30 119	178	45	-	-	99 072	292	129 707
Trade and other receivables	14 060	12 398	1 562	98	-	1	81 949	3 508	99 517
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	23 622	-	23 622
Financial assets - held for trading	-	-	-	-	-	-	42 941	-	42 941
Hedge accounting derivatives	-	-	-	-	-	-	9 905	-	9 905
Total credit risk exposure on-ba-lance	**372 035**	**341 006**	**19 347**	**10 824**	**82**	**776**	**16 243 915**	**428 166**	**17 044 117**
Off-balance	-	-	-	-	-	-	1 552 422	49 532	1 601 954
Total credit risk exposure	**372 035**	**341 006**	**19 347**	**10 824**	**82**	**776**	**17 796 337**	**477 698**	**18 646 071**

31.12.2017 EUR ths.	Non-impaired loans							Impaired loans	Total Credit risk exposure
	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due non Impaired		
Cash and cash balances	-	-	-	-	-	-	53 802	-	53 802
Loans and receivables to credit institutions	38	38	-	-	-	-	177 578	-	177 616
Loans and receivables to customers	328 650	298 467	19 821	9 645	490	227	11 307 058	448 815	12 084 524
of which: Lending for house purchase	131 401	116 198	10 482	4 529	125	67	6 646 392	172 229	6 950 023
of which: Credit for consumption	84 289	72 813	6 615	4 534	253	75	1 503 652	127 730	1 715 672
of which: Corporate loans and others	112 959	109 457	2 724	582	112	85	3 157 014	148 856	3 418 829
Financial assets - held to maturity	-	-	-	-	-	-	2 644 730	-	2 644 730
Financial assets - held for trading	-	-	-	-	-	-	-	-	-
Financial assets - at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial assets - available for sale	-	-	-	-	-	-	972 734	-	972 734
Positive fair value of derivatives	-	-	-	-	-	-	43 244	-	43 244
Total Credit Risk Exposure On-Balance	**328 688**	**298 505**	**19 821**	**9 645**	**490**	**227**	**15 199 147**	**448 815**	**15 976 650**
Off-balance	82 546	82 500	33	11	2	-	1 487 928	48 691	1 619 165
Total	**411 234**	**381 005**	**19 854**	**9 656**	**492**	**227**	**16 687 075**	**497 506**	**17 595 815**

The following table presents credit quality for exposures, which are neither past due non impaired:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - ‚Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers			Debt securities						
			of which: Lending for house purchase	of which: Credit for consump-tion	of which: Corporate loans and others							
Low risk	7 196	47 770	5 413 349	791 102	2 799 029	3 551 013	94 825	47 960	23 570	48 827	1 257 992	14 082 633
Management attention	-	-	1 597 361	676 973	241 437	-	3 793	3 143	-	195	143 235	2 666 137
Substandard	-	-	202 891	110 332	543 601	-	454	30 846	52	3 819	151 188	1 043 183
Non-performing loans (NPE)	-	-	3 650	706	17	-	-	-	-	5	7	4 385
Total	**7 196**	**47 770**	**7 217 251**	**1 579 113**	**3 584 084**	**3 551 013**	**99 072**	**81 949**	**23 622**	**52 846**	**1 552 422**	**17 796 338**

31.12.2017 EUR ths.	Cash and cash balances	Loans and receivables to customers				Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - available for sale	Positive fair value of derivatives	Off-balance	Total credit risk exposure
		Loans and receivables to credit institutions	of which: Lending for house purchase	of which: Credit for consump-tion	of which: Corporate loans and others							
Investment grade (1-5)	53 802	177 578	6 406 690	1 382 367	2 987 545	2 644 730	-	-	972 734	42 549	1 419 989	16 087 984
Subinvestment grade (6)	-	-	181 300	85 684	144 719	-	-	-	-	677	57 175	469 555
Subinvestment grade (7)	-	-	44 467	25 149	16 474	-	-	-	-	10	9 669	95 770
Subinvestment grade (8)	-	-	10 509	9 447	8 232	-	-	-	-	-	1 012	29 200
Non-performing loans (NPE)	-	-	3 425	1 005	44	-	-	-	-	8	83	4 565
Total	**53 802**	**177 578**	**6 646 392**	**1 503 652**	**3 157 014**	**2 644 730**	**-**	**-**	**972 734**	**43 244**	**1 487 928**	**16 687 075**

The following table credit risk exposure by industry:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost			Finance lease receivables	Trade and other recei-vables	Non-trading fi-nancial assets at fair value through profit or loss - ,Debt securities	Positive fair value of deri-vatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers	Debt securities						
Agriculture and forestry	-	-	97 778	-	1 693	110	-	81	25 536	125 198
Mining	-	-	41 236	-	290	238	-	50	4 147	45 961
Manufacturing	-	-	705 607	9 356	32 271	54 512	-	563	267 107	1 069 416
Energy and water supply	-	-	302 942	-	4 733	2 211	-	34 285	74 471	418 642
Construction	-	-	117 206	-	3 880	621	-	686	170 351	292 744
Development of building projects	-	-	27 794	-	-	6	-	425	4 515	32 740
Trade	-	-	460 600	-	9 392	34 792	-	215	188 140	693 139
Transport and communication	-	-	409 010	86 656	68 492	1 237	-	816	105 508	671 719
Hotels and restaurants	-	-	71 184	-	417	3	-	632	5 081	77 317
Financial and insurance services	7 196	47 820	158 473	171 072	56	987	23 622	12 547	90 452	512 225
Holding companies	-	-	67 687	25 378	-	-	-	-	20 710	113 775
Real estate and housing	-	-	970 132	-	697	178	-	2 002	235 202	1 208 211
Services	-	-	97 120	-	5 887	3 699	-	113	55 254	162 073
Public administration	-	-	235 185	3 283 930	13	9	-	-	20 494	3 539 631
Education, health and art	-	-	66 110	-	1 768	919	-	21	14 401	83 219
Private households	-	-	9 399 585	-	117	-	-	27	345 795	9 745 524
Other	-	-	228	-	-	-	-	808	16	1 052
Total Credit risk exposure	**7 196**	**47 820**	**13 132 396**	**3 551 014**	**129 706**	**99 516**	**23 622**	**52 846**	**1 601 955**	**18 646 071**

31.12.2017 EUR ths.	Cash and cash balances - other demand deposits	Loans and receivables to credit institu-tions	Loans and receivables to customers	Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - avai-lable for sale	Positive fair value of deri-vatives	Off-balance	Total credit risk exposure
Agriculture and forestry	-	-	99 112	-	-	-	-	127	16 709	115 947
Mining	-	-	39 180	-	-	-	-	86	8 112	47 378
Manufacturing	-	-	612 990	-	-	-	6 605	519	294 083	914 198
Energy and water supply	-	-	331 939	-	-	-	-	26 832	60 439	419 210
Construction	-	-	99 240	-	-	-	-	649	147 148	247 036
Development of building projects	-	-	28 857	-	-	-	-	621	5 022	34 500
Trade	-	-	438 560	-	-	-	-	704	161 583	600 846
Transport and communication	-	-	351 018	-	-	-	114 371	485	135 807	601 681
Hotels and restaurants	-	-	72 822	-	-	-	-	332	6 746	79 901
Financial and insurance services	53 802	177 616	94 945	92 205	-	-	69 256	10 793	74 000	572 618
Holding companies	-	-	3 715	-	-	-	-	9	21 170	24 894
Real estate and housing	-	-	867 748	10 232	-	-	-	2 261	252 625	1 132 866
Services	-	-	87 308	-	-	-	-	16	48 797	136 121
Public administration	-	-	208 858	2 542 292	-	-	782 502	-	26 789	3 560 440
Education, health and art	-	-	38 443	-	-	-	-	7	14 572	53 022
Private households	-	-	8 742 337	-	-	-	-	99	371 755	9 114 192
Other	-	-	24	-	-	-	-	333	2	359
Total Credit risk exposure	**53 802**	**177 616**	**12 084 524**	**2 644 729**	**-**	**-**	**972 734**	**43 243**	**1 619 167**	**17 595 815**

The following table presents credit risk exposure by Basel 3 exposure class and financial instrument:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost			Finance lease receivables	Trade and other recei-vables	Non-trading fi-nancial assets at fair value through profit or loss - ,Debt securities	Positive fair value of deri-vatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers	Debt securities						
Sovereigns	-	-	230 133	3 301 947	57	9	-	-	20 478	3 552 625
Institutions	7 196	47 820	-	127 676	-	188	20 170	12 472	60 872	276 394
Corporates	-	-	2 883 101	121 390	125 790	97 731	3 452	40 346	1 051 592	4 323 403
Retail	-	-	10 019 162	-	3 859	1 588	-	27	469 012	10 493 649
Total	**7 196**	**47 820**	**13 132 396**	**3 551 013**	**129 706**	**99 516**	**23 622**	**52 845**	**1 601 954**	**18 646 071**

31.12.2017 tis. EUR	Cash and cash balances - other demand deposits	Loans and receivables to credit institutions	Loans and receivables to customers	Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - available for sale	Positive fair value of derivatives	Off-balance	Total credit risk exposure
Sovereigns	-	-	217 113	2 542 292	-	-	800 553	-	26 737	3 586 696
Institutions	53 802	177 616	-	92 205	-	-	51 204	10 261	44 959	430 048
Corporates	-	-	2 557 181	10 232	-	-	120 977	32 884	1 058 040	3 779 314
Retail	-	-	9 310 230	-	-	-	-	99	489 429	9 799 758
Total	**53 802**	**177 616**	**12 084 524**	**2 644 730**	**-**	**-**	**972 734**	**43 244**	**1 619 165**	**17 595 815**

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are presented in aggregated form. The aggregated exposure class 'sovereigns' also contains regional and local governments as well as public sector entities in addition to central governments, central banks, international organisations and multinational development banks. Institutions include banks and recognised investment firms.

Concerning contingent liabilities the gross carrying amount refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A net carrying amount is not presented in the case of contingent liabilities.

Forbearance

In September 2014 the Group 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.	31.12.2017	31.12.2018
Renegotiated loans	81 615	81 515
Total	**81 615**	**81 515**

The following table presents a summary of the Group'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.	Suma		Portion of total assets %	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Cash and cash balances	640	1 704	0,00%	0,01%
Loans and receivables to customers	440 184	450 735	2,69%	2,58%
Securities portfolios	3 060 427	3 006 180	18,73%	17,23%
Deferred tax asset	33 711	44 968	0,21%	0,26%
Total	**3 534 962**	**3 503 587**	**21,63%**	**20,09%**

The following table presents a breakdown of state debt securities held by the Group per portfolio and type of security:

EUR ths.	31.12.2017	31.12.2018
Securities available for sale	736 123	x
Slovak government Eurobonds	736 123	x
Securities held to maturity	2 324 304	x
State bonds denominated in EUR	2 295 245	x
State bonds denominated in USD	29 059	x
Financial assets at amortised cost	-	3 006 180
State bonds denominated in EUR	-	2 975 833
State bonds denominated in USD	-	30 347
Total	**3 060 427**	**3 006 180**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with positive outlook (since 7 April 2017).

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 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.

VAR for the overall banking employes Monte Carlo simulation to generate potential future yield curves (99.9 or 0.01 percentiles of the simulated short rate paths) that are then used to calculate change in value caused by that shifts in yield curves.

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.	2017	2018
Trading book VAR	0,0	0,0
Banking book VAR - ALM portfolio	10,5	10,0
Banking book VAR - Corporate portfolio	1,0	0,8
Banking book VAR – ALCO portfolio	0,1	0,2
Overall Banking book VAR	84,3	138,0
Overall Banking book sensitivity (200bp shock)	143,5	98,6

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

FX risk

Basis principle behind managing FX risk is to transfer positions stemming from banking book activities to Erste Holding. However, in reasonable cases, banking book is permitted to hold strategic FX positions. This would typically be opened in order to hedge existing FX positions that are not explicitly seen on the balance sheet.

Strategic positions are subject to ALCO approval and shall be managed on a daily basis by Balance Sheet Management. They are covered by sufficient limit structure and reporting on VAR, stop-loss limit and P/L (responsibility of Strategic Risk Management).

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 Group 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 2018 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 – Liquidity Coverage Ratio, NSFR – Net Stable Funding Ratio 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 - sum of top 10 biggest clients of each monitored group of wholesale funding providers (public, financial, credit institutions and corporates) may not account for more than 500 mil. Eur. 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

All regulatory ratios were well above the defined regulatory limits during the year 2018.

Internal analysis

Counter-balancing capacity – the minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was around 3,9 bn. Eur throughout 2018 (well above the 1,5 bn. Eur limit).

2018 EUR ths.	< 1 week	1 week 1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	394	-	-	-	-
Liquid assets	3 527	-	-	(142)	-
Counterbalancing capacity	**3 921**	**-**	**-**	**(142)**	**-**

2017 EUR ths.	< 1 week	1 week 1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	353	-	-	-	-
Liquid assets	3 529	-	-	-	(39)
Counterbalancing capacity	**3 882**	**-**	**-**	**-**	**(39)**

Survival period horizon

During the year 2018 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 9 month but on average was about 12 month.

Funding concentrations

During the year 2018 the funding concentrations limits was violated a few times (on average by 153 mil. Eur). All of these limit violations were caused by short-dated deposits and all of them were covered by temporary increase of minimum liquidity reserve by the amount of exceeding.

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 insurance 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 is generally forward-looking. While it is inevitable to use historical loss data, they are supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors are 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 maintains a central database of operational risk events and losses. This is 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, Fraud Prevention, Card Services, Internal Services or Legal Unit. Second stage is a data consistency check and is performed by Operational Risk Management. Events are 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 is covered by Operational 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 also includes adequate external event data in its risk identification system. These cover infrequent severe events with relevance to the Group or financial industry. The Group systematically incorporate external data into its risk measurement methodology. External data collection is coordinated with the Erste group efforts on this matter and will be conducted by Operational Risk Management.

Scenario analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Group includes 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 Operational 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. Operational 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 has the following properties:

- it is easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;
- it is 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 is used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems is 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 is 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 is validated through comparison to actual experience and appropriate corrections are made. Design of the risk measurement model is within the responsibility of Erste Holding. Modelling inputs are provided by Operational 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, Operational 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.

Operational Risk Management 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 implements 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 will 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. Operational Risk Management issues associated Internal Control System Policy giving detailed information on the system. However, Operational Risk Management 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 engages in a comprehensive insurance program. This covers 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 Group 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 Operational 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, inter alia, covers 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 is 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. Operational Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These are 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. Operational Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

41. 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 instrument 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 Group 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 2018 the cumulative CVA adjustment amounted 0,9 mil. Eur (2017: 0,3 mil. Eur) and the cumulative DVA adjustment amounted 0,2 mil. Eur (2017: 0,2 mil. Eur).

The responsibility for valuation of exposures measured at fair value is carried by Risk management unit, which is independent from all trading, sales and investment units.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1
The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active

markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis. These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2

In case a market quote is used for 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. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the 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. These include OTC derivatives, less liquid shares, bonds and funds as well as asset backed securities (ABS), collateralized debt obligations (CDO) and own issues.

Level 3

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of 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 besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. These include shares and funds not quoted, illiquid bonds as well as illiquid asset backed securities (ABS) and collateralized debt obligations (CDO).

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level. 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	Marked to model based on observable market data	Marked to model based on non-observable inputs	Total	Quoted market prices in active markets	Marked to model based on observable market data	Marked to model based on non-observable inputs	Total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	31.12.2017				31.12.2018			
Assets								
Financial assets - held for trading	-	36 484	-	36 484	-	42 941	-	42 941
Derivatives	-	36 484	-	36 484	-	42 941	-	42 941
Financial assets - at fair value through profit or loss	-	-	5 602	5 602	x	x	x	x
Non-trading financial assets at fair value through profit or loss	x	x	x	x	-	-	29 242	29 242
Equity instruments	x	x	x	x	-	-	5 620	5 620
Debt securities	x	x	x	x	-	-	23 622	23 622
Financial assets - available for sale	835 377	182 185	3 058	1 020 620	x	x	x	x
Financial assets at fair value through other comprehensive income	x	x	x	x	-	-	56 395	56 395
Equity instruments	x	x	x	x	-	-	56 395	56 395
Hedge accounting derivatives	-	6 761	-	6 761	-	9 905	-	9 905
Assets held for sale	-	-	-	-	-	-	-	-
Total assets	**835 377**	**225 430**	**8 660**	**1 069 467**	**-**	**52 846**	**85 637**	**138 483**
Liabilities								
Financial liabilities - held for trading	-	33 344	-	33 344	-	41 062	-	41 062
Derivatives	-	33 344	-	33 344	-	41 062	-	41 062
Hedge accounting derivatives	-	42 100	-	42 100	-	41 348	-	41 348
Total liabilities	**-**	**75 444**	**-**	**75 444**	**-**	**82 410**	**-**	**82 410**

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.

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. 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.

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.	1.1.2018	Impact of IFRS 9	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purcha-ses	Sales	Settle-ments	Additions to the group	Disposals out of the group	Transfers into Level 3	Trans-fers out of Level 3	Currency translation	31.12.2017
Assets													
Non-trading financial assets at fair value through profit or loss	8 660	10 198	2 373	-	-	(1 999)	(72)	-	-	10 082	(1)	1	29 242
Equity instruments	3 058	-	2 541	-	-	-	-	-	-	21	(1)	1	5 620
Debt securities	5 602	10 198	(168)	-	-	(1 999)	(72)	-	-	10 061	-	-	23 622
Financial assets at fair value through other comprehensive income	-	-	-	(11 330)	-	-	-	-	-	67 725	-	-	56 395
Equity instruments	-	-	-	(11 330)	-	-	-	-	-	67 725	-	-	56 395
Total assets	**8 660**	**10 198**	**2 373**	**(11 330)**	**-**	**(1 999)**	**(72)**	**-**	**-**	**77 807**	**(1)**	**1**	**85 637**

EUR ths.	1.1.2017	Impact of IFRS 9	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purcha-ses	Sales	Settle-ments	Additions to the group	Disposals out of the group	Transfers into Level 3	Trans-fers out of Level 3	Currency translation	31.12.2017
Assets													
Financial assets held for trading	405	x	-	-	-	-	-	-	-	-	(405)	-	-
Derivatives	405	x	-	-	-	-	-	-	-	-	(405)	-	-
Financial assets at fair value through profit or loss	6 118	x	(517)	-	-	-	-	-	-	-	-	-	5 602
Financial assets - available for sale	25 836	x	-	2 380	-	(298)	-	-	-	27 394	(52 254)	-	3 058
Total assets	**32 359**	**x**	**(517)**	**2 380**	**-**	**(298)**	**-**	**-**	**-**	**27 394**	**(52 659)**	**-**	**8 660**
Liabilities													
Financial liabilities held for trading	**288**	**x**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(288)**	**-**	**-**
Derivatives	288	x	-	-	-	-	-	-	-	-	(288)	-	-
Total liabilities	**288**	**x**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(288)**	**-**	**-**

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.	31.12.2017	31.12.2018
Assets		
Financial assets - at fair value through profit or loss	(517)	x
Non-trading financial assets at fair value through profit or loss	x	(563)
Debt securities	x	(563)
Financial assets at fair value through other comprehensive income	x	-
Hedge accounting derivatives	-	-
Total assets	**(517)**	**(563)**

The volume of Level 3 financial assets consists solely of a few positions in illiquid securities and can be allocated to the following three categories:
- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.
- Non-SPPI compliant loans

Fair value of financial instruments disclosed in the notes

The following table shows fair values of the financial instruments disclosed in the notes as at 31 December 2018 and 31 December 2017:

EUR ths.	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Assets	**31.12.2017**		**31.12.2018**	
Cash and cash balances	424 229	424 229	416 093	416 093
Financial assets held to maturity	2 644 402	3 064 786	x	x
Loans and receivables to credit institutions	177 616	181 674	x	x
Loans and receivables to customers	11 719 733	12 082 072	x	x
Financial assets at amortised cost	x	x	16 380 498	17 161 773
Loans and advances to banks	x	x	47 796	47 974
Loans and advances to customers	x	x	12 782 071	13 105 344
Debt securities	x	x	3 550 631	4 008 455
Finance lease receivables	x	x	129 516	130 644
Trade and other receivables	x	x	95 952	95 952
Liabilities				
Financial liabilities measured at amortised cost	14 624 693	14 641 939	15 742 939	15 700 663
Deposits from banks	488 564	499 905	251 300	255 483
Deposits from customers	12 477 892	12 458 782	13 653 163	13 584 667
Debt securities in issue	1 567 216	1 592 231	1 803 287	1 825 324
Other financial liabilities	91 021	91 021	35 189	35 189

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 aggregated 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 amortised 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 amortised 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 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 2018 the estimated fair value of investment property was in amount of 1,9 mil. Eur (2017: 2,0 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 3 of the fair value hierarchy.

42. Current and non-current assets and liabilities

The classification of assets, liabilities and equity to current (due within 1 year) and non-current (due over 1 year) based on their expected maturity is shown in the following table:

EUR ths.	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2017		31.12.2018	
Assets				
Cash and cash balances	424 221	8	416 093	-
Financial assets - held for trading	2 046	34 438	910	42 031
Derivatives	2 046	34 438	910	42 031
Financial assets at fair value through profit or loss	-	5 602	x	x
Non-trading financial assets mandatorily at fair value through profit or loss	x	x	20 171	9 072
Equity instruments	x	x	1	5 620
Debt securities	x	x	20 170	3 452
Financial assets available for sale	26 953	993 667	x	x
Financial assets at fair value through other comprehensive income	x	x	-	56 395
Equity instruments	x	x	-	56 395
Financial assets held to maturity	26 464	2 617 937	x	x
Loans and receivables to credit institutions	177 616	-	x	x
Loans and receivables to customers	1 608 924	10 110 809	x	x
Financial assets at amortised cost	x	x	1 704 027	14 676 471
Debt securities	x	x	140 299	3 410 332
Loans and advances to banks	x	x	47 796	-
Loans and advances to customers	x	x	1 515 932	11 266 139
Finance lease receivables	x	x	30 505	99 011
Hedge accounting derivatives	-	6 761	-	9 905
Property, plant, equipment	-	149 564	-	141 963
Investment properties	-	2 031	-	1 879
Intangible assets	-	55 457	-	39 041
Investments in associates	-	31 123	-	31 662
Current tax assets	10 634	-	4 639	-
Deferred tax assets	-	33 711	-	44 968
Trade and other receivables	x	x	3	95 949
Other assets	25 145	-	64	18 147
Total	**2 302 003**	**14 041 108**	**2 176 412**	**15 266 494**
Liabilities				
Financial liabilities - held for trading	2 266	31 077	1 435	39 627
Derivatives	2 266	31 077	1 435	39 627
Financial liabilities - measured at amortised costs	5 781 488	8 843 205	5 997 058	9 745 881
Deposits from banks	287 434	201 130	88 090	163 210
Deposits from customers	5 120 729	7 357 163	5 602 993	8 050 170
Debt securities in issue	282 304	1 284 912	270 786	1 532 501
Other financial liabilities	91 021	-	35 189	-
Hedge accounting derivatives	-	42 100	-	41 348
Long term provisions	-	9 976	-	-
Provisions	-	15 091	20 677	-
Current tax liabilities	1	-	-	-
Other Liabilities	82 235	1	83 444	-
Total	**5 865 991**	**8 941 450**	**6 102 705**	**9 826 856**

The following table details the Group's non-derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

2018 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 costs	12 108 140	426 143	1 464 563	967 964	871 193	15 838 003
Deposits from banks	51 273	13 091	23 798	66 619	101 453	256 234
Deposits from customers	12 020 885	343 680	1 234 413	55 295	37	13 654 310
Debt securities issued	793	69 372	206 352	846 050	769 703	1 892 270
Other financial liabilities	35 189	-	-	-	-	35 189
Guarantees provided	368 083	-	-	-	-	368 083
Guarantees from letter of credit	819	1 054	8 295	-	-	10 168
Loan commitments and undrawn loans	1 223 703	-	-	-	-	1 223 703
Spolu	**13 700 745**	**427 197**	**1 472 858**	**967 964**	**871 193**	**17 439 957**

2017 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 costs	10 601 283	828 299	1 596 422	1 349 267	293 142	14 668 413
Deposits from banks	180 884	80 072	26 426	87 928	111 130	486 440
Deposits from customers	10 329 218	579 226	1 451 867	119 174	30	12 479 515
Debt securities issued	160	169 001	118 129	1 142 165	181 982	1 611 437
Other financial liabilities	91 021	-	-	-	-	91 021
Guarantees provided	319 122	-	-	-	-	319 122
Guarantees from letter of credit	357	1 086	3 351	5 824	-	10 618
Loan commitments and undrawn loans	1 289 425	-	-	-	-	1 289 425
Total	**12 210 187**	**829 385**	**1 599 773**	**1 355 091**	**293 142**	**16 287 578**

The following table details the Group's derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

2018 EUR ths.	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total
Derivatives held for trading	73 948	10 283	8 913	90 295	765	184 204
Hedge accounting derivatives	2 625	3 467	7 503	49 710	31 198	94 503
Total	**76 573**	**13 750**	**16 416**	**140 005**	**31 963**	**278 707**

2017 EUR ths.	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total
Derivatives held for trading	60 826	14 569	22 066	96 893	1 320	195 674
Hedge accounting derivatives	2 625	3 468	7 503	51 910	42 525	108 031
Total	**63 451**	**18 037**	**29 569**	**148 803**	**43 845**	**303 705**

43. 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 the 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 the Group for regulatory purposes and for the disclosure of regulatory information.

The Group fulfilled regulatory capital requirements in both years 2018 and 2017 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

Accounting principles

The financial and regulatory figures published by the 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 unified reporting date of the consolidated financial statements and consolidated regulatory figures of the Group is
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

TThe 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 the 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, the Group 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 the Group and therefore are considered in RWAs.

The following table shows threshold calculations according to Articles 46 and 48 CRR:

EUR ths.	31.12.2017	31.12.2018
Non significant investments in financial sector entities		
Threshold (10% of CET1)	112 715	110 903
Holdings in CET1	3 059	5 620
Holdings in AT1	-	-
Holdings in T2	-	-
Distance to threshold	**109 656**	**105 283**
Significant investments in financial sector entities		
Threshold (10% of CET1)	112 715	110 903
Holdings in CET1	31 059	31 586
Distance to threshold	**81 656**	**79 317**
Deferred tax assets		
Threshold (10% of CET1)	112 715	110 903
Deferred tax assets that are dependent on future profitability and arise from temporary differences	32 901	44 583
Distance to threshold	**79 814**	**66 320**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	198 941	195 744
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	63 960	76 169
Distance to threshold	**134 981**	**119 575**

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	Sector	Relationship	Accounting treatment IFRS	Accounting treatment CRR scope	Classification
LANED a.s.	Non-financial corporations	subsidiary of Služby SLSP, s. r. o.	fully consolidated	fully consolidated	Ancillary service undertaking
Realitná spoločnosť Slovenskej sporiteľne, a.s.	Non-financial corporations	subsidiary of Služby SLSP, s. r. o.	fully consolidated	deconsolidated	Ancillary service undertaking
Služby SLSP, s. r. o.	Other financial corporation	subsidiary	fully consolidated	fully consolidated	Financial institution
Prvá stavebná sporiteľňa, a.s.	Credit institutions	associated company	at equity method	at equity method	Credit institutions
Slovak Banking Credit Bureau, s.r.o.	Non-financial corporations	associated company	at equity method	at equity method	Ancillary service undertaking
Holding Card Service, spol. s r. o.	Other financial corporation	associated company	at equity method	at equity method	Financial institution
Procurement Services SK, s.r.o.	Non-financial corporations	subsidiary	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:

2018 EUR ths.	1.1.2018	New	Deconsolidated	Merged	Reclassification	31.12.2018
Credit institutions	-	-	-	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	-	-	-	-	-	-
Ancillary service undertakings, investment firms and asset management companies	3	-	1	-	-	2
Total	**3**	**-**	**1**	**-**	**-**	**2**

2017 EUR ths.	1.1.2017	New	Deconsolidated	Merged	Reclassification	31.12.2018
Credit institutions	-	-	-	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	-	-	-	-	-	-
Ancillary service undertakings, investment firms and asset management companies	3	-	-	-	-	3
Total	**3**	**-**	**-**	**-**	**-**	**3**

As of 31 December 2018 the number of companies consolidated pursuant to IFRS was 7. As of 31 December 2018 the number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR) was 5.

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.

In the prudential scope of consolidation the subsidiary Realitná spoločnosť Slovenskej sporiteľne, a.s. was deconsolidated in 2018. Under IFRS scope of consolidation this subsidiary is still fully consolidated.

There were no other changes within the fully consolidated entities within the regulatory scope of consolidation in the year 2018.

Own funds

Own funds of an institution according to CRR consist of the sum of the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital of the institution. To assess the capital adequacy, each Tier of the capital after applying all prudential filters and deductions is expressed as a percentage of the total risk exposure amount.

The following table shows the structure of own funds according to implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (the positions not relevant for the Group were excluded):

EUR ths.	Article pursuant to CRR	31.12.2017	31.12.2018
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	212 000	212 000
Own CET1 instruments	36 (1) (f), 42	-	-
Retained earnings	26 (1) (c), 26 (2)	910 177	924 904
Interim profit	26 (2)	-	-
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	94 428	39 427
Minority interest recognised in CET1	4 (1) (120) 84	-	-
Transitional adjustments due to additional minority interests	479, 480	-	-
Prudential filter: cash flow hedge reserve	33 (1) (a)	-	-
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	-	-
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	241	153
Value adjustments due to the requirements for prudent valuation	34, 105	(3 394)	(4 554)
Goodwill	4 (1) (113), 36 (1) (b), 37	-	-
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(55 457)	(39 041)
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	36 (1) (c), 38	(777)	(336)
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-	-
Development of unaudited risk provisions during the year (EU No 183/2014)		(30 073)	(23 522)
Excess of deduction from AT1 items over AT1	36 (1) (j)	-	-
Common equity tier 1 capital (CET1)	**50**	**1 127 145**	**1 109 031**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	150 000	150 000
Own AT1 instruments	52 (1) (b), 56 (a), 57	-	-
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	-	-
Transitional adjustments due to grandfathered AT1 instruments	483 (4) (5), 484 to 487, 489, 491	-	-
AT1 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 56 (d), 59, 79	-	-
Excess of deduction from T2 items over T2	36 (1) (j)	-	-
Additional tier 1 capital (AT1)	**61**	**150 000**	**150 000**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**1 277 145**	**1 259 031**

Table continues on the following page.

EUR ths.	Article pursuant to CRR	31.12.2017	31.12.2018
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	37 877	43 485
Own T2 instruments	63 (b) (i), 66 (a), 67	-	-
Instruments issued by subsidiaries recognised in T2	87, 88	-	-
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	-	-
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	-	-
IRB excess of provisions over expected losses eligible	62 (d)	32 647	36 893
Standardised approach general credit risk adjustments	62 (c)	-	-
Other transitional adjustments to T2	476, 477, 478, 481	-	-
T2 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 66 (d), 68, 69, 79	-	(5 255)
Tier 2 capital (T2)	**71**	**70 524**	**75 123**
Total own funds	**4 (1) (118) and 72**	**1 347 669**	**1 334 154**
Capital requirement	**92 (3), 95, 96, 98**	**575 396**	**589 617**
CET1 capital ratio	**92 (2) (a)**	**15,67%**	**15,05%**
Tier 1 capital ratio	**92 (2) (b)**	**17,76%**	**17,08%**
Total capital ratio	**92 (2) (c)**	**18,74%**	**18,10%**

The Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

EUR ths.	Article pursuant to CRR	31.12.2017		31.12.2018	
		Total risk	Capital requirement	Total risk	Capital requirement
Total Risk Exposure Amount	**92 (3), 95, 96, 98**	**7 192 445**	**575 395**	**7 370 216**	**589 617**
Risk weighted assets (credit risk)	92 (3) (a) (f)	5 761 262	460 901	6 405 442	512 435
Standardised approach		320 163	25 613	256 533	20 523
IRB approach		5 441 099	435 288	6 148 909	491 912
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	4 031	322	2 750	220
Operational Risk	92 (3) (e), 92 (4) (b)	1 397 574	111 806	924 635	73 971
Exposure for CVA	92 (3) (d)	29 578	2 366	37 389	2 991
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	-	-	-	-

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 2018:

EUR ths.	IFRS	Effects - scope of consolidation	CRR
Assets			
Cash and cash balances	416 093	-	416 093
Financial assets held for trading	42 941	-	42 941
Derivatives	42 941	-	42 941
Non-trading financial assets at fair value through profit or loss	29 242	-	29 242
Equity instruments	5 620	-	5 620
Debt securities	23 622	-	23 622
Financial assets at fair value through other comprehensive income	56 395	-	56 395
Equity investments	56 395	-	56 395
Financial assets at amortised cost	16 380 498	-	16 380 498
thereof pledged as collateral	1 791 108	-	1 791 108
Debt securities	3 550 631	-	3 550 631
Loans and advances to banks	47 796	-	47 796
Loans and advances to customers	12 782 071	-	12 782 071
Finance lease receivables	129 516	-	129 516
Hedge accounting derivatives	9 905	-	9 905
Property and equipment	141 963	-	141 963
Investment property	1 879	-	1 879
Intangible assets	39 041	-	39 041
Investments in joint ventures and associates	31 662	279	31 939
Current tax assets	4 639	-	4 639
Deferred tax assets	44 968	(49)	44 920
Trade and other receivables	95 952	60	96 012
Other assets	18 212	(103)	18 110
Total assets	**17 442 906**	**187**	**17 443 093**
Liabilities and equity			
Financial liabilities held for trading	41 062	-	41 062
Derivatives	41 062	-	41 062
Financial liabilities measured at amortised cost	15 742 939	353	15 743 292
Deposits from banks	251 300	-	251 300
Deposits from customers	13 653 163	353	13 653 517
Debt securities in issue	1 803 287	-	1 803 287
Other financial liabilities	35 189	-	35 189
Hedge accounting derivatives	41 348	-	41 348
Provisions	20 677	-	20 677
Current tax liabilities	91	(20)	70
Other liabilities	83 444	(329)	83 116
Total liabilities	**15 929 561**	**4**	**15 929 565**
Equity attributable to non-controlling interests	28	(28)	-
Equity attributable to owners of the parent	1 513 317	211	1 513 528
Subscribed capital	212 000	-	212 000
Additional equity instruments	150 000	-	150 000
Retained earning and other reserves	1 151 317	211	1 151 528
Total equity	**1 513 345**	**183**	**1 513 528**
Total liabilities and equity	**17 442 906**	**187**	**17 443 093**

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation as at 31 December 2017:

EUR ths.	IFRS	Effects - scope of consolidation	CRR
Assets			
Cash and cash balances	424 229	-	424 229
Financial assets - held for trading	36 484	-	36 484
Derivatives	36 484	-	36 484
Other trading assets	-	-	-
Financial assets - at fair value through profit or loss	5 602	-	5 602
Financial assets - available for sale	1 020 620	-	1 020 620
Financial assets - held to maturity	2 644 402	-	2 644 402
Loans and receivables to credit institutions	177 616	-	177 616
Loans and receivables to customers	11 719 733	-	11 719 733
Derivatives - hedge accounting	6 761	-	6 761
Property and equipment	149 566	-	149 566
Investment properties	2 031	-	2 031
Intangible assets	55 457	-	55 457
Investments in associates and joint ventures	31 123	(2 406)	28 717
Current tax assets	10 634	(11)	10 623
Deferred tax assets	33 711	(33)	33 677
Assets held for sale	-	-	-
Other assets	25 144	(209)	24 935
Total assets	**16 343 112**	**(2 659)**	**16 340 452**
Liabilities and equity			
Financial liabilities - held for trading	33 344	-	33 344
Derivatives	33 344	-	33 344
Financial liabilities measured at amortised costs	14 624 693	124	14 624 817
Deposits from banks	488 564	-	488 564
Deposits from customers	12 477 892	124	12 478 016
Debt securities issued	1 567 216	-	1 567 216
Other financial liabilities	91 021	-	91 021
Derivatives - hedge accounting	42 100	-	42 100
Provisions	25 067	-	25 067
Current tax liabilities	1	-	1
Other liabilities	82 236	(316)	81 921
Total equity	**1 535 671**	**(2 467)**	**1 533 203**
Equity - attributable to non-controlling interests	31	(31)	-
Equity - attributable to owners of the parent	1 535 640	(2 437)	1 533 203
Total liabilities and equity	**16 343 112**	**(2 659)**	**16 340 452**

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 2018:

EUR ths. 31.12.2018	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	-	118 899	-	118 899
AT1 capital instruments and the related share premium accounts	a	150 000	-	150 000	-	150 000
Retained earnings	b	809 352	180	809 532	(3 527)	806 005
Other comprehensive income (OCI)	c	39 399	29	39 427	-	39 427
Cash flow hedge reserve	g	-	-	-	-	-
Financial assets at fair value through other comprehensive income		50 740	-	50 740	-	50 740
unrealized gains according to Art. 35 CRR	h	50 740	-	50 740	-	50 740
unrealized losses according to Art. 35 CRR		-	-	-	-	-
other		-	-	-	-	-
Currency translation		(48)	29	(19)	-	(19)
Remeasurement of net liability of defined pension plans		(808)	-	(808)	-	(808)
Deferred tax		(10 486)	-	(10 486)	-	(10 486)
Profit or loss attributable to equity holders of the parent		183 667	3	183 670	(183 670)	-
Other		-	-	-	-	-
Equity attributable to the owners of the parent		1 513 317	211	1 513 528	(187 197)	1 326 331
Equity attributable to non-controlling interests	d	28	(28)	-	-	-
Total equity		**1 513 345**	**183**	**1 513 528**	**(187 197)**	**1 326 331**

Total equity as at 31 December 2017:

EUR ths. 31.12.2017	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	-	118 899	-	118 899
AT1 capital instruments and the related share premium accounts	a	150 000	-	150 000	-	150 000
Retained earnings	b	796 461	(2 470)	793 991	(2 713)	791 278
Other comprehensive income (OCI)	c	94 399	29	94 428	-	94 428
Cash flow hedge reserve	g	-	-	-	-	-
Available for sale reserve		120 072	-	120 072	-	120 072
unrealized gains according to Art. 35 CRR	h	120 077	-	120 077	-	120 077
unrealized losses according to Art. 35 CRR		(5)	-	(5)	-	(5)
other		-	-	-	-	-
Currency translation		23	29	52	-	52
Remeasurement of net liability of defined pension plans		(609)	-	(609)	128	(481)
Deferred tax		(25 087)	-	(25 087)	(128)	(25 215)
Profit or loss attributable to equity holders of the parent		163 880	5	163 886	(163 886)	-
Other		-	-	-	-	-
Equity attributable to the owners of the parent		1 535 640	(2 437)	1 533 203	(166 599)	1 366 605
Equity attributable to non-controlling interests	d	31	(31)	-	-	-
Total equity		**1 535 671**	**(2 467)**	**1 533 203**	**(166 599)**	**1 366 605**

Further details regarding the development of IFRS equity are disclosed under “Group Statement of Changes in Total Equity”.

Intangible assets

The following tables show intangible assets and amount of deduction of regulatory own funds:

EUR ths. 31.12.2018	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Intangible assets	e	39 041	-	39 041	-	39 041
deductible from CET1 acc. to transitional provisions	-	-	-	-	-	-
deductible from AT1 acc. to transitional provisions	-	-	-	-	-	-
Intangible assets	**e**	**39 041**	**-**	**39 041**	**-**	**39 041**

EUR ths. 31.12.2017	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Intangible assets	e	55 457	-	55 457	-	55 457
deductible from CET1 acc. to transitional provisions	-	-	-	-	-	-
deductible from AT1 acc. to transitional provisions	-	-	-	-	-	-
Intangible assets	**e**	**55 457**	**-**	**55 457**	**-**	**55 457**

Details regarding the development of intangible assets are disclosed under "Intangible assets" (note 29).

Deferred taxes

The following table shows deferred taxes according to IFRS and CRR scope of consolidation.

EUR ths. 31.12.2018	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		336	-	336	-	336
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		44 632	(49)	44 583	-	44 583
Deferred tax assets		**44 968**	**(49)**	**44 920**	**-**	**44 920**

EUR ths. 31.12.2017	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		777	-	777	-	777
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		32 934	(33)	32 901	-	32 901
Deferred tax assets		**33 711**	**(33)**	**33 678**	**-**	**33 678**

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 the Group at the year end 2018. 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 26).

Subordinated liabilities

The following table shows subordinated liabilities according to IFRS and CRR scope of consolidation.

EUR ths. 31.12.2018	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		72 792	-	72 792	(29 307)	43 485
Tier 2 capital instruments (including related share premium) issued by the parent company	k	72 792	-	72 792	(29 307)	43 485
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		**72 792**	**-**	**72 792**	**(29 307)**	**43 485**

EUR ths. 31.12.2017	Own funds disclosure table - reference	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		77 446	-	77 446	(39 569)	37 877
Tier 2 capital instruments (including related share premium) issued by the parent company	k	77 446	-	77 446	(39 569)	37 877
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		**77 446**	**-**	**77 446**	**(39 569)**	**37 877**

Details regarding subordinated liabilities are disclosed under “Financial liabilities measured at amortised costs” (note 30).

Own funds development

The following table shows own funds development between the start and the end of the period:

EUR ths.	31.12.2017	31.12.2018
CET1 at the beginning of the period	1 069 395	1 127 145
Changes in retained earnings	10 026	14 727
Changes in accumulated other comprehensive income	11 592	(55 001)
Changes in minority interest	-	-
Changes in prudential filters	523	(1 248)
Changes in regulatory deductions	17 448	16 856
goodwill	-	-
other intangibles	16 499	16 415
Other	18 162	6 551
CET1 at the end of the period	1 127 146	1 109 030
Additional Tier 1 development		
AT1 at the beginning of the period	150 000	150 000
Net increase / decrease in AT1	-	-
Changes in regulatory deduction	-	-
Other	-	-
AT1 at the end of the period	150 000	150 000
Tier 2 development		
T2 at the beginning of the period	75 433	70 523
Net increase / (decrease) in T2	(10 188)	5 609
Changes in regulatory deduction	-	(5 255)
IRB Excess and SA credit risk adjustments	5 278	4 247
T2 at the end of the period	70 523	75 124
Total own funds	**1 347 669**	**1 334 154**

Transitional provisions

The Transitional Provisions are not applied by the Group.

Own funds template

Disclosure requirements: Art. 437 (1) (d) (e) CRR

The Group 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.	Reference to reconciliation tables	31.12.2017	31.12.2018
Common equity tier 1 (CET1) capital: instruments and reserves			
1 Common equity tier 1 (CET1) capital: instruments and reserves	a	212 000	212 000
thereof ordinary shares	a	212 000	212 000
2 Retained earnings	b	910 177	924 904
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		94 428	39 427
3a Fund for general banking risk	c	-	-
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		-	-
Public sector capital injections grandfathered until Jan 18		-	-
5 Minority interests (amount allowed in consolidated CET1)	d	-	-
5a Independently reviewed interim profits net of any foreseeable charge or dividend		-	-
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments		**1 216 605**	**1 176 331**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**-**	**-**
7 Additional value adjustments (negative amount)		(3 394)	(4 554)
8 Intangible assets (net of related tax liability) (negative amount)	e	(55 457)	(39 041)
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)	f	(777)	(336)
11 Fair value reserves related to gains or losses on cash flow hedges	g	-	-
12 Negative amounts resulting from the calculation of expected loss amounts		-	-
13 Any increase in equity that results from securitised assets (negative amount)		-	-
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		241	153
15 Defined-benefit pension fund assets (negative amount)		-	-
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		-	-
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)		-	-
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)		-	-
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)		-	-
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		-	-
20b of which: qualifying holdings outside the financial sector (negative amount)		-	-
20c of which: securitisation positions (negative amount)		-	-
20d of which: free deliveries (negative amount)		-	-
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)		-	-
22 Amount exceeding the 15% threshold (negative amount)		-	-
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		-	-
24 Empty Set in the EU		-	-
25 of which: deferred tax assets arising from temporary differences		-	-
25a Losses for the current financial year (negative amount)		-	-
25b Foreseeable tax charges relating to CET1 items (negative amount)		-	-
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		-	-
unrealised gain	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		-	-
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		-	-
CET1 other deductions		(30 073)	(23 522)
28 Total regulatory adjustments to Common equity Tier 1 (CET1)		**(89 459)**	**(67 300)**
29 Common Equity Tier 1 (CET1) capital		**1 127 145**	**1 109 031**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
Additional Tier 1 (AT1) capital: instruments		**-**	**-**
30 Capital instruments and the related share premium accounts		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	i	-	-
Public sector capital injections grandfathered until 1 January 2018		-	-
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		-	-
35 of which: instruments issued by subsidiaries subject to phase out		-	-
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)		-	-
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)		-	-
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)		-	-
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)		-	-
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		-	-
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		-	-
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		-	-
Of which: ... possible filter for unrealised losses		-	-
Of which: ... possible filter for unrealised gains		-	-
Of which: ...		-	-
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		-	-
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)		**1 277 145**	**1 259 031**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
Tier 2 (T2) capital: Instruments and provisions		**-**	**-**
46 Capital instruments and the related share premium accounts	k	37 877	43 485
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		-	-
Public sector capital injections grandfathered until 1 January 2018		-	-
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	l	-	-
49 of which: instruments issued by subsidiaries subject to phase out	m	-	-
50 Credit risk adjustments		32 647	36 893
51 Tier 2 (T2) capital before regulatory adjustments		**70 523**	**80 379**
Tier 2 (T2) capital: regulatory adjustments		**-**	**-**
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		-	-
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)		-	-
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)		-	-
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)		-	(5 255)
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		-	-
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		-	-
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		-	-
Of which: ... possible filter for unrealised losses		-	-
Of which: ... possible filter for unrealised gains		-	-
Of which: ...		-	-
57 Total regulatory adjustments to Tier 2 (T2) capital		**-**	**(5 255)**
58 Tier 2 (T2) capital		**70 523**	**75 123**
59 Total capital (TC = T1 + T2)		**1 347 669**	**1 334 154**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
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.)		-	-
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.)		-	-
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.)		-	-
60 Total risk-weighted assets		**7 192 445**	**7 370 216**
Capital ratios and buffers		**-**	**-**
61 Common Equity Tier 1 (as a percentage of risk exposure amount)		16%	15%
62 Tier 1 (as a percentage of total risk exposure amount)		18%	17%
63 Total capital (as a percentage of total risk exposure amount)		19%	18%
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)		357 537	420 018
65 of which: capital conservation buffer requirement		179 811	184 255
66 of which: countercyclical buffer requirement		33 877	88 358
67 of which: systemic risk buffer requirement		71 924	73 702
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		71 924	73 702
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		11%	11%
69 [non-relevant in EU regulation]		-	-
70 [non-relevant in EU regulation]		-	-
71 [non-relevant in EU regulation]		-	-
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)		3 059	-
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)		31 059	-
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)		32 901	44 583

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
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)		-	-
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach		-	-
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		68 165	91 871
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		32 647	36 893
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		-	-
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		-	-
82 Current cap on AT1 instruments subject to phase out arrangements		-	-
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		-	-
84 Current cap on T2 instruments subject to phase out arrangements		-	-
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		-	-

44. Events after the reporting period

During the first quarter of 2019 the Group consider to acquire S Slovensko, spol. s r.o. (leasing company with total assets of 163,7 mil. Eur) from Erste Group Bank AG.

Since 31 December 2018 up to the date of issue of these consolidated financial statements there were no other 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 13 February 2019.

Ing. Peter Krutil
Chairman of the Board of Directors
and Chief Executive Officer

Ing. Pavel Cetkovský
Member of the Board of Directors
and 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 2018

(Translated version, original version in Slovak)

Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of
Slovenská sporiteľňa, a.s.

Report on the audit of the separate financial statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Slovenská sporiteľňa, a.s. (the "Bank") as at 31 December 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 21 February 2019.

What we have audited

The Bank's separate financial statements comprise:

- the separate statement of profit or loss for the year ended 31 December 2018;
- the separate statement of comprehensive income for the year ended 31 December 2018;
- the separate statement of financial position as at 31 December 2018;
- the separate statement of changes in equity for the year then ended;
- the separate statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

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The firm's ID No. (IČO): 35 739 347.
Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

The non-audit services that we have provided to the Bank, in the period from 1 January 2018 to 31 December 2018 are disclosed in Note 6 to the separate financial statements.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate financial statements as a whole.

Overall materiality	EUR 13.2 million
How we determined it	We based the materiality on a combination of two benchmarks, pre-tax profit from continuing operations and total equity, each carrying 50% weight.
Rationale for the materiality benchmark applied	The performance of the Bank is most commonly evaluated by financial statements' users based on the Bank's profitability. However, the Bank's capital is also an important indicator for many users of the financial statements and shareholder return is commonly expressed relative to the amount of the Bank's capital, that is, as a return on equity. The quantitative thresholds of approximately 5% applied to pre-tax profit from continuing operations and 1% applied to total equity, which in our experience represent acceptable benchmarks.

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.

pwc

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances estimate As explained in Note 20, Note 21 and Note 23 to the separate financial statements, management estimated total credit loss allowances for loans and advances to customers, finance lease receivables and trade and other receivables amounted to EUR 354,084 thousand. The carrying value of loans and advances to customers, finance lease receivables and trade and other receivables measured at amortised costs may be materially misstated if individual or collective credit loss allowances are not appropriately identified and estimated. The estimates required for credit loss allowances are significant estimates, as explained in more detail in the Note *Significant accounting judgements, assumption and estimates* of the separate financial statements. The identification of significant increase in credit risk or default; the estimation of credit loss including estimates of future cash flows and valuation of collateral; implementation of comprehensive credit loss models all involve significant management judgement. Due to the significance of the amount of the credit loss allowances and material impact of creation and release of credit loss allowances on the net result for the year, we consider the credit loss allowances estimate as a key audit matter.	We assessed and tested design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans. We tested design and operating effectiveness of IT general controls, including access to programs and data, program changes and computer operations related to quantification of credit loss allowances. We verified that models used for accurate quantification of credit loss allowances are in line with IFRS 9 requirements. A sample of individually significant loan exposures was examined, in order to test accuracy of credit loss allowances calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows by comparing them to historical performance of the customer and expected future performance as well as assessing external and internal valuations of underlying collaterals and comparing them to values used by management in the impairment quantification. On a sample basis, we assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Bank to estimate collective credit loss allowances for loans that share similar credit risk characteristics. The underlying models were assessed by our experts for financial risk management and modelling. They assessed the design and implementation of models in line with applicable reporting standards, including shifts to risk parameters due to the impact of forward looking information and accuracy of collective credit loss allowances. Our experts reviewed a validation process implemented by the Bank and interpreted results of the validation report. Based on the procedures performed, we identified no material adjustments to the credit loss allowances and related impact on the net result for the year.

Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 (hereafter the "Accounting Act"), the Slovak Act on Stock Exchanges No. 429/2002 as amended and the Slovak Act on Securities and Investment Services No. 566/2001 as amended. The annual report comprises (a) the separate financial statements and (b) other information.

Our opinion on the separate financial statements does not cover the other information in the annual report.

In connection with our audit of the separate financial statements, our responsibility is to read the annual report and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether it includes the disclosures required by the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the annual report for the year ended 31 December 2018 is consistent with the separate financial statements; and
- the annual report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess the risks of material misstatement of the 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 disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

Reporting on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank on 27 March 2017. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of two years.

Slovenská komora audítorov
SKAU
Č. licencie 161
PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Mgr. Martin Gallovič
UDVA licence No. 1180

Bratislava, 21 February 2019, except for the section "Reporting on other information in the annual report" of this report, for which the date of our report is 18 March 2019.

Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

Separate statement of profit or loss

for the year ended 31 December 2018

EUR ths.	Notes	2017	2018
Net interest income	1	439 610	438 146
Interest income		472 319	471 359
Other similar income		x	8 292
Interest expense		(32 709)	(29 596)
Other similar expense		x	(11 909)
Net fee and commission income	2	112 710	128 823
Fee and commission income		135 955	155 765
Fee and commission expense		(23 245)	(26 942)
Dividend income	3	3 149	1 064
Net trading result	4	13 773	9 669
Gains/losses from financial instruments measured at fair value through profit or loss	5	(514)	2 145
Rental income from investment properties & other operating leases		324	310
Personnel expenses	6	(139 986)	(141 030)
Other administrative expenses	6	(104 213)	(103 539)
Depreciation and amortisation	6	(40 963)	(39 064)
Gains/losses from financial instruments not measured at fair value through profit or loss		300	x
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss		x	(93)
Net impairment loss on financial assets not measured at fair value through profit or loss	7	(30 073)	x
Impairment result from financial instruments	8	x	(23 522)
Other operating result	9	(39 952)	(40 321)
thereof Levies on banking activities		(30 128)	(33 030)
Pre-tax profit from continuing operations		**214 165**	**232 588**
Taxes on income	10	(52 109)	(52 412)
Net result for the period		**162 056**	**180 176**
Net result attributable to owners of the parent		**162 056**	**180 176**

Earnings per share

EUR ths.	2017	2018
Net result attributable to owners of the parent (in EUR ths.)	162 056	180 176
Number of outstanding shares (in pcs.)	212 000	212 000
Earnings per share (in EUR)	**764**	**850**

Diluted earnings per share equal to the disclosed basic earnings per share.

The notes on pages 216 to 333 are an integral part of these separate financial statements.

Separate statement of comprehensive income

for the year ended 31 December 2018

EUR ths.	2017	2018
Net result for the period	**162 056**	**180 176**
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Remeasurement of net liability of defined pension plans	174	(199)
Fair value changes of equity instruments at fair value through other comprehensive income	x	11 330
Deferred taxes relating to items that may not be reclassified	128	(2 338)
Total	**302**	**8 793**
Items that may be reclassified to profit or loss		
Available for sale reserve	13 942	x
Gain/loss during the period	14 227	x
Reclassification adjustments	(285)	x
Deferred taxes relating to items that may be reclassified	(2 928)	-
Gains/losses during the period	(2 988)	-
Reclassification adjustments	60	-
Total	**11 014**	**-**
Total other comprehensive income	**11 316**	**8 793**
Total comprehensive income	**173 372**	**188 969**
Total comprehensive income attributable to owners of the parent	**173 372**	**188 969**

The notes on pages 216 to 333 are an integral part of these separate financial statements.

Separate statement of financial position

as at 31 December 2018

EUR ths.	Notes	31.12.2017	31.12.2018
Assets			
Cash and cash balances	11	424 229	416 093
Financial assets held for trading	12	36 484	42 941
Derivatives		36 484	42 941
Financial assets at fair value through profit or loss	13	5 600	x
Non-trading financial assets at fair value through profit or loss	14	x	29 242
Equity instruments		x	5 620
Debt securities		x	23 622
Financial assets available for sale	15	1 020 619	x
thereof pledged as collateral		191 439	x
Financial assets at fair value through other comprehensive income	16	x	56 395
Equity investments		x	56 395
Financial assets held to maturity	17	2 644 402	x
thereof pledged as collateral		59 010	x
Loans and receivables to credit institutions	18	177 616	x
Loans and receivables to customers	19	11 758 950	x
thereof pledged as collateral		1 462 588	x
Financial assets at amortised cost	20	x	16 415 865
thereof pledged as collateral		x	1 905 870
Debt securities		x	3 550 630
Loans and advances to banks		x	47 797
Loans and advances to customers		x	12 817 438
Finance lease receivables	21	x	129 516
Hedge accounting derivatives	22	6 761	9 905
Property and equipment	27	90 255	85 720
Investment property		2 031	1 879
Intangible assets	28	55 457	39 041
Investments in subsidiaries and associates	24	23 041	23 048
Current tax assets	25	10 618	4 639
Deferred tax assets	25	33 758	44 696
Trade and other receivables	23	x	96 012
Other assets	26	24 922	18 109
Total assets		**16 314 743**	**17 413 101**
Liabilities and Equity			
Financial liabilities held for trading		33 344	41 062
Derivatives	12	33 344	41 062
Financial liabilities measured at amortised cost	29	14 628 022	15 747 148
Deposits from banks		488 564	251 300
Deposits from customers		12 481 221	13 657 372
Debt securities in issue		1 567 216	1 803 287
Other financial liabilities		91 021	35 189
Hedge accounting derivatives	22	42 100	41 348
Provisions	30	25 067	20 677
Other liabilities	31	81 664	82 994
Total liabilities		**14 810 197**	**15 933 229**
Equity attributable to owners of the parent	32	1 504 546	1 479 872
Subscribed capital		212 000	212 000
Additional paid-in capital		150 000	150 000
Retained earning and other reserves		1 142 546	1 117 872
Total equity		**1 504 546**	**1 479 872**
Total liabilities and equity		**16 314 743**	**17 413 101**

The notes on pages 216 to 333 are an integral part of these separate financial statements.

Separate statement of changes in equity

for the year ended 31 December 2018

Statement of Changes in Equity	Subscribed capital	Other capital instruments	Legal reserve fund	Other funds	Retained earnings	Available for sale reserve	Fair value reserve	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent
As of 1.1.2017	212 000	**150 000**	**79 795**	**39 326**	**969 311**	**105 975**	**x**	**(782)**	**(22 255)**	**1 533 369**
Dividends paid / Distribution for investment certificate	-	-	-	-	(202 195)	-	x	-	-	(202 195)
Capital increases	-	-	-	(222)	222	-	x	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**162 056**	**13 942**	**-**	**174**	**(2 800)**	**173 372**
Net result for the period	-	-	-	-	162 056	-	x	-	-	162 056
Other comprehensive income	-	-	-	-	-	13 942	-	174	(2 800)	11 316
Change in revaluation reserve	-	-	-	-	-	13 942	x	-	-	13 942
Change from remeasurement of defined pension plans	-	-	-	-	-	-	x	174	-	174
Change in tax	-	-	-	-	-	-	x	-	(2 800)	(2 800)
As of 31.12.2017	**212 000**	**150 000**	**79 795**	**39 104**	**929 394**	**119 917**	**x**	**(608)**	**(25 055)**	**1 504 547**
As of 1.1.2018	**212 000**	**150 000**	**79 795**	**39 104**	**929 393**	**119 917**	**x**	**(608)**	**(25 055)**	**1 504 546**
Changes of initial application of IFRS 9	-	-	-	-	4 496	(119 917)	31 133	128	25 055	(59 105)
Restated balance as of 1 January 2018	**212 000**	**150 000**	**79 795**	**39 104**	**933 889**	**x**	**31 133**	**(480)**	**x**	**1 445 441**
Dividends paid / Distribution for investment certificate	-	-	-	-	(154 538)	x	-	-	x	(154 538)
Total comprehensive income	**-**	**-**	**-**	**-**	**180 176**	**-**	**8 951**	**(158)**	**-**	**188 969**
Net result for the period	-	-	-	-	180 176	x	-	-	x	180 176
Other comprehensive income	-	-	-	-	-	-	8 951	(158)	-	8 793
Change from remeasurement of defined pension plans	-	-	-	-	-	x	-	(158)	x	(158)
Change in revaluation reserve	-	-	-	-	-	x	8 951	-	x	8 951
As of 31.12.2018	**212 000**	**150 000**	**79 795**	**39 104**	**959 527**	**x**	**40 084**	**(638)**	**x**	**1 479 872**

In 2017 Deferred tax was disclosed separately and related to items Available for sale reserve and Remeasurement of net liability of defined pension plans. After the transition to IFRS 9 management of the Bank decided to include Deferred tax into Fair value reserve and Remeasurement of net liability of defined pension plans. Impact of initial application of IFRS 9 on equity is explained in the Note Be).

The notes on pages 216 to 333 are an integral part of these separate financial statements.

Separate statement of cash flows

for the year ended 31 December 2018

EUR ths.	2017	2018
Profit before income taxes	**214 165**	**232 588**
Adjustments for:		
Loss allowances for loans and advances, Provisions for off-balance sheet	27 481	21 217
Provisions for liabilities and other liabilities	9 798	(1 525)
Impairment of tangible and intangible assets net	(786)	470
Depreciation and amortisation	40 963	39 064
Profit/(loss) on disposal of fixed assets	3 879	2 151
Transfer of interest for financing activity	15 217	14 102
Transfer of interest for investing activity	(88 618)	(108 135)
Cash flows from operations before changes in operating assets and liabilities	**222 099**	**199 932**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	79 250	(1 034)
Financial assets held for trading	8 330	(6 457)
Financial assets at fair value through profit or loss	517	x
Non-trading financial assets at fair value through profit or loss	x	(66)
Debt securities	x	(66)
Financial assets - available for sale	55 827	x
Financial assets at fair value through other comprehensive income:	x	(257)
Financial assets held to maturity	83 223	x
Loans and receivables to credit institutions	(118 631)	x
Loans and receivables to customers	(1 489 236)	x
Financial assets at amortised cost	x	(1 021 157)
Debt securities	x	75 140
Loans and advances to banks	x	129 815
Loans and advances to customers	x	(1 226 112)
Finance lease receivables	x	(52 575)
Hedge accounting derivatives	944	(3 144)
Trade and other receivables	x	(27 223)
Other assets from operating activities	(11 276)	13 222
Increase / (decrease) in operating liabilities:		
Financial liabilities held for trading	(9 468)	7 718
Financial liabilities measured at amortised cost	1 393 236	883 055
Deposits from banks	210 371	(237 269)
Deposits from customers	1 091 844	1 176 156
Other financial liabilities	91 021	(55 832)
Hedge accounting derivatives	(10 289)	(752)
Provisions	(4 253)	1
Other liabilities from operating activities	(71 504)	(5 184)
Net cash flows provided by / (used in) operating activities before income tax	**128 769**	**(13 921)**

Table continues on the following page.

EUR ths.	2017	2018
Net cash flows provided by / (used in) operating activities before income tax	**128 769**	**(13 921)**
Income taxes paid	(69 054)	(43 206)
Net cash flows provided by / (used in) operating activities	**59 715**	**(57 127)**
Cash flows from investing activities		
Dividends received from subsidiaries, associates and other investments	2 038	1 064
Purchase of share in subsidiaries and associates	(1)	(6)
Purchase of intangible assets, property and equipment	(21 503)	(22 359)
Proceeds from sale of intangible assets, property and equipment	3 337	1 775
Net cash flows provided by / (used in) investing activities	**(16 129)**	**(19 526)**
Cash flows from financing activities		
Dividends paid	(202 195)	(154 538)
Drawing of subordinated debt	-	15 762
Repayment of subordinated debt	-	(22 876)
Interest paid on subordinated debt	(1 001)	(976)
Issue of the bonds	411 148	581 842
Repayment of the bonds	(161 839)	(343 201)
Interest paid to the holders of the bonds	(13 715)	(8 582)
Net cash flows provided by / (used in) financing activities	**32 398**	**67 431**
Effect of foreign exchange rate changes on cash and cash equivalents	(434)	51
Net increase / (decrease) in cash and cash equivalents	**75 550**	**(9 171)**
Cash and cash equivalents at beginning of period	**348 040**	**423 590**
Cash and cash equivalents at end of period	**423 590**	**414 419**
Operational cash flows from interest and dividends		
Income taxes paid	(69 054)	(43 206)
Interest paid	(20 032)	(15 745)
Interest received	428 377	470 988
Dividends received	3 071	998

Cash and cash equivalents are equal to cash in hand, cash balances at central banks and other demand deposits. During the years 2018 and 2017 there were no significant non-cash movements from investing and financing activities.

The notes on pages 216 to 333 are an integral part of these separate financial statements.

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. The tax identification number of the Bank 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 of 31 December 2018, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ('ERSTE Foundation'), a foundation, holds together with its partners to shareholder agreements approximately 29,99% (2017: 29,62%) of the shares in Erste Group Bank AG and is with 16,21% (2017: 15,62%) main shareholder. The Erste Foundation is holding 6,50% (2017: 6,50%) of the shares directly, the indirect participation of the ERSTE Foundation amounts to 9,71% (2017: 9,12%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated company of the ERSTE Foundation. 0,78% (2017: 1,00%) are held directly by Austrian savings banks respectively saving banks foundations acting together with the ERSTE Foundation and affiliated with Erste Group Bank AG through the Haftungsverbund. 9,92% (2017:9,92%) of the subscribed capital is held by the ERSTE Foundation on the basis of a shareholder agreement with CaixaBank S.A.3,08% (2017: 3,08%) are held by other partners to other shareholder agreements.

The financial statements of Erste Group Bank AG (the parent) will be available after their completion on the Austrian court Firmenbuchgericht Wien, Marxergasse 1a, Vienna 1030.

The Board of Directors of the Bank had five members as at 31 December 2018:
Ing. Peter Krutil (chairman), Mag. Alexandra Habeler-Drabek (member), Mgr. Ing. Zdeněk Románek, MBA (member),
Ing. Pavel Cetkovský (member) a RNDr. Milan Hain, PhD. (member).

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 2018:
Mag. Gernot Mittendorfer (chairman), Mag. Jan Homan (vice-chairman), Mgr. Tatiana Knošková (member) and
Mgr. Alena Adamcová (member).

Effective from 4 February 2019 the General Meeting of the Group (in the form of a single shareholder's decision) selected a member of the Supervisory Board Mr. Paul Formanko, MBA as an independent member. There is also an internal process of election for the new member of the Supervisory Body performed by the employees for the vacant position created after the administration period of JUDr. Beatrica Melichárová terminated on the 19 December 2018.

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

a) 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 2018 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. Information on application of new and amended IAS / IFRS standards are detailed in the note f).

b) 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 2018, which were signed and authorised for issue by the Board of Directors of the Bank on 13 February 2019 and are available at its registered office or on the web page.

The Bank's separate financial statements for the prior period (the year ended 31 December 2017) were signed and authorised for issue on 13 February 2018.

The Bank holds controlling interests in the subsidiaries and significant influence in the associates described in the note Subsidiaries and associates. In these separate financial statements the subsidiaries and associates are recognised at cost, less any impairment losses.

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 and liabilities held for trading, financial assets and liabilities at fair value through profit or loss, financial assets and liabilities at fair value through other comprehensive income, as well as hedging derivatives and related hedged items, 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 functional currency represents the currency of primary economic area, in which the entity exists. 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 separate financial statements are those presented in the Separate statement of financial positions as at 31 December 2017 and the Separate statement of profit or loss and and the Separate statement of other comprehensive income for the year ended 31 December 2017.

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'.

c) 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 24. 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.

Investments in associates

The Bank has significant influence in the associates described in the note 24. 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.

Acquisitions, sales and mergers during the presented period

The group structure of Slovenská sporiteľňa, a.s. is presented in the note 24. 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 2018 and 2017.

d) Accounting and measurement methods

IFRS 9 Financial Instruments implementation impact

As at 1 January 2018 the Bank has applied IFRS 9 Financial Instruments as issued by IASB in July 2014. This application caused changes in the accounting methods related to classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9: Financial instruments significantly modifies IFRS 7: Financial Instruments: Disclosures, and therefore the disclosures for financial instruments were revised.

According to the transition provisions of IFRS 9 the Bank has decided not to adjust information published for the previous period. As a result, the comparative figures in the financial statements for the year 2018 are presented in the structure of financial statements as dislosed in separate financial statements for the year ended 31 december 2017. Disclosures in Notes to financial statements related to comparative period are prepared in accordance with the original classification and measurement as required by IAS 39 (predecessor of IFRS 9) and IFRS 7 (before changes related to implementation of IFRS 9). Because of this transition the accounting and measurement methods as required by IAS 39 are also presented. The Bank has decided to continue with full application of the hedge accounting requirements according to IAS 39, as permitted by IFRS 9.

I. Classification and measurement of financial instruments

The following table presents the changes in measurement categories and carrying amounts according IAS 39 and IFRS 9 on transition to IFRS 9 on 1 January 2018. In order to present the impact of application, the changes are disclosed based on original structure of balance sheet as required by IAS 39:

EUR ths.	Original classification under IAS 39		New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
	Portfolio	Measurement method	Measurement method		
Financial assets					
Cash and cash balances	Amortised cost	AC	Amortised cost	424 229	424 229
Derivatives	Held-for-trading	FVTPL	Held-for-trading (FVTPL)	36 484	36 484
Derivatives - hedge accounting	Hedge accounting	FV	Hedge accounting	6 761	6 761
Loans and recivables to credit institutions	Loans and receivables	AC	Amortised cost	177 616	177 616
Loans and recivables to customers	Loans and receivables	AC	Amortised cost	11 613 219	11 615 016
Loans and recivables to customers	Loans and receivables	Finance Lease	Finance Lease	76 941	76 941
Loans and recivables to customers	Loans and receivables	Trade receivables and other receivables (AC)	Trade receivables and other receivables (AC)	68 789	68 789
Financial assets - available for sale (Debt instruments)	AFS	FVTOCI	Amortised cost	972 734	894 339
Financial assets - available for sale (Equity instruments)	AFS	FVTOCI	FVTPL	3 077	3 077
Financial assets - available for sale (Equity instruments)	AFS	FVTOCI	FVTOCI	44 808	44 808
Financial assets - held to maturity	Held-to-maturity	AC	Amortised cost	2 624 336	2 624 335
Financial assets - held to maturity	Held-to-maturity	AC	Mandatorily at FVTPL	20 065	20 406
Financial assets - at fair value through profit at loss	FV option	FVTPL	Mandatorily at FVTPL	5 602	5 602
Total financial assets				**16 074 663**	**15 998 403**
Financial liabilities					
Derivatives	Held-for-trading	FVTPL	Held-for-trading (FVTPL)	33 344	33 344
Derivatives - hedge accounting	Hedge accounting	FV	Hedge accounting	42 100	42 100
Financial liabilities - measured at amortised cost	AC	AC	Amortised cost	14 628 022	14 628 022
Total financial liabilities				**14 703 466**	**14 703 466**

II. Reconciliation of carrying amounts of financial assets according cagetories

The following table presents relevant changes related to transition to IFRS 9 on 1 January 2018:

EUR ths. **Measurement category**	IAS 39 carrying amount as at 31.12.2017	Reclassifications +/-	Remeasurement +/- (effects of both revaluation and impairment changes)	IFRS 9 carrying amount as at 1.1.2018	Retained earnings effects +/-	OCI effects +/-
Amortised cost	**14 928 256**	**-**	**-**	**14 928 256**	**-**	**-**
Additions:						
from IAS 39 FVTOCI (AFS)	-	972 734	(78 395)	894 339	281	78 115
from IAS 39 AC (L&R, HTM) - impairment remeasurement)	-	-	1 795	1 795	(1 795)	-
Subtractions:						
to IFRS 9 Mandatorily at FVTPL (IAS 39: HTM)	-	(20 065)	-	(20 065)	-	-
Total change to Amortised cost	**-**	**952 669**	**(76 600)**	**876 069**	**(1 515)**	**78 115**
Amortised cost balances, reclassification and remeasurement as at 1.1.2018	**14 928 256**	**952 669**	**(76 600)**	**15 804 325**	**(1 515)**	**78 115**
Fair value through other comprehensive income	**1 020 620**	**-**	**-**	**1 020 620**	**-**	**-**
Fair value through other comprehensive income - debt instruments	**972 734**	**-**	**-**	**972 734**	**-**	**-**
Subtractions:						
to IFRS 9 AC (IAS 39: AFS)	-	(972 734)	-	(972 734)	-	-
Subtotal change to Fair value through other comprehensive income - debt instruments	**-**	**(972 734)**	**-**	**(972 734)**	**-**	**-**
Fair value through other comprehensive income - equity instruments	**47 886**	**-**	**-**	**47 886**	**-**	**-**
Subtractions:						
to IFRS 9 FVTPL (IAS 39: AFS)	-	(3 077)	-	(3 077)	-	-
Subtotal change to Fair value through other comprehensive income - equity instruments	**-**	**(3 077)**	**-**	**(3 077)**	**-**	**-**
Total change to Fair value through other comprehensive income	**-**	**(975 812)**	**-**	**(975 812)**	**-**	**-**
Fair value through other comprehensive income balances, reclassification and remeasurement as at 1.1.2018	**1 020 620**	**(975 812)**	**-**	**44 808**	**-**	**-**
Fair value through Profit or Loss	**42 085**	**-**	**-**	**42 085**	**-**	**-**
Additions:						
from IAS 39 AC (HTM, IFRS 9: Mandatorily at FVTPL)	-	20 065	341	20 406	(341)	-
from IAS 39 FVTOCI (Equity instruments: AFS)	-	3 077	-	3 077	(2 393)	2 393
Total change to Fair value through Profit or Loss	**-**	**23 143**	**341**	**23 483**	**(2 734)**	**2 393**
Fair value through Profit or Loss balances, reclassification and remeasurement as at 1.1.2018	**42 085**	**23 143**	**341**	**65 569**	**(2 734)**	**2 393**
Total Financial balances, reclassification and remeasurement as at 1.1.2018	**15 990 961**	**-**	**(76 259)**	**15 914 702**	**(4 249)**	**80 508**

There was no change in classification or remeasurement in connection to implementation of IFRS 9 for financial liabilities.

The main drivers for changes in measurement categories resulting from new IFRS 9 classification and measurement requirements for financial assets are:

- Reclassification of debt instruments in amount of 972,7 mil. Eur that are currently classified as financial assets available for sale to amortised cost measurement category according to IFRS 9 due to fulfillment of held-to-collect business model. Such debt instruments also meets SPPI criteria for such measurement.

- Reclassification of two debt instruments in amount of 20,4 mil. Eur that are currently classified as financial assets held to maturity to fair value through profit or loss measurement category according to IFRS 9 due contractual features that do not meet criteria of solely payment of principal and interest.

- Reclassification of equity instruments in amount of 3,0 mil. Eur that are currently classified as non-tradeing financial assets at fair value through profit or loss measurement category according to IFRS 9 due to application of this standard.

Investments in shares fund were classified as property investments till the end of 2017. The main driver for classification was the economic substance, where share of participant represents the property of the fund. In 2018 the Bank changed the classification of investment in shares funds to the debt security. The main driver of the change was the possibility of redemption, which meets the criteria for the definition of liability according IAS 32. According IAS 32 the investments in the fund are defined as debt security from both the issuer and the investor points of view. However the tables presenting the impact of transition to IFRS 9 do not contain movements between investment and debt securities, therefore the investment in the shares funds are presented as the debt security under IAS 32.

III. Reconciliation of impairment allowance

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017 to opening expected credit losses allowance determined according to IFRS 9 as at 1 January 2018:

EUR ths.	31.12.2017 (IAS 39/IAS 37)	Reclassifications +/-	Remeasurement +/-	1.1.2018 (IFRS 9)
Debt instruments at AC	(360 929)	15	1 651	(359 263)
Debt instruments at FVTOCI	-	-	-	-
Finance lease receivables	(737)	-	-	(737)
Trade and other receivables	(3 453)	-	-	(3 453)
Off-balance sheet exposures (loan commitments and guarantees given)	(15 091)	-	721	(14 369)
Total	**(380 209)**	**15**	**2 372**	**(377 823)**

IV. Impact of IFRS 9 on deferred tax assets and deferred tax liabilities

The following table presents impact of IFRS 9 on deferred tax assets and deferred tax liabilities:

EUR ths.	Closing balance as at 31.12.2017 (IAS 39)	Opening balance as at 1.1.2018 (IFRS 9)	Retained earnings effects +/-	OCI effects +/-
Changes in deferred tax assets (DTA)	33 758	50 191	(474)	16 907
Changes in deferred tax liabilities (DTL)	-	-	-	-

FINANCIAL INSTRUMENTS

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.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

I. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the contractual life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all the contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR (apart from financial instruments at fair value through profit or loss) and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ("POCI", see part 'Impairment of financial instruments under IFRS 9') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:
- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Under IAS 39 the EIR is applied to the gross carrying amount of the financial assets and, for financial assets which are individually impaired, to the amortised cost.

Interest expense is calculated by applying the effective interest rate to the amortised cost of a financial liability.

II. Fair value

Fair value is the price that would be received if an asset were sold or paid, if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities.

Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 40.

III. Initial recognition and measurement

Initial recognition

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 the settlement date, which is the date when an asset is delivered.

Initial measurement

Financial instruments are measured initially at their fair value including transaction costs. In case of financial instruments at fair value through profit or loss, for which transaction costs are not taken into consideration at initial measurement, are recognised directly in profit or loss. The fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets under IFRS 9

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:
1. the business model for managing the financial assets - the assessment is focused on whether the financial asset is part of a portfolio,
   - where the assets are held in order to collect contractual cash flows,
   - to both collect the contractual cash flows and sell the assets, or
   - they are held in other business models,
2. the cash flow characteristics of the financial assets - the assessment is focused on whether 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 amount outstanding.

I. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows meet the SPPI criteria.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Finance lease receivables', 'Trade and other receivables' and 'Cash and cash balances'. Cash balances include only deposits against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Other gains/losses from derecognition of financial Instruments not measured at fair value through profit of loss'.

The financial assets of the Bank measured at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers, interbank lending business (including reverse repo transactions), deposits with central banks, amounts in the course of settlement, trade and other receivables. Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationship, substitution of loan business or other yield enhancement activities). Significant and frequent sales of such securities are not expected by the Bank. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the "Business model assessment" part in chapter d) Significant accounting judgements, assumptions and estimates.

II. Financial assets at fair value through other comprehensive income

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. On the balance sheet they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included under the line 'Net interest income' in the statement of income. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments'. As a result, the measurement impact recognised in profit or loss is the same as for financial assets measured at amortised cost.

The difference between the fair value at which the assets are carried in the balance sheet and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Debt instruments at fair value through other comprehensive income'. However part of this change that relates to change in credit risk is subsequently reclassified from respective position in OCI into income statement position ´Impairment result from financial instruments´. When the financial asset is derecognised the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

The Bank classifies investments in debt securities as measured at FVOCI. They are part of 'held to collect and sell' business models. Similarly to debt instruments assets measured at amortised cost, they relate to different business objectives such as fulfilling internal/external liquidity risk requirements and an efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield enhancement activities. The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise the fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

For certain investments in equity instruments which are not held for trading, the Bank can use the option to measure them at FVOCI. This election is made at initial recognition and is not revocable. This election is applied to strategic, significant banking business relationship investments (except for insurance business). The fair value gains or losses for the period are reported as OCI in the line 'Fair value changes of equity instruments' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. Dividends received on these investments are reported under the line 'Dividend income' of the statement of income. On the balance sheet financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

III. Financial assets at fair value through profit or loss

There are different reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets.

Financial assets whose contractual cash flows are not considered as SPPI are automatically measured at FVPL.

Other source of FVPL measurement relates to financial assets which are part of residual business models, i.e. they are neither held to collect contractual cash flows, nor held either to collect contractual cash flows, or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. Such business models are typical for assets which are held for trading (i.e. financial assets held by the trading function of the Bank), of assets whose value is expected to be primarily realised through sales.

The Bank can use the option to designate some financial assets as measured at FVPL at initial recognition. Such a classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

On the balance sheet, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to customers'). Non-trading financial assets consist of two sub-categories disclosed in Note 14 which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI or they are held as part of residual business models which are other than held for trading.

Investments in equity instruments which are held for trading (i.e. financial assets held by the trading function of the Bank) are measured at FVPL. They are included in the balance sheet under the line 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments which are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the balance sheet under 'Non-trading financial assets at fair value through profit or loss', sub-item 'Equity instruments', sub-category 'mandatorily at fair value through profit or loss' in Note 14.

In the statement of income, the profit or loss effects of financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' and is calculated by applying the EIR to the amortised cost component of the financial assets. The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income and they also include transaction costs and origination fees. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL. For investments in funds, which are not consolidated, the interest or dividend component is not separated from the fair value gains or losses.

IV. Classification and subsequent measurement of financial liabilities under IFRS 9

Financial liabilities are measured at amortised cost, if they are not measured at fair value through profit and loss.

V. Financial liabilities at amortised cost

For presentation on the balance sheet, the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

VI. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

Non-derivative financial liabilities held for trading are those which are incurred principally for the purpose of repurchasing them in the short term. Non-derivative held-for-trading liabilities are largely comprise short sales. On the balance sheet such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the statement of income.

The Bank makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition if:

- such classification eliminates or significantly reduces an accounting discrepancy between the financial liability otherwise measured at amortised cost and the related derivative measured at FVPL; or
- the entire hybrid contract is designated at FVPL due to the existence of a non-closely related embedded derivative.

Financial liabilities designated at FVPL are reported on the balance sheet under the line item 'Financial liabilities designated at fair value through profit or loss' and are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Interest incurred is reported in the statement of income under the line item 'Net interest income'. Gains and losses resulting from changes in fair value are recognised net of the interest expense under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'.

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Liability own credit risk reserve' in the statement of changes in equity. The cumulative amount is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time. For the purpose of calculation of the present value of the liability, the original credit spread remains fixed over the whole life of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and at the beginning of the period.

Classification, subsequent measurement and balance sheet line items of financial instruments under IAS 39

As regards the comparative period information on financial instruments in accordance with IAS 39, The Bank 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, and
- financial liabilities measured at amortised cost.

The line items as presented on the balance sheet are not necessarily corresponding with the IAS 39 categories of financial instruments. The correspondence between the balance sheet line items and the categories of financial instruments is described below.

I. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

II. Derivative financial instruments

Please refer to the part Derivative financial instruments below.

III. Financial assets and financial liabilities held for trading

Financial assets and financial liabilities held for trading comprise derivatives described in part (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. In the balance sheet, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets / financial liabilities – held for trading'.

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

If securities purchased under an 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 within 'Other trading liabilities'.

IV. Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition as fair value option.

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, the performance of the portfolio is evaluated and regularly reported to the management board.

Financial assets designated at fair value through profit or loss are recorded on the balance sheet at fair value under the line item 'Financial assets at fair value through profit or loss', with changes in fair value recognised in the statement of income under the line item 'Gains/losses from financial assets and liabilities measured at fair value through profit or loss'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

The Bank uses the fair value option in the case of some hybrid financial liabilities. This is relevant when:

- 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
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The change in the fair value resulting from changes in own credit risk from financial liabilities measured at FVPL is calculated by method described in IFRS 7 standard. This change represents difference between present value of liability and observed market price of liability at the end of period. The discount rate used for liability represents subtotal of actual interest rate (comparative) at the end of period and component on internal return specific for particular instrument established at the beginning of the period.

Financial liabilities designated at fair value through profit or loss are reported on the balance sheet under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the statement of income under the line item 'Gains/losses from financial assets and liabilities measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income'.

V. Financial assets available for sale

Available-for-sale financial assets include debt and equity securities as well as other interests in 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 that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. On the balance sheet, available-for-sale financial assets are disclosed under the line item 'Financial assets available for sale'.

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

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

In 2017, as part of the IFRS 9 implementation, valuation models were developed for investments in unquoted equities which were previously measured at cost less impairment. The Bank considers that these models deliver reliable fair value measurement. As a result, these investments were remeasured to fair value throughout 2017.

VI. Financial assets held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported on the balance sheet as 'Financial assets held to maturity' if the Bank has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

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

VII. Loans and receivables

The balance sheet line items 'Loans and receivables to financial institutions' and 'Loans and receivables to customers' include financial instruments which are allocated to the financial instrument category loans and receivables regardless of their contractual maturity. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under 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, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter ‚Leasing'. Interest income earned is included under the line item 'Net interest income' in the statement of income.

Impairment losses arising from loans and receivables are recognised in the statement of income under the line item 'Net impairment loss on financial assets'.

Valuation of finance lease receivables is described in the chapter Leasing.

VIII. Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are presented on the balance sheet on the line item 'Financial liabilities measured at amortised cost' and are further broken down to '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 expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss', net.

Overview of financial Instruments and valuation methods in relation to individual balance sheet items:

Balance sheet position	Measurement principle			Financial instrument category
	Fair value	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 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 which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

Impairment of financial instruments under IFRS 9

The Bank recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments. The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Bank distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset (as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Bank generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

12-month expected credit loss is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 35.

The loss allowances decrease the value of the financial assets measured at amortised cost. i.e. for financial assets measured at amortised cost the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. For financial assets measured at FVOCI the change of credit risk (impairment loss) is recognised as part of revaluation of that asset and presented in accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity and presented under the line ´Retained earning and other reserves´ on the balance sheet. Loss allowances for loan commitments and financial guarantees are presented under the balance sheet line item 'Provisions'.

For financial assets which are credit-impaired at initial recognition (purchased or originated credit-impaired – POCI - financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. As a result, no loss allowance is recognised at inception. Subsequently only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments are presented in the line item 'Impairment result from financial instruments'.

Impairment of financial assets and credit risk losses of contingent liabilities under IAS 39

The Bank assesses as 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 group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred '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 interest or claim satisfaction of the credit exposure from the means securing such credit obligation);
- the obligor is subject to bankruptcy or similar creditor protection proceedings.

For assessment at portfolio level, the Bank uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Bank at the moment of default.

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.

Financial assets measured 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 the financial asset.

Reconciliation of changes in loss allowance accounts is presented in the notes 19 and 20. 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'.

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.

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.

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.

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'.

Write-offs of financial assets

The Bank writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

Derecognition of financial instruments

I. Derecognition of financial assets

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

- the contractual rights to receive cash flows from the asset have expired, or
- the Bank transferred its contractual rights to receive cash flows from the asset to third party, or
- the Bank has assumed 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:
  - it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - it 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.

II. Derecognition of financial liabilities

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

Derivative financial instruments

The Bank uses different derivative financial Instruments. Derivatives used by the Bank mainly include interest rate swaps and currency swaps, forwards, futures, interest rate options and currency options.

For presentation purposes derivatives are split into:

- Derivatives – held for trading
- Derivatives – hedge accounting

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those, which are not designated as hedging instruments for hedge accounting. They are presented in the balance sheet line item 'Derivatives' under the heading 'Financial assets / Financial liabilities held for trading'. All types of non-hedging derivatives regardless to their internal classification, i.e. both derivatives held in the trading book and banking book, are presented in this line item.

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

Derivatives – hedge accounting are those which are designated as hedging instruments in hedge accounting relationships fulfilling the conditions of IAS 39 (please refer to the Hedge Accounting part). On the balance sheet, they are presented in the line item 'Hedge accounting derivatives' on the asset or liability side.

Changes in the fair value (clean price) of derivatives – held for trading are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related both to held-for-trading and hedging derivatives is presented in the statement of income under the line item 'Net interest income'.

The effective part of changes in the fair value (dirty price) of derivatives in cash flow hedges is reported as other comprehensive income in the line item 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated other comprehensive income is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective part of changes in the fair value (dirty price) of derivatives in cash flow hedges is reported in the statement of income under the line item 'Net trading result'.

Embedded derivatives

As a part of ordinary business activity the Bank issues complex debt instruments, which contain embedded derivatives.

Embedded derivatives are separated from the host debt instruments if:

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

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item 'Derivatives' in financial assets held for trading and financial liabilities held for trading. Derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds containing interest caps, floors or collers, or contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

Repo transactions and reversal repo transactions

Transactions involving sales of securities under an agreement to repurchase them at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold in such transactions are not derecognised from the balance sheet, as the Bank retains substantially all the risks and rewards of ownership, because the securities are repurchased at a fixed price when the repo transaction ends. Financial assets transferred to another person under a repurchase agreement remain in the Bank's balance sheet and are measured according to the rules that are valid for the balance sheet item. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Bank or are reflected in the repurchase price.

The cash received upon sale of securities is recognised on the balance sheet with a corresponding obligation to return under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and recorded in the statement of income under the line item 'Net interest income' and is accrued over the life of the agreement.

Financial assets transferred out by the Bank under repurchase agreements remain on the Bank's balance sheet and are presented separately under the original balance sheet items in the 'thereof pledged as collateral' lines. The measurement of the transferred financial assets does not change.

Conversely, 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 under the line item 'Financial assets at amortised cost', sub-items 'Loans and advances to banks' and 'Loans and advances 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 interest income and is accrued over the life of the agreement and recorded in the statement of income under the line item 'Net interest income'.

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 duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Bank as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lending. Securities lent are presented separately under the original balance sheet items in the 'thereof pledged as collateral' lines. Fee income from securities lending transactions is presented in the statement of income under the line 'Net fee and commission income'.

Securities borrowed are not recognised on the balance sheet unless they are then sold to third parties. The obligation to return the securities is recorded on the balance sheet as a short sale within 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. Fee expense incurred on securities borrowing transactions is presented in the statement of income in the line 'Net fee and commission income'.

Hedge accounting

The Bank makes use of derivative instruments to hedge exposures to interest rate risk and foreign currency risk. In order for the derivatives and the exposures to qualify for hedge accounting, at inception of a hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Bank are specified internally in the hedge accounting guidance. As permitted by the transitional provisions of IFRS 9, the Bank has elected to continue to apply hedge accounting requirements of IAS 39.

The Bank uses fair value hedges for decrease of market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the statement of income under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the statement of income under the line item 'Net trading result' and adjusts the carrying amount of the hedged item. Interest income / expenses from hedged item are recognised in the statement of income under the line item 'Net interest income'.

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported 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 on a net basis or to realise the asset and settle the liability simultaneously.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39 the financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a 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 in the position of being a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as collateral when determining the impairment of the guaranteed asset.

The Bank as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium. They are presented on the balance sheet under the line 'Provisions'. In the comparative period the financial guarantee contracts were reviewed for the possibility that provision recognition under IAS 37 was required. The premium received is recognised in the statement of income under the line item 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

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 at the Bank is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at the Bank are classified as operating leases.

I. The Bank as a lessor

In the case of a finance lease the Bank reports a receivable from the lessee under the line item 'Finance lease receivables'. 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 statement of income under the line item 'Net interest income'. The Bank provides finance lease since 2015 when the Bank merged with its former subsidiary Leasing Slovenskej sporiteľne, a.s.

In the case of operating leases of real estates, the leased asset is reported by the lessor in the balance sheet line item 'Investment property' and is depreciated in accordance with the principles applicable to the assets involved. Income from operating leases is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties & other operating leases'.

II. The Bank as a lessee

As a lessee, the Bank has not entered into any leasing contract meeting the conditions of finance leases.

As a lessee, the Bank participates only in operational leasing contracts. Operating lease payments are recognised as an expense in the statement of income on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

Foreign currency translations

These separate 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 recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

For foreign currency translation, exchange rates quoted by the European Central Bank are used.

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 and 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 2017 and 2018
Own buildings and structures	30 years
Rented premises	per contract
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. Rental income is recognised in the income statement line item 'Rental income from investment properties and other operating leases'.

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 2017 and 2018
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'.

Defined employee pension plans

Defined employee pension 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 pensions plans, whereas working anniversary benefits are other long-term employee benefits.

Obligations resulting from the defined employee pension 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 remeasurement of net liability of defined pension plans and the amount of respective provisions are disclosed in the note 30.

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 pension plans are recognised directly in the equity line item 'Remeasurement of net liability of defined pension plans' in the period in which they occur.

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'. Expense or income related to provisions are reported in the income statement line item 'Other operating result'. Information on provisions are detailed in the note 30.

Levies

The Bank recognises a liability or a provision for the levy of selected bank institutions in according with IFRIC 21.

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.

Fiduciary assets

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

Dividends on ordinary shares

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

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 financial assets measured at amortised cost 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.

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 fees from lending business, payment services, securities transactions, as well as commissions from collective investment, custody and insurance products distribution.

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.

The Bank provides services of insurance products distribution. Once the insurance contract is signed, the performance obligation is fulfilled and the Bank is entitled for the transaction price. Transaction price consists of consideration received in the year when the insurance contract is signed and consideration received in the subsequent years. Consideration received in the first year is subject of claw backs in the current year or in the future. Considerations received in the subsequent years are variable considerations depending on the early cancellation of the insurance contract.

The Bank shall include in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Dispite the performance obligation is fulfilled in the first year, variable consideration is recognized only once uncertainty is resolved. Based on IFRS 15, the Bank recognizes fee and commission income from insurance products distribution on the ´cash flow basis´ subject to claw back adjustments.

III. Dividend income

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

This line item includes dividends 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.

IV. Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. The net trading result also includes foreign exchange gains and losses.

This item also includes any ineffective portions recorded in fair value and cash flow hedge transactions.

V. Gains/losses from financial instruments measured at fair value through profit or loss

Under this line item the changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss are presented.

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.

Furthermore, restructuring provisions expenses may be part of personnel expenses (severance payments and jubilee obligations).

VIII. Other administrative expenses

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

Furthermore, the line item contains deposit insurance contributions expenses.

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 from derecognition of financial assets measured at amortised cost

This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/losses relate to derecognition of financial assets in Stage 3 they are included in the line item 'Impairment result from financial instruments'.

XI. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL, such as finance lease receivables or financial guarantees. However, if such gains/losses relate to financial assets in Stage 3 they are included in the line item 'Impairment result from financial instruments'.

XII. Impairment result from financial instruments

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, financial assets held to maturity and financial assets held for trading. 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.

Impairment result from financial instruments comprises impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies. The impairment result also includes recoveries on written-off financial assets. Moreover, gains/losses from derecognition of financial assets in Stage 3 are included as part of the impairment result.

XIII. Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities. Furthermore, levies on banking activities are considered as part of the other operating result.

Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. This item also includes any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. In the comparative period, other operating result also included income from the release of and expenses for allocations to provisions for credit risk.

The following line items in the statement of income which are relevant only for the comparative period:

XIV. 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 available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of the 'Net impairment loss on financial assets'.

XV. Net impairment loss on financial assets

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio level.

This line item also includes recoveries on written-off loans removed from the balance sheet.

e) Significant accounting judgements, assumption and estimates

The separate financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of accounting judgements. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Bank, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, the Bank uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a decrease in the interest rates upon early termination or prepayment. The evaluation is normally performed on a portfolio level. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level prepayment fees and their acceptance by authorities.

For project financing loans the Bank assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

The most critical area of SPPI judgements in the business of the Bank comprises loans with interest mismatch features. Interest mismatches relate to floating rate financial assets (loans and some debt securities, also referred to as 'deals') where:

- the reference rate's – type of variable interest rate of tenor different to the rate reset frequency (such as 3-month EURIBOR for other than three month interest period,
- the interest rate is fixed prior to the start of the interest period (such as 3-month EURIBOR fixed 2 months before the interest period starts), or interest rate arise from average rates over previous periods,or
- combinations of these features.

For this purpose, the Bank has developed a so called 'benchmark test' to assess whether the interest mismatch feature could result in contractual cash flows from financial assets that are significantly different from contractual cash flows from benchmark assets. The benchmark deal does not have the interest mismatch feature, but otherwise its terms correspond to the financial asset in the test.

For assets with interest mismatches resulting only from prior and average rates the SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month. This is supported by a quantitative analysis performed by the Bank for this purpose.

The quantitative benchmark test is performed at the deal's initial recognition and uses 250 forward-looking simulations of future market interest rates over the life of the deal. Ratios between the simulated cash flows from the actual deal and the benchmark deal are calculated for each quarter (so called 'periodic cash flow ratio'), and cumulatively over the life of the deal ('cumulative cash flow ratio'). The 5% of outcomes with the highest deviations are considered as extreme and are disregarded. The significance threshold for the periodic cash flow ratio is set to 10%. If simulated cash flows of the tested deal in a specific quarter are less than 1% of the total cash flows over the life of the deal ('de minimis threshold') they are disregarded. For the cumulative cash flow ratio the quantitative significance threshold is set to 5%. If any of the two significance thresholds is breached, the benchmark test is not passed and the financial asset has to be measured at fair value through profit or loss.

Generally, the quantitative benchmark test results are more sensitive to the level of the periodic quantitative significance threshold compared to the cumulative one. Decreasing the periodic cash flow ratio threshold to 5% could lead to a significant increase in the volume of loans measured at fair value through profit or loss. The Bank does not consider that lowering the threshold would properly capture those interest mismatch features which should lead to FVPL measurement since, based on a quantitative study performed for this purpose, it could lead fair value measurement even for loans which are generally deemed as basic lending agreements. The Bank has prepared qualitative studies to document the accuraccy of significance threshold used as reasonable.

Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Bank has to assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since the asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected and a different measurement method may seem to be appropriate. In accordance with IFRS 9 such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Bank, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Bank performs a prospective test. If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets in the portfolio would be classified in a different business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, the Bank has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistic of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of different scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of prepayment possibilities and in respect of behavioural life of revolving credit facilities.

Under the IAS 39 incurred loss impairment model used for the comparative period, the Bank reviewed 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 statement of income. In particular, this involved determining whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and estimating the amount and timing of future cash flows when determining an impairment loss.

From 1. January 2018 the new methodology for impairment of financial instruments was introduced under IFRS9. The Bank applies staging with relevant credit risk parameters. IFRS 9 establishes a three stage approach for impairment of financial assets, based on whether there has been a significant deterioration in the credit risk of a financial asset. Disclosures on methodology for impairment of financial Instruments are described in Note 39.

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 using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible. Where observable market data are not available judgement is required to establish fair values. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 40.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

f) 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 2018:

Effective standards and interpretations

The following standards, their amendments and interpretation have become mandatory for our financial year 2018, endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2014 2016 Cycle (amendments to IAS 28 and IFRS 1)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration

The effects of application of IFRS 9 and IFRS 15 are decribed in chapter c) Accounting and measurement methods' above. Otherwise application of the above mentioned amendments and interpretation did not have a significant impact on the Bank's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 16: Leases
- Amendments to IFRS 9: Prepayment features with negative compensation
- IFRIC 23: Uncertainty over Income Tax Treatments

Following standards, amendments and interpretations have not yet been endorsed by the EU until the date of preparation of this financial statements:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

IFRS 16: Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Based on currently available information, the Bank estimates at the transition date to IFRS 16 that the right of use assets and lease liabilities will increase the balance sheet by an amount of approximately 45,1 mil. Eur. All of the lease contracts refer to real estate. The effect of the CET 1 ratio is immaterial.

Amendments to IFRS 9: IFRS 9 "Financial Instruments" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments. (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. Application of the interpretation is not expected to have a significant impact on Bank's financial statements.

Amendments to IFRS 3: Definition of a Business. Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

Amendments to IAS 1 and IAS 8: Definition Material. Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginnig on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Annual Improvements to IFRSs 2015 - 2017 Cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). Application of these amendments is not expected to have a significant impact on Bank's financial statements.

C. NOTES

1. Net interest income

EUR ths.	2017	2018
Interest and other similar income		
Financial assets at amortised cost	457 984	x
Financial assets - held to maturity	87 013	x
Loans and receivables	370 971	x
Financial assets at amortised cost	x	471 359
Demand deposits	x	7
Loans and advances	x	364 332
Debt securities	x	107 020
Financial assets measured at fair value through other comprehensive income	23 483	x
Financial assets - available for sale	23 483	x
Derivatives - hedge accounting, interest rate risk	(9 145)	x
Financial assets at fair value through profit or loss	(3)	x
Interest income	**472 319**	**471 359**
Non-trading financial assets at fair value through profit or loss	x	168
Financial assets - held for trading	x	14 511
Derivatives - hedge accounting, interest rate risk	x	(9 252)
Other assets	x	1 855
Negative interest from financial liabilities	x	1 010
Other similar income	**x**	**8 292**
Total interest income	**472 319**	**479 651**
Interest and other similar expenses		
Financial liabilities measured at amortised cost	(33 498)	(29 596)
Deposits	(17 421)	(13 805)
Debt securities in issue	(16 077)	(15 791)
Derivatives - hedge accounting, interest rate risk	860	x
Other liabilities	(71)	x
Interest expenses	**(32 709)**	**(29 596)**
Financial liabilities - held for trading	x	(13 433)
Derivatives - hedge accounting, interest rate risk	x	1 689
Other liabilities	x	(165)
Other similar expenses	**x**	**(11 909)**
Total Interest expenses	**(32 709)**	**(41 505)**
Net interest income	**439 610**	**438 146**

Interest income for the year 2018 included interests related to impaired financial assets in the amount of 8,1 mil. Eur (2017: 8,2 mil. Eur).

Interest income from hedging instruments relates to the hedged items presented in the line item ‘Financial assets at amortised cost’. Interest expense from hedging instruments relates to the hedged items presented in the line item ‘Financial liabilities measured at amortised cost’.

Negative interest from financial assets for the year 2018 amounted 0,1 mil. Eur (2017: 0,3 mil. Eur). Negative interest from financial liabilities for the year 2018 amounted 1,7 mil. Eur (2017: 1,5 mil. Eur). These amounts related to the business with financial institutions and are recognized under respective position of Net interest income. Moreover under position ‘negative interest income from financial liabilities’ is disclosed separately negative interest from deposit products with customers.

The line item ´Other similar income´ in 2018 additionally comprises interest income from derivative instruments held for tradeing, which were in 2017 presented under the line item ´Net trading result´.

2. Net fee and commission income

EUR ths.	2017	2018
Fee and commission income		
Securities	2 477	1 895
Issuances	-	483
Transfer orders	1 485	308
Other	992	1 104
Asset management	7 753	7 876
Custody	718	1 176
Collective investment	497	418
Other	221	758
Payment services	91 464	97 116
Card business	36 066	37 842
Others	55 398	59 274
Customer resources distributed but not managed	16 700	26 613
Collective investment	570	-
Insurance products (as agent)	15 658	26 590
Other	472	23
Lending Business	16 331	20 399
Loan commitments given	87	3 846
Financial guarantees given	2 943	3 680
Other lending business	13 301	12 873
Other	512	690
Total	**135 955**	**155 765**
Fee and commission expense		
Securities	(837)	(779)
Transfer orders	-	(766)
Other	(837)	(13)
Custody	(525)	(837)
Payment services	(12 239)	(16 340)
Card business	(11 636)	(12 493)
Others	(603)	(3 847)
Customer resources distributed but not managed	(1 604)	(1 919)
Insurance products (as agent)	(1 604)	(1 919)
Lending Business	(8 006)	(7 032)
Financial guarantees received	-	(17)
Other lending business	(8 006)	(7 015)
Other	(34)	(35)
Total	**(23 245)**	**(26 942)**
Net fee and commission income	**112 710**	**128 823**

3. Dividend income

EUR ths.	2017	2018
Financial assets designated at fair value through profit or loss	375	-
Non-trading financial assets at fair value through profit or loss	x	715
Available-for-sale financial assets	711	x
Dividend income from equity investments	2 063	-
Financial assets at fair value through other comprehensive income	x	349
Dividend income	**3 149**	**1 064**

4. Net trading 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 local banks within the Bank 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.	2017	2018
Securities and derivatives trading	5 866	2 751
Foreign exchange transactions	7 611	7 122
Result from hedge accounting	296	(204)
Net Trading Result	**13 773**	**9 669**

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

The line item ´Securities and derivatives trading´ in 2018 does not comprise interest income from derivative instruments held for tradeing, which are recorded in Net interest income under the line item ´Other similar income´.

5. Gains / losses from financial instruments measured at fair value through profit or loss

EUR ths.	2017	2018
Result from measurement/sale of financial assets designated at fair value through profit or loss	(514)	-
Result from financial assets and liabilities designated at fair value through profit or loss	**(514)**	**-**
Result from measurement/sale of financial assets mandatorily at fair value through profit or loss	-	2 145
Gains/losses from financial instruments measured at fair value through profit or loss	**(514)**	**2 145**

6. General administrative expenses

EUR ths.	2017	2018
Personnel expenses	**(139 986)**	**(141 030)**
Wages and salaries	(101 238)	(101 439)
Compulsory social security	(35 095)	(34 718)
Long-term employee provisions	1 654	(250)
Other personnel expenses	(5 307)	(4 623)
Other administrative expenses	**(104 213)**	**(103 539)**
Deposit insurance contribution	(800)	(866)
IT expenses	(33 865)	(37 752)
Expenses for office space	(29 905)	(29 304)
Office operating expenses	(11 744)	(10 730)
Advertising/marketing	(14 872)	(14 620)
Legal and consulting costs	(3 565)	(3 486)
Sundry administrative expenses	(9 462)	(6 781)
Depreciation and amortisation	**(40 963)**	**(39 064)**
Software and other intangible assets	(24 925)	(23 469)
Owner occupied real estate	(7 176)	(7 028)
Investment properties	(223)	(211)
Office furniture and equipment and sundry property and equipment	(8 639)	(8 356)
General administrative expenses	**(285 162)**	**(283 633)**

As at 31 December 2018 the Bank had 4 091 employees, thereof five members of the Board of Directors.
Average number of employees in the year 2018 was 4 132. As at 31 December 2017 the Bank had 4 232 employees, thereof five members of the Board of Directors. Average number of employees in the year 2017 was 4 208.

The Bank is legally obliged to make a contribution to the Deposit Protection Fund, which is accounted for in accordance with the IFRIC 21. 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 2018.

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.	2017	2018
Audit of statutory financial statements	(505)	(489)
Other assurance services	(98)	(98)
Tax consulting services	-	-
Other non-audit services	(8)	(28)
Total	**(611)**	**(615)**

Other assurance services in the amount of 98 ths. Eur (2017: 98 ths. Eur) related to a review of the special-purpose standard reporting forms for the period ending 30 June 2018 and 30 June 2017. Other non-audit services in the amount of 28 ths. Eur (2017: 8 ths. Eur) related to agreed-upon procedures on the Bank's compliance with the covenants of the loan agreement between the Bank and the European Bank for Reconstruction and Development in 2018 and 2017; report on compliance with articles 71h - 71k of the Act No. 566/2001 Coll. on securities and investment services in 2018 and 2017; providing of general data used for human resources management in 2018 and providing of trainings of the general character in 2018.

7. Net impairment loss on financial assets not measured at fair value through profit or loss

EUR ths.	2017	2018
Loans and receivables	(30 023)	x
Allocation to risk provisions for loans and receivables	(305 884)	x
Release of risk provisions for loans and receivables	270 241	x
Direct write-offs of loans and receivables	(882)	x
Recoveries on written-off loans and receivables	6 502	x
Financial assets held to maturity	(50)	x
Total	**(30 073)**	**x**

8. Impairment result from financial instruments

EUR ths.	2017	2018
Financial assets at amortised cost	x	(26 018)
Net allocation to risk provisions	x	(29 293)
Direct write-offs	x	(1 260)
Recoveries recorded directly to the income statement	x	4 535
Finance lease	x	72
Net allocation of provisions for commitments and guarantees given	x	2 424
Net impairment loss on financial instruments	**x**	**(23 522)**

9. Other operating result

EUR ths.	2017	2018
Other operating expenses	**(69 844)**	**(40 906)**
Allocation to other provisions	(906)	(465)
Allocation to provisions for commitments and guarantees given	(28 070)	x
Levies on banking activities	(30 128)	(33 030)
Banking tax	(27 372)	(30 306)
Resolution fund	(2 756)	(2 724)
Other taxes	(167)	(175)
Losses from derecognition of tangible and intagible assets (other than goodwill)	(1 198)	(260)
Other	(9 375)	(6 976)
Other operating income	**29 892**	**585**
Release of other provisions	320	585
Release of provisions for commitments and guarantees given	24 519	x
Other	5 053	-
Other operating result	**(39 952)**	**(40 321)**

There are two significant items within other operating result for the year 2018 presented in the line item 'Levies on banking activities':

- levy of selected financial institutions ('bank tax') in the amount of 30,3 mil. Eur (2017: 27,4 mil. Eur);
- contribution to the National Resolution Fund ('resolution fund') in the amount of 2,7 mil. Eur (2017: 2,8 mil. Eur).

The Bank is legally obliged to make a contribution to the National resolution fund ('Resolution fund'), which is accounted for in accordance with the IFRIC 21. Estimated amount of contribution is during the year recorded on the balance sheet line item 'Provisions'. When the actual amount of contribution is announced, the Bank records the payment as utilisation of particular provision.

10. Taxes on income

The actual tax on the Bank's profit before tax differs from the theoretical amount, that would be calculated using the basic tax rate valid in Slovak Republic, due to the following adjustments:

EUR ths.	2017	2018
Pre-tax profit / loss	214 165	232 588
Statutory tax rate	21%	21%
Theoretical income tax expense	44 975	48 843
Impact of tax rate change	-	-
Impact of tax-exempt earnings	(2 850)	(1 578)
Impact of tax non-deductible expenses	10 272	5 081
Tax expenses / earnings not attributable to the reporting period	(288)	66
Total	**52 109**	**52 412**

EUR ths.	2017	2018
Current tax expense / income	(54 502)	(49 254)
current period	(54 502)	(49 254)
Deferred tax expense / income	2 393	(3 158)
current period	2 393	(3 158)
Total	**(52 109)**	**(52 412)**

Expiration of tax losses

EUR ths.	2017	2018
2018	2 098	-
2019	832	832
2020	768	769
2021	-	-
2022	-	-
Total	**3 698**	**1 601**

Tax losses carried forward represent results of the former subsidiaries, which were merged with the Bank during prior years.

Further information on tax assets and liabilities are disclosed in the note 25.

11. Cash and cash balances

EUR ths.	31.12.2017	31.12.2018
Cash on hand	369 787	407 193
Cash balances at central banks	640	1 704
Other demand deposits to credit institutions	53 802	7 196
Cash and cash balances	**424 229**	**416 093**

As at 31 December 2018 the balances at central banks included a mandatory reserve deposit in the amount of 1,7 mil. Eur (2017: 0,6 mil. Eur). For the period covering the year-end 2018 the prescribed average balance of the mandatory reserve deposit amounted 134,4 mil. Eur (2017: 123,0 mil. Eur) and the actual fulfilment was 100,05% (2017: 100,08%).

For the purpose of the Statement of cash flows, cash and cash equivalents include accounts with central banks and accounts with other credit institutions repayable on demand. The mandatory reserve deposit is excluded from cash and cash equivalents. This deposit is repayable on demand, however it is not used for a day-to-day operation, as the Bank is required to meet a defined average balance during a monitored period.

12. Derivatives held for trading

EUR ths.	31.12.2017			31.12.2018		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**1 933 472**	**36 484**	**33 344**	**1 733 868**	**42 272**	**40 368**
Interest rate instruments and related derivatives	1 468 213	12 197	10 148	1 434 030	10 285	8 468
Equity instruments and related derivatives	72 744	345	345	1 451	-	-
Foreign exchange trading and related derivatives	361 508	23 774	22 686	298 387	31 987	31 900
Commodities and related derivatives	31 007	168	165	-	-	-
Derivatives held in the banking book	**-**	**-**	**-**	**65 771**	**669**	**693**
Interest rate instruments and related derivatives	-	-	-	-	-	-
Equity instruments and related derivatives	-	-	-	65 088	669	669
Foreign exchange trading and related derivatives	-	-	-	683	-	24
Total gross amounts	**1 933 472**	**36 484**	**33 344**	**1 799 639**	**42 941**	**41 061**

In banking book the Bank disclosed derivative instruments that are used for economical hedging of financial Instruments on asset or liability side and are not designated as hedge accounting.

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.

13. 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.	31.12.2017	31.12.2018
Equity instruments	5 600	x
Financial assets at fair value through profit or loss	**5 600**	**x**

During 2017 the financial assets at fair value through profit or loss were presented under IAS 39. As part of transition to IFRS 9 the Bank changed the presentation of financial Instruments that are now disclosed under 'Non-trading financial assets at fair value through profit or loss'.

14. Non-trading financial assets at fair value through profit or loss

EUR ths.	31.12.2017		31.12.2018	
	Designated at fair value	Mandatorily at fair value	Designated at fair value	Mandatorily at fair value
Equity instruments	x	x	-	5 620
Debt securities	x	x	-	23 622
Credit institutions	x	x	-	20 170
Other financial corporations	x	x	-	3 452
Non-trading financial assets at fair value through profit or loss	**x**	**x**	**-**	**29 242**

Debt securities classified under category ´Mandatorily at fair value´ represents financial assets, which do not comply with the SPPI criteria under IFRS 9. For ´Equity Instruments´ presented under category ´Mandatorily at fair value´ the Bank apply the same criteria with combination of business model.

As a result of merger of investment in the company Poisťovňa SLSP, a. s. Vienna Insurance Group with insurance company KOOPERATIVA, a. s. effective as at 1 April 2018 the Bank ceased to exist as the shareholder of the company Poisťovňa SLSP, a. s. Vienna Insurance Group. At the same date (1 April 2018) the Bank acquired investment in company KOOPERATIVA poisťovňa, a. s. in the notional amount of 763 ths. Eur, which represents the share of 1,53% in the share capital of the company.
As at 31 December 2018 was this investment revalued to the fair value of 5,6 mil. Eur.

15. Financial assets available for sale

EUR ths.	31.12.2017	31.12.2018
Equity instruments	47 885	x
Debt securities	972 734	x
General governments	800 553	x
Credit institutions	51 204	x
Non-financial corporations	120 977	x
Financial assets at fair value through profit or loss	**1 020 619**	**x**

During 2017 the financial assets available for sale were presented under IAS 39. Due to implementation of new standard IFRS 9 these financial assets were reclasified to new portfolios as at 1st January 2018, note Bd) i, ii.

In January 2017 the Bank sold its share in the company R.V.S., a.s., previously recognized in the line item "Financial assets - available for sale" at nill carrying amount. The sale proceeds amounted 0,3 mil. Eur.

In July 2017 the company S Rail Lease s.r.o. was established, in which the Bank holds 3% share and the Bank disclosed this investment in the line item "Financial assets - available for sale". As at 31 December 2017 financial assets available for sale measured at fair value amounted less than 0,1 mil. Eur and comprised of other equity investments in Burza cenných papierov v Bratislave, a.s. and S Rail Lease s.r.o.

As at 31 December 2017 the Bank held the investment in Poisťovňa Slovenskej sporiteľne, a.s. VIG in the amount of 3,1 mil. Eur as a financial asset available for sale measured at fair value.

16. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include only Equity Instruments in amount of 56,4 mil. Eur that the Bank holds for strategic business decisions and are not subject to any impairment requirements. All the accumulated fair value movements for these investments are presented solely in other comprehensive income (OCI) with no subsequent presentation in Profit or loss at any time point allowed.

17. Financial assets held to maturity

EUR ths.	Gross carrying amount		Collective allowances		Net carrying amount	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
General governments	2 542 292	x	(238)	x	2 542 054	x
Credit institutions	92 205	x	(53)	x	92 153	x
Non-financial corporations	10 232	x	(37)	x	10 195	x
Financial assets held to maturity	**2 644 729**	**x**	**(328)**	**x**	**2 644 402**	**x**

During 2017 the financial assets held to maturity were presented under IAS 39. Due to implementation of new standard IFRS 9 these financial assets were reclassified to new portfolios as at 1st January 2018, note Bd) i, ii.

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

18. Loans and receivables to credit institutions

Loans and receivables to credit institutions

EUR ths. As of 31.12.2017	Gross carrying amount	Collective allowances	Net carrying amount
Loans and receivables			
Credit institutions	177 616	–	177 616
Loans and receivables to credit institutions	**177 616**	**–**	**177 616**

During 2017 loans and receivables to credit institutions were presented under IAS 39. As part of transition to IFRS 9 the Bank changed the presentation of financial Instruments that are now disclosed under 'Financial assets at amortised cost – loans and advances to banks'.

The amounts represent the maximum exposure to credit risk.

As at 31 December 2017 the Bank had no reverse repo agreements.

Allowances for loans and receivables to credit institutions

EUR ths.	1.1.2017	Allocations	Releases	31.12.2017
Collective allowances				
Loans and receivables				
Credit institutions	(36)	(599)	635	-
Total	**(36)**	**(599)**	**635**	**-**

19. Loans and receivables to customers

Loans and receivables to customers

EUR ths. As of 31.12.2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Loans and receivables				
General governments	209 500	(1)	(294)	209 206
Other financial corporations	95 196	(300)	(227)	94 669
Non-financial corporations	2 657 868	(86 957)	(16 407)	2 554 504
Households	9 161 175	(202 537)	(58 067)	8 900 571
Loans and receivables to to customers	**12 123 739**	**(289 795)**	**(74 995)**	**11 758 950**

During 2017 loans and receivables to customers were presented under IAS 39. As part of transition to IFRS 9 the Bank changed the presentation of financial instruments that are now disclosed under 'Financial assets at amortised cost – loans and advances to customers'.

Allowances for loans and receivables to customers

EUR ths.	1.1.2017	Allocati-ons	Use	Releases	Interest income from impaired loans	Other changes (+/-)	31.12.2017	Recove-ries of amounts previously written off	Amounts written off
Specific allowances	**(253 698)**	**(173 156)**	**9 272**	**123 504**	**8 214**	**(3 933)**	**(289 795)**	**6 502**	**(882)**
Loans and receivables									
General governments	(1)	-	-	-	-	-	(1)	-	-
Other financial corporations	(7)	(298)	3	1	-	-	(300)	-	-
Non-financial corporations	(94 663)	(27 277)	7 639	29 760	560	(2 977)	(86 957)	1 041	(141)
Households	(159 027)	(145 581)	1 630	93 743	7 654	(956)	(202 537)	5 461	(741)
Collective allowances	**(88 966)**	**(132 129)**	**41 420**	**146 100**	**-**	**(41 420)**	**(74 995)**	**-**	**-**
Loans and receivables									
General governments	(252)	(181)	-	139	-	-	(294)	-	-
Other financial corporations	(257)	(1 734)	6	1 763	-	(6)	(227)	-	-
Non-financial corporations	(22 041)	(22 057)	2 594	27 691	-	(2 594)	(16 407)	-	-
Households	(66 416)	(108 157)	38 821	116 507	-	(38 821)	(58 067)	-	-
Total	**(342 664)**	**(305 285)**	**50 693**	**269 604**	**8 214**	**(45 354)**	**(364 790)**	**6 502**	**(882)**

As at 31 December 2017, 15 largest customers accounted for 5,5% of the gross loan portfolio amounting to 664,1 mil. Eur.

20. Financial assets at amortised cost

Gross carrying amounts and credit loss allowances

EUR ths. As of 31.12.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	**3 551 013**	**-**	**-**	**-**	**3 551 013**	**(383)**	**-**	**-**	**-**	**(383)**	**3 550 630**
General governments	3 301 947	-	-	-	3 301 947	(263)	-	-	-	(263)	3 301 684
Credit institutions	127 676	-	-	-	127 676	(75)	-	-	-	(75)	127 601
Other financial corporations	25 277	-	-	-	25 277	(25)	-	-	-	(25)	25 252
Non-financial corporations	96 113	-	-	-	96 113	(20)	-	-	-	(20)	96 093
Loans and advances to banks	**47 819**	**1**	**-**	**-**	**47 820**	**(23)**	**-**	**-**	**-**	**(23)**	**47 797**
Credit institutions	47 819	1	-	-	47 820	(23)	-	-	-	(23)	47 797
Loans and advances to customers	**12 398 239**	**327 849**	**338 895**	**102 781**	**13 167 764**	**(35 401)**	**(33 865)**	**(229 723)**	**(51 337)**	**(350 326)**	**12 817 438**
General governments	230 021	111	-	-	230 132	(193)	(2)	-	-	(195)	229 937
Other financial corporations	154 560	93	10	-	154 663	(164)	(12)	(8)	-	(184)	154 479
Non-financial corporations	2 734 873	73 359	25 040	97 682	2 930 954	(6 972)	(4 084)	(16 906)	(48 396)	(76 358)	2 854 596
Households	9 278 785	254 286	313 845	5 099	9 852 015	(28 072)	(29 767)	(212 809)	(2 941)	(273 589)	9 578 426
Total	**15 997 071**	**327 850**	**338 895**	**102 781**	**16 766 597**	**(35 807)**	**(33 865)**	**(229 723)**	**(51 337)**	**(350 732)**	**16 415 865**

The amounts represent the maximum exposure to credit risk. As at 31 December 2018 the Bank had no reverse repo agreements.

As at 31 December 2018, 15 largest customers accounted for 5,3% of the gross loan portfolio amounting to 693,8 mil. Eur.

EUR ths. As of 31.12.2017	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Debt securities	**3 519 134**	**-**	**-**	**-**	**3 519 134**	**(459)**	**-**	**-**	**-**	**(459)**	**3 518 675**
General governments	3 291 978	-	-	-	3 291 978	(306)	-	-	-	(306)	3 291 672
Credit institutions	120 840	-	-	-	120 840	(71)	-	-	-	(71)	120 769
Non-financial corporations	106 316	-	-	-	106 316	(82)	-	-	-	(82)	106 234
Loans and advances to banks	**177 616**	**-**	**-**	**-**	**177 616**	**-**	**-**	**-**	**-**	**-**	**177 616**
Credit institutions	177 616	-	-	-	177 616	-	-	-	-	-	177 616
Loans and advances to customers	**11 075 298**	**434 961**	**347 031**	**116 530**	**11 973 820**	**(35 603)**	**(39 736)**	**(223 927)**	**(59 539)**	**(358 805)**	**11 615 015**
General governments	209 246	167	1	-	209 414	(189)	(3)	(1)	-	(193)	209 221
Other financial corporations	94 566	81	22	281	94 950	(210)	(5)	(19)	(281)	(515)	94 435
Non-financial corporations	2 229 278	132 853	38 016	109 525	2 509 672	(8 570)	(6 148)	(26 355)	(54 834)	(95 907)	2 413 765
Households	8 542 208	301 860	308 992	6 724	9 159 784	(26 634)	(33 580)	(197 552)	(4 424)	(262 190)	8 897 594
Total	**14 772 048**	**434 961**	**347 031**	**116 530**	**15 670 570**	**(36 062)**	**(39 736)**	**(223 927)**	**(59 539)**	**(359 264)**	**15 311 306**

Allowances for financial assets at amortised cost

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Debt securities									
Stage 1	**(459)**	**(25)**	**21**	**77**	**3**	**-**	**-**	**-**	**(383)**
General governments	(306)	(2)	3	43	-	-	-	-	(262)
Credit institutions	(71)	(15)	18	(7)	-	-	-	-	(75)
Other financial corporations	-	(8)	-	19	(37)	-	-	-	(26)
Non-financial corporations	(82)	-	-	22	40	-	-	-	(20)
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total allowances for debt securities	**(459)**	**(25)**	**21**	**77**	**3**	**-**	**-**	**-**	**(383)**

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Loans and advances to banks									
Stage 1	**-**	**(1 971)**	**1 992**	**(44)**	**-**	**-**	**-**	**-**	**(23)**
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total allowances for loans and advances to banks	**-**	**(1 971)**	**1 992**	**(44)**	**-**	**-**	**-**	**-**	**(23)**

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Loans and advances to customers									
Stage 1	**(35 603)**	**(28 573)**	**1 439**	**11 187**	**16 109**	**-**	**40**	**-**	**(35 401)**
General governments	(189)	(76)	-	22	50	-	-	-	(193)
Other financial corporations	(210)	(655)	3	699	(1)	-	-	-	(164)
Non-financial corporations	(8 570)	(15 292)	420	13 934	2 536	-	-	-	(6 972)
Households	(26 634)	(12 550)	1 016	(3 468)	13 524	-	40	-	(28 072)
Stage 2	**(39 736)**	**(6 410)**	**460**	**19 591**	**(7 915)**	**-**	**145**	**-**	**(33 865)**
General governments	(3)	(16)	-	17	-	-	-	-	(2)
Other financial corporations	(5)	(8)	1	6	(6)	-	-	-	(12)
Non-financial corporations	(6 148)	(1 785)	68	5 715	(1 952)	-	18	-	(4 084)
Households	(33 580)	(4 601)	391	13 853	(5 957)	-	127	-	(29 767)
Stage 3	**(223 927)**	**(4 692)**	**3 752**	**(25 188)**	**(32 262)**	**-**	**52 593**	**-**	**(229 724)**
General governments	(1)	-	-	-	-	-	1	-	-
Other financial corporations	(19)	(6)	-	3	-	-	14	-	(8)
Non-financial corporations	(26 355)	(1 763)	17	1 147	(2 656)	-	12 705	-	(16 905)
Households	(197 552)	(2 923)	3 735	(26 338)	(29 606)	-	39 873	-	(212 811)
POCI	**(59 539)**	**-**	**896**	**1 317**	**-**	**-**	**5 990**	**-**	**(51 336)**
Other financial corporations	(281)	-	-	281	-	-	-	-	-
Non-financial corporations	(54 834)	-	663	194	-	-	5 581	-	(48 396)
Households	(4 424)	-	233	842	-	-	409	-	(2 940)
Total allowances for loans and advances to customers	**(358 805)**	**(39 675)**	**6 547**	**6 907**	**(24 068)**	**-**	**58 768**	**-**	**(350 326)**

Movement table of credit loss allowances above represents changes in allowances disclosed based on the reason of the change and is prepared on Year-to-Date bases. The table contains allocations, releases, reclassifications between stages as well as use of the credit loss allowances. Not all of these movements are accounted through income statement, so the full reconciliation to 'Impairment result from financial instruments' line in the Statement of profit or loss is not achievable. Furthermore certain expenses such as write offs, sales and unwinding are recognised in the balance sheet line ´Financial assets at amortised cost´ and are not disclosed in the movement table.

Transfers of gross carrying amount between impairment stages

EUR ths.	2018
Transfers between Stage 1 and Stage 2	**356 656**
To Stage 2 from Stage 1	171 369
To Stage 1 from Stage 2	185 287
Transfers between Stage 2 and Stage 3	**63 831**
To Stage 3 from Stage 2	47 228
To Stage 2 from Stage 3	16 603
Transfers between Stage 1 and Stage 3	**82 636**
To Stage 3 from Stage 1	63 029
To Stage 1 from Stage 3	19 607

Mandate loans

During the year 2018 the Bank cooperated with 4 external companies (2017: 13 companies). Following mandate contracts the management and administration of certain non-performing receivables is outsourced. In case of mandate loans, the Bank maintains risks and rewards associated with the underlying exposures and shares recoveries with the external service providers.

As at 31 December 2018 the total amount of gross loans outsourced was 145,5 mil. Eur (2017: 104,7 mil. Eur).

Write off and sale of receivables

During the year 2018 the Bank sold loan receivables in the amount of 47,8 mil. Eur (2017: 80,1 mil. Eur) for a consideration of 7,1 mil. Eur (2017: 14,8 mil. Eur) and used the corresponding allowances amounting 43,4 mil. Eur (2017: 71,2 mil. Eur). Once loan receivables are sold, the Bank transfers all risks and rewards attributable to them and does not have any continuing involvement in the loan receivables subsequent to their sale.

In the year 2018 the Bank has written off loans and finance lease receivables in the amount of 17,3 mil. Eur (2017: 10,4 mil. Eur) and used the respective allowances amounting 15,8 mil. Eur (2017: 9,4 mil. Eur).

21. Finance lease receivables

The Bank acquired finance lease receivables as a result of the merger of the former subsidiary Leasing Slovenskej sporiteľne, a.s. in 2015. The principal assets held under lease arrangements include cars and other technical equipment. As at 31. December 2017 finance lease receivables were disclosed under the line loans and receivables to customers in amout of 77,7 mil. Eur.

Gross carrying amounts and credit loss allowances

EUR ths. As of 31.12.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	57	-	-	-	57	-	-	-	-	-	57
Other financial corporations	349	-	-	-	349	-	-	-	-	-	349
Non-financial corporations	127 569	168	289	-	128 026	(80)	-	(107)	-	(187)	127 839
Households	1 261	11	3	-	1 275	(1)	-	(3)	-	(4)	1 271
Total	**129 236**	**179**	**292**	**-**	**129 707**	**(81)**	**-**	**(110)**	**-**	**(191)**	**129 516**

EUR ths. As of 1.1.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	87	-	-	-	87	-	-	-	-	-	87
Other financial corporations	246	-	-	-	246	(1)	-	-	-	(1)	245
Non-financial corporations	75 595	-	815	-	76 410	(194)	-	(493)	-	(687)	75 723
Households	887	-	48	-	935	(1)	-	(48)	-	(49)	886
Total	**76 815**	**-**	**863**	**-**	**77 678**	**(196)**	**-**	**(541)**	**-**	**(737)**	**76 941**

Allowances for finance lease receivables

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Stage 1	**(196)**	**(98)**	**2**	**211**	**-**	**-**	**-**	**-**	**(81)**
Other financial corporations	(1)	(1)	-	2	-	-	-	-	-
Non-financial corporations	(194)	(96)	-	210	-	-	-	-	(80)
Households	(1)	(1)	2	(1)	-	-	-	-	(1)
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**(541)**	**-**	**-**	**217**	**(28)**	**-**	**242**	**-**	**(110)**
Non-financial corporations	(493)	-	-	183	(28)	-	231	-	(107)
Households	(48)	-	-	34	-	-	11	-	(3)
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(737)**	**(98)**	**2**	**428**	**(28)**	**-**	**242**	**-**	**(191)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2018
Transfers between Stage 1 and Stage 2	**475**
To Stage 2 from Stage 1	475
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	**-**
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**159**
To Stage 3 from Stage 1	159
To Stage 1 from Stage 3	-

As at 31 December 2018 the accumulated allowances for uncollectible minimum lease payments receivable amounted to 0,2 mil. Eur (2017: 0,7 mil. Eur).

Minimum lease payments:

EUR ths.	31.12.2017	31.12.2018
Gross investment in finance leases	**81 034**	**136 946**
Thereof:		
< 1 year	22 241	32 777
1-5 years	50 017	82 246
> 5 years	8 776	21 923
Unearned income	**(3 357)**	**(7 239)**
Net investment in finance leases	**77 677**	**129 707**
Thereof:		
< 1 year	20 978	30 505
1-5 years	48 055	78 089
> 5 years	8 644	21 113

22. Hedge accounting derivatives

EUR ths.	31.12.2017			31.12.2018		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**397 821**	**6 761**	**42 100**	**895 521**	**9 905**	**41 348**
Interest rate	397 821	6 761	42 100	895 521	9 905	41 348
Cash flow hedges	-	-	-	-	-	-
Total gross amounts	**397 821**	**6 761**	**42 100**	**895 521**	**9 905**	**41 348**

Fair value hedge of assets

As at 31 December 2018 the Bank held in portfolio of financial assets at amortised cost fixed rate bonds denominated in Eur with nominal value of 381,2 mil. Eur (2017: 381,2 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 2018 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 0,6 mil. Eur (2017: net gain 10,4 mil. Eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 0,6 mil. Eur (2017: net loss 10,1 mil. Eur).

Fair value hedge of liabilities

In July 2007 the Bank for the first time issued fixed rate mortgage bonds with maturity in July 2027. As at 31 December 2018 the Bank holds covered bonds (former mortgage bonds) in total notional value of 514,3 mil. Eur (2017: 16,6 mil. Eur). The list of bonds is disclosed in the note 29.

During the year 2018 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 2,5 mil. Eur (2017: net loss 1,0 mil. Eur). On the other hand, a net loss on the hedged item attributable to the hedged risk amounted to 2,7 mil. Eur (2017: net gain 0,9 mil. Eur).

23. Trade and other receivables

Gross carrying amounts and credit loss allowances

EUR ths. As of 31.12.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
General governments	-	9	-	-	9	-	-	-	-	-	9
Other financial corporations	100	56	-	-	157	-	-	-	-	-	157
Non-financial corporations	93 520	2 281	3 111	-	98 912	(307)	(9)	(2 855)	-	(3 171)	95 741
Households	106	-	397	-	502	-	-	(397)	-	(397)	105
Total	**93 726**	**2 346**	**3 508**	**-**	**99 580**	**(307)**	**(9)**	**(3 252)**	**-**	**(3 568)**	**96 012**

EUR ths. As of 1.1.2018	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Non-financial corporations	68 912	-	2 874	-	71 786	(247)	-	(2 826)	-	(3 073)	68 713
Households	76	-	380	-	456	-	-	(380)	-	(380)	76
Total	**68 988**	**-**	**3 254**	**-**	**72 242**	**(247)**	**-**	**(3 206)**	**-**	**(3 453)**	**68 789**

As at 31. December 2018 trade and other receivables comprise receivables from factoring transactions and other trade receivables. As at 31. December 2017 receivables from factoring transactions were disclosed under the line 'Loans and receivables to customers' in amount of 72,2 mil. Eur and other trade receivables were disclosed under the line ´Other assets'.

Allowances for trade and other receivables

EUR ths.	01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	Net changes due to modifications without derecognition	Decrease in allowance account due to write-offs	Other adjustments	31.12.2018
Stage 1	**(247)**	**(3 008)**	**2 066**	**882**	**-**	**-**	**-**	**-**	**(307)**
General governments	-	(3)	-	3	-	-	-	-	-
Other financial corporations	-	(4)	-	4	-	-	-	-	-
Non-financial corporations	(247)	(2 969)	2 055	854	-	-	-	-	(307)
Households	-	(32)	11	21	-	-	-	-	-
Stage 2	**-**	**-**	**-**	**(8)**	**-**	**-**	**-**	**-**	**(8)**
Non-financial corporations	-	-	-	(8)	-	-	-	-	(8)
Stage 3	**(3 206)**	**-**	**-**	**(232)**	**(2)**	**-**	**187**	**-**	**(3 253)**
Non-financial corporations	(2 826)	-	-	(215)	(2)	-	187	-	(2 856)
Households	(380)	-	-	(17)	-	-	-	-	(397)
POCI	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(3 453)**	**(3 008)**	**2 066**	**642**	**(2)**	**-**	**187**	**-**	**(3 568)**

Transfers of gross carrying amount between impairment stages

EUR ths.	2018
Transfers between Stage 1 and Stage 2	**1 597**
To Stage 2 from Stage 1	1 597
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	**-**
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**388**
To Stage 3 from Stage 1	388
To Stage 1 from Stage 3	-

24. Investments in subsidiaries and associates

EUR ths.	31.12.2017	31.12.2018
Investment in subsidiaries	14 906	14 906
Investment in associate	8 135	8 142
Total	**23 041**	**23 048**

The folowing table presents the carrying amounts of investments in subsidiaries and asociates:

EUR ths.	Cost		Impairment		Net book value	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Subsidiaries	**14 906**	**14 906**	**-**	**-**	**14 906**	**14 906**
Procurement Services SK, s.r.o.	3	3	-	-	3	3
Služby SLSP, spol. s r. o.	14 903	14 903	-	-	14 903	14 903
Associates	**8 135**	**8 142**	**-**	**-**	**8 135**	**8 142**
Prvá stavebná sporiteľňa, a.s.	1 093	1 093	-	-	1 093	1 093
Slovak Banking Credit Bureau, s.r.o.	3	3	-	-	3	3
Holding Card Service, spol. s r. o.	7 039	7 046	-	-	7 039	7 046
Total	**23 041**	**23 048**	**-**	**-**	**23 041**	**23 048**

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'.

Investments in subsidiaries of Slovenská sporiteľňa, a.s.

EUR ths.	Služby SLSP, s.r.o.		Realitná spoločnosť Slovenskej sporiteľne, a.s. (100% subsidiary of Služby SLSP, s.r.o.)		LANED, a.s. (100% subsidiary of Služby SLSP, s.r.o.)		Procurement Services SK, s.r.o.	
	31.12.2017	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**
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%	
IFRS Classification	Subsidiary		Subsidiary		Subsidiary		Subsidiary	
Reporting currency	EURO		EURO		EURO		EURO	
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	-	221	-	39	-	3 634	-	315
Other current assets	234	-	73	-	2 898	-	124	3
Non-current assets	22 812	22 812	9	1	60 333	57 648	258	87
Current liabilities	-	-	-	-	39 230	35 367	-	-
Non-current liabilities	2	-	31	-	214	193	319	347
Operating Income	78	(10)	(189)	(12)	6 297	6 391	52	48
Post-tax result from continuing operations	78	(10)	(190)	(12)	2 049	1 935	39	34
Total comprehensive income	78	(10)	(190)	(12)	2 049	1 935	39	34
Depreciation and amortisation	-	-	-	-	(3 703)	(3 624)	-	-
Interest expense	-	-	-	-	(320)	(318)	-	-
Tax expense/income	-	-	(1)	-	(545)	(514)	(13)	(14)

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.	
	31.12.2017	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**
Place of business	Bajkalská 30 829 48 Bratislava Slovak Republic		Mlynské nivy 14 821 09 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%	9.98%	33.33%	33.33%	30,99%	24,62%
Voting rights held	35.00%	35.00%	33.33%	33.33%	30,99%	24,62%
IFRS Classification (JV/A)	Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO	
Dividend income received	2 038	-	-	-	-	-
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	435	163	211	235	7	10
Other financial assets	2 864 354	2 954 682	20	6	-	-
Non-financial assets	78 783	80 495	2	-	23 839	30 011
Current liabilities	2 684 222	2 776 229	27	5	-	-
Non-current liabilities	24 150	18 199	6	-	7	3
Operating Income	42 392	(28 735)	63	39	(4)	(22)
Post-tax result from continuing operations	16 943	14 091	55	37	(4)	(22)
Other comprehensive income	1 221	-	-	-	-	-
Total comprehensive income	18 164	14 091	55	37	(4)	(22)
Depreciation and amortisation	(3 966)	(4 126)	(7)	(1)	-	-
Interest income	99 151	95 183	-	-	-	-
Interest expense	(45 338)	(43 516)	(1)	(1)	-	-
Tax expense/income	(5 363)	(4 715)	-	-	-	-

As at 31 December 2018 the Bank held 9,98% share of Prvá stavebná sporiteľňa, a.s. (hereafter 'PSS'), alike in the year 2017. In accordance 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.

Changes during the year 2018

In January 2018 the share in the company Holding Card Service, spol. s r.o. decreased from 30,99% to 24,62%. The value of share represents 7 046 ths. Eur as at 31 December 2018. Change of share related to increase in equity of the company Holding Card Service, spol. s r.o. because of the additional contribution to the funds and transfer of 10% share owned by Česká spořitelna, a. s. from Global Payments, s. r. o. to Holding Card Service, spol. s r.o. The sole depositor was Česká spořitelna, a. s.

25. Tax assets and liabilities

The structure of tax assets and liabilities was as follows:

EUR ths.	Tax assets		Tax liabilities		Impact of IFRS 9	Through PL	Through OCI	Total
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	Net variance 2018			
Assets								
Financial assets at fair value through other comprehensive income	-	-	(25 094)	(10 567)	16 433	473	(2 379)	14 527
Financial assets at amortised cost & trade & other receivables	46 612	44 692	-	-	-	(1 920)	-	(1 920)
Property and equipment & investment property	-	-	(1 834)	(1 676)	-	158	-	158
Other assets	97	44	-	-	-	(53)	-	(53)
Tax loss carried forward	777	336	-	-	-	(441)	-	(441)
Liabilities								
Provisions	3 450	2 685	-	-	-	(765)	-	(765)
Provisions Employee benefits Pensions and other post retirement benefit obliga-tions - pension	626	667	-	-	-	(0)	42	41
Other liabilities	9 124	8 513	-	-	-	(611)	-	(611)
Gross deferred taxes	**60 686**	**56 938**	**(26 928)**	**(12 243)**	**16 433**	**(3 158)**	**(2 338)**	**10 938**
Net deferred taxes	33 758	44 696	-	-	-	-	-	-
Total current taxes	-	4 639	-	91	-	-	-	-
Total taxes	**33 758**	**49 335**	**-**	**91**	**-**	**-**	**-**	**-**

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.

Further information on taxes on income are disclosed in the note 10.

26. Other assets

EUR ths.	31.12.2017	31.12.2018
Client settlement	6 813	10 956
Trade receivables	10 042	-
Personnel balances	6 033	5 256
State budget, social and health insurance, taxes	1 660	1 274
Sundry assets	374	623
Other assets	**24 922**	**18 109**

As at 31. December 2018 the Bank reclassified trade receivables from ´Other assets´ to ´Trade and other receivables´.

27. 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 2017	**183 268**	**59 686**	**58 987**	**301 940**	**6 663**
Additions	5 889	3 653	3 740	13 281	-
Disposals	(18 540)	(6 972)	(15 027)	(40 539)	-
Reclassification	403	-	-	403	(403)
Balance as at 31 December 2017	**171 020**	**56 367**	**47 700**	**275 085**	**6 260**
Additions	5 084	3 766	6 269	15 118	-
Disposals	(10 626)	(4 902)	(715)	(16 244)	(371)
Reclassification	(377)	-	-	(377)	377
Balance as at 31 December 2018	**165 101**	**55 231**	**53 254**	**273 582**	**6 266**

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 2017	**(106 838)**	**(50 405)**	**(45 409)**	**(202 651)**	**(4 275)**
Depreciation	(7 167)	(3 582)	(5 057)	(15 806)	(232)
Disposals	11 669	6 812	15 022	33 502	-
Impairment	(4 028)	-	-	(4 028)	-
Reversal of impairment	4 389	-	-	4 389	41
Reclassification	(237)	-	-	(237)	237
Merger (+/-)	-	-	-	-	-
Balance as at 31 December 2017	**(102 212)**	**(47 175)**	**(35 444)**	**(184 831)**	**(4 229)**
Depreciation	(7 028)	(3 693)	(4 662)	(15 383)	(211)
Disposals	7 461	4 700	715	12 876	225
Impairment	(1 531)	-	-	(1 531)	(11)
Reversal of impairment	798	-	-	798	48
Reclassification	208	-	-	208	(208)
Balance as at 31 December 2018	**(102 304)**	**(46 168)**	**(39 391)**	**(187 863)**	**(4 386)**

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 2017	**68 811**	**9 191**	**12 253**	**90 255**	**2 031**
Balance as at 31 December 2018	**62 800**	**9 061**	**13 859**	**85 720**	**1 879**

Cost of property and equipment, which are fully depreciated but still used by the Bank as at 31 December 2018 amounted 75,7 mil. Eur (2017: 73,2 mil. Eur) and includes various types of tangible fixed assets.

As at 31 December 2018 the Bank owned property and equipment not yet put in use in the amount of 1,0 mil. Eur (2017: 3,6 mil. Eur).

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

Investment properties

As at 31 December 2018 the carrying amount of investment properties was 1,9 mil. Eur (2017: 2,0 mil. Eur). Total rental income earned on this property for the year 2018 amounted 0,3 mil. Eur (2017: 0,3 mil. Eur) and is separately presented in the line item 'Rental income from investment properties and other operating leases'. Depreciation of rented property for the year 2018 amounted 0,2 mil. Eur (2017: 0,2 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.	31.12.2017	31.12.2018
< 1 year	15 555	14 141
1-5 years	46 363	36 576
> 5 years	7 030	1 897
Total	**68 948**	**52 614**

The aforementioned summary includes also rental payments for the Bank's head-office in the amount of 38,9 mil. Eur (2017: 46,8 mil. Eur) according to the contract concluded with its subsidiary Laned, a.s.

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

28. Intangible assets

Cost

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2017	**269 161**	**2 741**	**3 142**	**275 044**
Additions	8 501	-	1	8 502
Disposals	-	(75)	-	(75)
Balance as at 31 December 2017	**277 662**	**2 666**	**3 143**	**283 471**
Additions	6 990	-	64	7 054
Balance as at 31 December 2018	**284 657**	**2 661**	**3 207**	**290 525**

Accumulated amortisation

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2017	**(199 368)**	**(844)**	**(2 879)**	**(203 090)**
Amortisation	(24 311)	(451)	(164)	(24 925)
Balance as at 31 December 2017	**(223 679)**	**(1 295)**	**(3 043)**	**(228 015)**
Amortisation	(22 905)	(488)	(76)	(23 469)
Balance as at 31 December 2018	**(246 584)**	**(1 783)**	**(3 119)**	**(251 484)**

Carrying amount

EUR ths.	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as at 31 December 2017	**53 983**	**1 371**	**100**	**55 457**
Balance as at 31 December 2018	**38 075**	**879**	**87**	**39 041**

Cost of intangible assets, which are fully depreciated but still used by the Bank as at 31 December 2018 amounted 139,8 mil. Eur (2017: 110,1 mil. Eur).

As at 31 December 2018 the Bank owned intangible assets not yet put in use in the amount of 2,4 mil. Eur (2017: 5,8 mil. Eur).

During the year 2018 the Bank put in use upgrade of the core banking system, which amounted 8,0 mil. Eur (2017: 7,1 mil. Eur).

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

29. Financial liabilities measured at amortised cost

Deposits from banks

EUR ths.	31.12.2017	31.12.2018
Overnight deposits	3 086	4 710
Term deposits	406 621	195 744
Repurchase agreements	78 857	50 846
Deposits from banks	**488 564**	**251 300**

Deposits from customers

EUR ths.	31.12.2017	31.12.2018
Overnight deposits	**6 847 060**	**7 880 091**
Non-savings deposits	6 847 060	7 880 091
General governments	84 854	73 317
Other financial corporations	262 002	256 347
Non-financial corporations	1 348 118	1 622 482
Households	5 152 086	5 927 945
Term deposits	**5 634 161**	**5 777 281**
Deposits with agreed maturity	2 814 787	2 560 463
Non-savings deposits	2 814 787	2 560 463
General governments	351 532	491 455
Other financial corporations	264 724	319 321
Non-financial corporations	320 705	217 545
Households	1 877 826	1 532 142
Deposits redeemable at notice	2 819 374	3 216 818
Households	2 819 374	3 216 818
Deposits from customers	**12 481 221**	**13 657 372**
General governments	436 386	564 772
Other financial corporations	526 726	575 668
Non-financial corporations	1 668 823	1 840 027
Households	9 849 286	10 676 905

As at 31 December 2018, no embedded derivatives were included in deposits from customers (neither at the year-end 2017).

As at 31 December 2018, no deposits from customers were collateralised by securities (neither at the year-end 2017).

As at 31 December 2018 liabilities related to settlement of securities transactions and clearing of payment transactions in the amount of 35,2 mil. Eur are disclosed in the line item 'Other finacial liabilities' (2017: 91,0 mil. Eur).

Debt securities issued

EUR ths.	31.12.2017	31.12.2018
Subordinated issues	77 446	72 792
Other debt securities issued	1 489 770	1 730 495
Bonds / certificates	185 655	248 580
Mortgage covered bonds	1 304 115	1 481 915
Debt securities issued	**1 567 216**	**1 803 287**

Subordinated debt securities issued

The interest rate shown below represents actual interest expense of the Bank.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Subordinated Bonds	August 2010	August 2020	4,30%	10 000	1 000	EUR	12 945	13 453
Subordinated Bonds*	June 2011	June 2018	-	0	10 000	EUR	6 956	0
Subordinated Bonds	August 2011	August 2021	4,30%	10 000	1 000	EUR	12 420	12 918
Subordinated Bonds	June 2011	June 2018	-	0	50 000	EUR	6 611	0
Subordinated Bonds*	October 2011	October 2018	-	0	10 000	EUR	5 345	0
Subordinated Bonds*	November 2011	November 2023	4,58%	4 250	1 000	EUR	5 114	5 341
Subordinated Bonds*	December 2011	December 2018	-	0	10 000	EUR	3 965	0
Subordinated Bonds*	June 2012	June 2022	5,80%	11 000	1 000	EUR	13 721	14 475
Subordinated Bonds*	November 2012	November 2022	4,30%	9 000	1 000	EUR	10 371	10 844
Subordinated Bonds	September 2018	September 2028	2,88%	33	100 000	EUR	0	3 326
Subordinated Bonds	September 2018	September 2028	1,73%	33	100 000	EUR	0	3 316
Subordinated Bonds	November 2018	November 2028	2,45%	91	100 000	EUR	0	9 119
Total							**77 446**	**72 792**

The subordinated debt securities issued listed in the following table and marked as 'Subordinated bonds*' included embedded derivatives, which were separated and disclosed on the balance sheet line item 'Financial liabilities – held for trading'. As at 31 December 2018 fair value of these derivatives amounted 0,0 mil. Eur (2017: 0,2 mil. Eur).

Other debt securities issued

All securities listed in the following table 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. The bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2018 other debt securities issued included embedded derivatives (equity and commodities) in the amount of -0,7 mil. Eur (2017: 0,3 mil. Eur), which were separated and disclosed in the line items 'Financial assets – held for trading' and 'Financial liabilities – held for trading'.

The interest rate shown below represents actual interest expense of the Bank.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Covered Bonds	July 2007	July 2027	4,95%	250	66 388	EUR	23 283	22 928
Covered Bonds	April 2008	April 2021	5,00%	250	66 388	EUR	17 184	17 183
Covered Bonds	September 2012	September 2018	-	0	1 000	EUR	10 008	-
Senior Unsecured Bonds	December 2012	December 2018	-	0	1 000	EUR	1 839	-
Covered Bonds	December 2012	December 2019	2,50%	66	50 000	EUR	3 305	3 305
Covered Bonds	January 2013	January 2025	3,10%	87	50 000	EUR	4 412	4 412
Covered Bonds	February 2013	February 2018	-	0	50 000	EUR	23 353	-
Covered Bonds	February 2013	February 2019	2,30%	4 913	1 000	EUR	4 986	4 954
Covered Bonds	March 2013	March 2019	2,30%	4 824	1 000	EUR	4 929	4 857
Covered Bonds	April 2013	April 2019	2,30%	4 843	1 000	EUR	4 930	4 867
Covered Bonds	June 2013	June 2028	3,00%	132	50 000	EUR	6 615	6 615
Covered Bonds	June 2013	December 2019	2,00%	4 153	1 000	EUR	4 168	4 156
Covered Bonds	July 2013	January 2020	2,00%	2 223	1 000	EUR	2 247	2 244
Covered Bonds	August 2013	August 2019	2,00%	2 538	1 000	EUR	2 586	2 559
Covered Bonds	August 2013	August 2019	2,00%	4 237	1 000	EUR	4 306	4 267
Covered Bonds	September 2013	September 2019	2,00%	6 387	1 000	EUR	6 422	6 422
Covered Bonds	October 2013	October 2019	2,00%	5 829	1 000	EUR	5 893	5 851
Covered Bonds	November 2013	November 2019	2,00%	6 651	1 000	EUR	6 668	6 666
Senior Unsecured Bonds	December 2013	December 2019	13,00%	572	1 000	EUR	610	624
Covered Bonds	December 2013	December 2019	2,05%	70	50 000	EUR	3 504	3 504
Covered Bonds	December 2013	December 2018	-	0	50 000	EUR	30 002	-
Investment Certificates	December 2013	December 2018	-	0	1 000	EUR	635	-
Covered Bonds	December 2013	December 2019	2,00%	9 579	1 000	EUR	9 616	9 585
Covered Bonds	February 2014	August 2020	2,00%	9 876	1 000	EUR	10 017	9 955
Covered Bonds	February 2014	February 2029	2,80%	97	50 000	EUR	4 899	4 899
Covered Bonds	March 2014	March 2018	-	0	50 000	EUR	20 197	-
Investment Certificates	March 2014	March 2019	5,25%	514	5 000	PLN	640	609
Investment Certificates	March 2014	March 2019	4,00%	784	1 000	EUR	822	798
Covered Bonds	March 2014	March 2021	2,00%	8 365	1 000	EUR	8 534	8 411
Covered Bonds	March 2014	March 2022	2,00%	220	50 000	EUR	11 111	11 124
Covered Bonds	May 2014	May 2021	1,90%	4 925	1 000	EUR	4 988	4 938
Covered Bonds	June 2014	June 2021	1,75%	9 410	1 000	EUR	9 460	9 420
Covered Bonds	July 2014	July 2021	1,55%	3 509	1 000	EUR	3 540	3 534
Covered Bonds	August 2014	August 2018	-	0	50 000	EUR	45 058	-
Senior Unsecured Bonds	September 2014	September 2019	1,07%	1 000	100 000	EUR	100 296	100 295
Senior Unsecured Bonds	September 2014	September 2019	1,50%	13 872	1 000	EUR	14 414	13 925
Covered Bonds	November 2014	November 2020	0,88%	150	100 000	EUR	15 016	15 017
Covered Bonds	February 2015	February 2022	0,88%	350	100 000	EUR	35 256	35 261
Covered Bonds	February 2015	February 2019	0,11%	500	100 000	EUR	50 021	50 023
Covered Bonds	March 2015	March 2020	1,25%	4 205	1 000	EUR	4 262	4 222
Covered Bonds	March 2015	March 2018	-	0	100 000	EUR	25 102	-
Covered Bonds	March 2015	March 2018	-	0	100 000	EUR	10 035	-
Covered Bonds	March 2015	March 2018	-	0	100 000	EUR	24 000	-
Covered Bonds	June 2015	June 2020	1,20%	4 891	1 000	EUR	4 950	4 894
Covered Bonds	July 2015	July 2020	1,20%	4 856	1 000	EUR	4 998	4 882
Covered Bonds	July 2015	July 2020	0,88%	500	100 000	EUR	50 116	50 142
Covered Bonds	August 2015	August 2025	1,38%	100	100 000	EUR	9 997	10 004
Covered Bonds	August 2015	August 2022	1,00%	100	100 000	EUR	10 012	10 018
Covered Bonds	August 2015	August 2020	1,20%	4 975	1 000	EUR	5 018	4 996
Covered Bonds	September 2015	September 2020	1,20%	4 294	1 000	EUR	4 329	4 308

The table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Covered Bonds	October 2015	October 2020	1,20%	3 542	1 000	EUR	3 559	3 549
Investment Certificates	November 2015	November 2018	-	0	1 000	EUR	595	-
Covered Bonds	November 2015	November 2020	0,63%	400	100 000	EUR	40 028	40 031
Covered Bonds	November 2015	November 2020	1,20%	2 991	1 000	EUR	3 008	2 994
Covered Bonds	December 2015	December 2021	0,63%	170	100 000	EUR	20 000	17 001
Investment Certificates	February 2016	February 2020	4,10%	121	5 000	EUR	726	644
Covered Bonds	February 2016	February 2021	0,50%	500	100 000	EUR	50 216	50 218
Investment Certificates	February 2016	February 2020	4,20%	210	1 000	EUR	233	224
Investment Certificates	March 2016	March 2018	-	0	1 000	EUR	1 284	-
Covered Bonds	March 2016	March 2021	1,05%	6 967	1 000	EUR	7 015	6 990
Covered Bonds	March 2016	March 2019	0,13%	60	100 000	EUR	6 002	6 002
Covered Bonds	March 2016	March 2018	-	0	100 000	EUR	62 052	-
Investment Certificates	March 2016	March 2018	-	0	1 000	EUR	746	-
Covered Bonds	March 2016	March 2026	1,00%	90	100 000	EUR	8 986	8 996
Investment Certificates	April 2016	April 2019	3,40%	639	1 000	EUR	674	650
Covered Bonds	April 2016	April 2021	1,05%	4 949	1 000	EUR	4 973	4 961
Covered Bonds	May 2016	May 2021	1,00%	4 976	1 000	EUR	4 996	4 984
Covered Bonds	May 2016	November 2020	0,14%	500	100 000	EUR	50 007	50 008
Covered Bonds	June 2016	June 2021	0,00%	3 942	1 000	EUR	3 871	3 853
Investment Certificates	June 2016	June 2020	3,70%	400	1 000	EUR	438	423
Investment Certificates	July 2016	July 2019	2,80%	340	1 000	EUR	361	350
Covered Bonds	July 2016	July 2021	0,90%	4 915	1 000	EUR	5 012	4 936
Covered Bonds	August 2016	August 2021	0,80%	4 959	1 000	EUR	5 011	4 975
Covered Bonds	August 2016	August 2021	0,75%	4 906	1 000	EUR	5 002	4 919
Investment Certificates	August 2016	August 2020	3,00%	339	1 000	EUR	373	361
Covered Bonds	September 2016	September 2021	0,70%	4 943	1 000	EUR	4 962	4 952
Covered Bonds	October 2016	October 2021	0,65%	4 965	1 000	EUR	4 981	4 971
Covered Bonds	November 2016	November 2021	0,25%	1 000	100 000	EUR	100 000	100 005
Covered Bonds	December 2016	December 2021	0,65%	9 829	1 000	EUR	9 946	9 831
Senior Unsecured Bonds	December 2016	December 2021	0,65%	4 914	1 000	EUR	4 978	4 915
Covered Bonds	March 2017	March 2025	0,75%	1 000	100 000	EUR	100 305	100 347
Senior Unsecured Bonds	March 2017	March 2022	0,60%	4 674	1 000	EUR	5 003	4 695
Investment Certificates	April 2017	April 2018	-	0	10 000	EUR	627	-
Senior Unsecured Bonds	April 2017	April 2022	0,60%	30	100 000	EUR	3 013	3 013
Senior Unsecured Bonds	April 2017	April 2022	0,60%	4 857	1 000	EUR	4 981	4 877
Covered Bonds	May 2017	May 2019	0,00%	300	100 000	EUR	99 932	29 994
Senior Unsecured Bonds	May 2017	May 2022	0,60%	4 810	1 000	EUR	4 985	4 827
Covered Bonds	June 2017	June 2022	0,38%	50	100 000	EUR	4 996	4 999
Investment Certificates	July 2017	July 2018	-	0	5 000	EUR	656	-
Senior Unsecured Bonds	July 2017	July 2022	0,60%	4 853	1 000	EUR	5 008	4 865
Senior Unsecured Bonds	August 2017	August 2022	0,63%	4 815	1 000	EUR	4 979	4 826
Senior Unsecured Bonds	September 2017	September 2022	0,63%	4 972	1 000	EUR	5 009	4 981
Senior Unsecured Bonds	September 2017	September 2022	0,63%	9 797	1 000	EUR	9 916	9 813
Covered Bonds	October 2017	October 2022	0,50%	1 500	100 000	EUR	149 924	149 974
Senior Unsecured Bonds	November 2017	November 2027	1,38%	44	100 000	EUR	4 398	4 399
Investment Certificates	November 2017	November 2018	-	0	5 000	EUR	1 741	-
Investment Certificates	November 2017	November 2018	-	0	5 000	EUR	1 497	-
Senior Unsecured Bonds	November 2017	November 2022	2,00%	4 998	1 000	USD	4 180	4 376
Senior Unsecured Bonds	February 2018	February 2023	2,15%	3 678	1 000	USD	-	3 274
Senior Unsecured Bonds	February 2018	February 2023	0,65%	9 980	1 000	EUR	-	10 038

The table continues on the following page.

EUR ths.	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2017	2018
Senior Unsecured Bonds	March 2018	March 2021	0,25%	142	100 000	EUR	-	14 216
Senior Unsecured Bonds	March 2018	March 2023	0,65%	9 964	1 000	EUR	-	10 013
Senior Unsecured Bonds	April 2018	April 2021	2,30%	3 675	1 000	USD	-	3 260
Investment Certificates	May 2018	May 2019	8,00%	200	5 000	EUR	-	1 086
Investment Certificates	May 2018	May 2019	8,00%	137	5 000	EUR	-	743
Senior Unsecured Bonds	June 2018	June 2019	6,20%	327	5 000	EUR	-	1 747
Senior Unsecured Bonds	June 2018	June 2020	2,00%	1 898	1 000	USD	-	1 675
Senior Unsecured Bonds	June 2018	June 2024	0,75%	5 081	1 000	EUR	-	5 100
Senior Unsecured Bonds	July 2018	July 2019	9,35%	165	5 000	EUR	-	909
Senior Unsecured Bonds	July 2018	July 2019	9,00%	80	5 000	EUR	-	439
Senior Unsecured Bonds	August 2018	August 2019	8,00%	87	5 000	EUR	-	474
Covered Bonds	August 2018	August 2025	0,63%	2 500	100 000	EUR	-	252 153
Senior Unsecured Bonds	August 2018	August 2024	0,70%	4 980	1 000	EUR	-	4 992
Senior Unsecured Bonds	September 2018	September 2024	0,70%	4 984	1 000	EUR	-	4 994
Senior Unsecured Bonds	September 2018	September 2019	7,50%	90	5 000	EUR	-	489
Senior Unsecured Bonds	October 2018	January 2019	9,30%	123	50 000	NOK	-	634
Senior Unsecured Bonds	November 2018	November 2024	0,75%	5 000	1 000	EUR	-	5 003
Covered Bonds	December 2018	December 2024	0,50%	2 500	100 000	EUR	-	249 846
Senior Unsecured Bonds	December 2018	December 2024	0,75%	5 000	1 000	EUR	-	5 003
Total							**1 489 770**	**1 730 495**

30. Provisions

EUR ths.	31.12.2017	31.12.2018
Commitments and guarantees given *	15 091	12 065
Provisions for commitments and financial guarantees in Stage 1	x	3 143
Provisions for commitments and financial guarantees in Stage 2	x	723
Provisions for commitments and financial guarantees in Stage 3	x	601
Provisions for commitments and financial guarantees - POCI	x	7 598
Long-term employee benefits provisions	2 982	3 178
Pending legal issues and tax litigation	5 653	5 353
Other provisions	1 341	81
Restructuring	1 341	77
Other	-	4
Provisions	**25 067**	**20 677**

*Provisions for commitments and financial guarantees as at 31. December 2017 are measured in accordance with IAS 39. As at 31. December 2018 these provisions are measured in line with IFRS 9.

Commitments and financial guarantees given

Provisions for commitments and financial guarantees were created to cover losses expected 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 used for discounting).

EUR ths.	31.12.2017 IFRS 9	31.12.2018 IFRS 9
Commitments and guarantees given		
Provisions for commitments and financial guarantees in Stage 1	4 488	3 143
Provisions for commitments and financial guarantees in Stage 2	1 201	723
Provisions for commitments and financial guarantees in Stage 3	444	601
Provisions for commitments and financial guarantees - POCI	8 236	7 598
Provisions	**14 369**	**12 065**

The following table presents movements in the provision for commitments and financial guarantees:

EUR ths.	1.1.2018	Increases due to origination and acquisition	Decreases due to derecognition	Net changes due to change in credit risk	Transfers between stages	31.12.2018
Provisions for contingent credit risk liabilities	14 369	35 271	(13 343)	(24 232)	1 225	12 065
Total	**14 369**	**35 271**	**(13 343)**	**(24 232)**	**1 225**	**12 065**

EUR ths.	1.1.2017	Additions	Use	Release	Exchange-rate and other changes	31.12.2017
Provisions for contingent credit risk liabilities	11 494	28 109	-	(24 519)	7	15 091
Total	**11 494**	**28 109**	**-**	**(24 519)**	**7**	**15 091**

Long-term employee pension 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 pension provisions is calculated using an actuarial model based on the projected unit credit method. The Bank performes 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 pension provisions recognised on the balance sheet and the income statement were as follows:

EUR ths.	Pension provision	Working anniversaries provision	Total
As at 1 January 2017	**2 873**	**2 294**	**5 167**
Service cost	223	36	259
Interest cost	19	15	34
Payments	(322)	(69)	(391)
Actuarial (gains)/losses	(174)	(1 913)	(2 087)
from changes in demographic assumptions	14	4	18
from changes in financial assumptions	(233)	(113)	(346)
from changes in experience assumptions	45	(1 804)	(1 759)
Merge	-	-	-
As at 31 December 2017	**2 618**	**364**	**2 982**
Service cost	180	35	215
Interest cost	38	5	43
Payments	(248)	(49)	(297)
Actuarial (gains)/losses	199	36	235
from changes in financial assumptions	199	36	235
As at 31 December 2018	**2 787**	**391**	**3 178**

In the year 2018 the working anniversaries provision decreased due to changes in the employee benefit program conditions.

The actuarial calculation of pension provision used the following assumptions:

Pension provision	2017	2018
Annual discount rate	1,46%	1,45%
Annual rate of salary increase in future	0,00%	0,00%
Annual employee turnover	5,96% - 15,88%	6,47% - 13,79%
Retirement age	62 years	62 years

The actuarial calculation of working anniversaries provision used the following assumptions:

Working anniversary provision	2017	2018
Annual discount rate	1,46%	1,45%
Annual rate of salary increase in future	0,00%	0,00%
Annual employee turnover	5,96% - 15,88%	6,47% - 13,79%
Retirement age	62 years	62 years

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

Provisions for pending legal issues and tax litigation legal issues

Provisions for legal issues relate to legal cases where the Bank is sued and which arose from normal banking activities.

The folowing table presents development of provision:

EUR ths.	2017	Additions	Use	Release	2018
Restructuring provision	1 341	77	(472)	(869)	77
Pending legal issues and tax litigation	5 653	466	(181)	(585)	5 353
Other provisions	-	4	-	-	4
Total	**6 994**	**547**	**(653)**	**(1 454)**	**5 434**

EUR ths.	2016	Additions	Use	Release	2017
Restructuring provision	-	1 341	-	-	1 341
Pending legal issues and tax litigation	5 765	906	(697)	(321)	5 653
Other provisions	-	8 500	(3 556)	(4 944)	-
Total	**5 765**	**10 747**	**(4 253)**	**(5 265)**	**6 994**

The movement of other provisions related to the provisions for Deposit protection fund and Resolution fund accounted for in accordance with IFRIC 21.

Other provisions

The item 'Other provisions' includes provision on contribution to Resolution fund and provision on contribution to Deposit protection fund during the year. During the year the estimated value of these contributions are recorded as provision and when the actual amount of contributions is announced, the payment is accounted for as utilisation of particular provision. For the year 2018 all contributions were paid , therefor no balance of other provisions is recognised.

In 2017 the Bank created the provision for restructuring in amount of 1,3 mil. Eur. During 2018 the provision was used in the amount of 0,5 mil. Eur and the residual amount of provision was released.

31. Other liabilities

EUR ths.	31.12.2017	31.12.2018
Client settlement	-	4 841
Trade payables	41 149	35 333
Personnel balances and social fund	36 084	38 257
State budget, social and health insurance, taxes	4 431	4 562
Other liabilities	**81 664**	**82 993**

Social fund liability, which is included in the line item 'Other liabilities', developed as follows:

EUR ths.	2017	2018
As at 1 January	**1 027**	**1 264**
Additions	2 223	2 801
Withdrawals	(1 986)	(2 046)
As at 31 December	**1 264**	**2 019**

32. Equity

Share capital

The approved share capital was fully paid and consists of the following:

EUR ths.	31.12.2017	31.12.2018
Nominal value of share (in EUR)	1 000	1 000
Number of shares (in pcs.)	212 000	212 000
Share capital (in EUR)	**212 000 000**	**212 000 000**

The following table presents distribution of individual profits of the bank for the years 2017 (approved) and 2018 (proposed):

EUR ths.	2017	2018
Profit for the year (in EUR ths.)	162 056	180 176
Distribution for Investment certificate 2015 SLSP AT1 PNC5	11 700	11 700
Dividends paid to shareholder from profit for the year	142 838	87 608
Transfer to retained earnings	7 518	80 868
Number of shares with nominal value of EUR 1 000 (in pcs.)	212 000	212 000
Dividend per share (in EUR)	**674**	**413**

Dividends for the year 2017 were paid in March 2018 following the resolution of General Assembly of the Bank dated 27 March 2018.

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 2018 Legal reserve fund amounted to 79,8 mil. Eur (2017: 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 2018 Statutory fund amounted 39,1 mil. Eur (2017: 39,1 mil. Eur).

Available for sale reserve

Available for sale reserve represents the unrealised revaluation of the securities available for sale according to IAS 39. This reserve is not available for distribution to the shareholder. As at 31 December 2017 available for sale reserve amounted 94,7 mil. Eur, net of deferred tax. This reserve was released during the transition process to IFRS 9 in 2018.

Fair value reserve

Fair value reserve represents the unrealised revaluation of financial assets measured at fair value through other comprehensive income. This reserve is not available for distribution to the sharefolder. As at 31 December 2018 the revaluation of financial assets measures at fair value through other comprehensive income amounted to 40,1 mil. Eur, net of deferred tax.

Remeasurement of net liability of defined pension plans

This equity component reflects the results of actuarial calculations related to the pension provision. As at 31 December 2018 the remeasurement of the pension provision amounted 0,6 mil. Eur (2017: 0,5 mil. Eur), net of deferred tax.

33. 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.

Transactions with related parties occur in the normal course of business and primarily include loans and deposits. These transactions are performed at arm's length, i.e. the terms and conditions applied respect market conditions.

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

EUR ths.	Erste Group Bank AG		Companies of Erste Group		Subsidiaries		Associates	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Assets Cash and cash balances	3 467	4 248	49 835	130	-	-	-	-
Derivatives	2 218	1 948	93	380	-	-	-	-
Derivatives – Hedge accounting	-	3 657	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	5 255
Loans and receivables to credit institutions	135 716	311	41 812	8 724	-	-	-	-
Loans and receivables to customers	-	77	49 621	73 003	39 217	35 430	-	1
Other assets	4 345	3 288	935	-	7	-	-	-
Total	**145 746**	**13 529**	**142 296**	**83 821**	**39 223**	**35 430**	**-**	**5 256**
Liabilities Derivatives held for trading	31 358	39 500	1	-	-	-	-	-
Deposits from banks	200 594	53 289	690	1 695	-	-	-	-
Deposits from customers	-	-	2 616	3 151	3 095	3 988	-	-
Debt securities issued	683 619	875 977	-	-	-	-	-	-
Derivatives – hedge accounting	42 100	41 348	-	-	-	-	-	-
Other liabilities	1 123	62	4 728	1 067	-	-	-	-
Total	**958 794**	**1 010 176**	**8 035**	**5 913**	**3 095**	**3 988**	**-**	**-**

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

EUR ths.	Erste Group Bank AG		Companies of Erste Group		Subsidiaries		Associates	
	2017	2018	2017	2018	2017	2018	2017	2018
Interest income	(8 707)	(9 057)	1 025	1 682	320	318	-	73
Interest expense	(3 801)	(4 150)	(26)	(13)	-	-	-	(3)
Dividend income	-	-	-	566	25	20	2 038	-
Net fee and commisssion income	83	(230)	7 482	6 470	4	1	-	3
Net trading and fair value result	21 269	165	285	380	-	-	-	-
General administrative expenses	(5 197)	(4 370)	(9 579)	(10 374)	(7 696)	(7 709)	-	-
Other operating result	509	352	2 538	1 165	98	(28)	-	-
Total	**4 156**	**(17 290)**	**1 725**	**(124)**	**(7 248)**	**(7 398)**	**2 038**	**73**

The amounts with Erste Group Bank AG reported in the line items 'Interest income' and 'Net trading 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 29).

As at 31 December 2018 the Bank has received a guarantee from its parent company Erste Group Bank AG covering exposures towards Erste Group Immorent Slovensko s.r.o. in the amount of 23,2 mil. Eur (2017: 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 (2017: 2,2 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. as at 31 December 2018 in the maximum amount of the guarantee was 17,0 mil. Eur (2017: 27,6 mil. Eur).

The Bank received guarantees from its sister company Česká spořitelna, a.s. covering clients' exposures in the amount of 0,8 mil. Eur as at the reporting date (2017: 0,9 mil. Eur).

The Bank 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 (2017: 0,1 mil. Eur).

As at 31 December 2018 the Bank owned a share in real estate fund Sporo realitný fond SPF of Asset Management Slovenskej sporiteľne, a.s. in the amount of 3,4 mil. Eur (2017: 5,5 mil. Eur).

Transactions with key management personnel

The remuneration of the Board of Directors members and the Supervisory Board members paid during the year 2018 in form of short-term employee benefits amounted to 2,0 mil. Eur (2017: 2,2 mil. Eur). The remuneration policy of the Board of Directors members is in compliance with CRD directive as adopted in the national legislation.

34. 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 conditions. 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 loan commitment. 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.	31.12.2017	31.12.2018
Guarantees provided	319 122	368 083
Guarantees from letter of credit	10 618	10 168
Loan commitments and undrawn loans	1 289 425	1 223 703
Total	**1 619 165**	**1 601 954**

As at 31 December 2018 the value of payment guarantees represented 83,03 mil. Eur (2017: 77,24 mil. Eur), the value of non-payment guarantees represented 276,78 mil. Eur (2017: 233,46 mil. Eur) and the value of other guarantees represented 8,27 mil. Eur (2017: 8,42 mil. Eur).

35. 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 held against loans and advances to banks, except for securities held as a part of reverse repurchase agreements commented in the note 15.

Collaterals received

As at 31 December 2018 the Bank had collateralized loans in the amount of 9 524,4 mil. Eur (2017: 8 709,8 mil. Eur). The uncollateralized loans amounted 3 920,5 mil. Eur (2017: 3 591,6 mil. Eur).

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

31.12.2018	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral
EUR ths.			Guarantees	Real estate	Other		
Cash and cash balances - other demand deposits	7 196	-	-	-	-	-	7 196
Financial assets at amortised cost	16 766 596	186 053	37 958	7 590 703	238 890	7 867 551	8 899 045
Loans and advances to banks	47 820	-	48	-	-	48	47 772
Loans and advances to customers	13 167 763	186 053	19 892	7 590 703	238 890	7 849 485	5 318 278
of which: Lending for house purchase	7 519 839	131 789	-	6 648 973	39	6 649 012	870 827
of which: Credit for consumption	1 807 046	17	-	51	312	363	1 806 683
of which: Corporate loans and others	3 840 878	54 246	19 892	941 679	238 539	1 200 110	2 640 767
Debt securities	3 551 013	-	18 018	-	-	18 018	3 532 995
Finance lease receivables	129 707	229	-	-	91 705	91 705	38 001
Trade and other receivables	99 581	-	-	-	-	-	99 581
Non-trading financial assets at fair value through profit or loss - 'Debt securities	23 622	-	-	-	-	-	23 622
Financial assets - held for trading	42 941	-	-	-	-	-	42 941
Positive fair value of derivatives	9 905	-	-	-	-	-	9 905
Total credit risk exposure on-balance	**17 079 548**	**186 282**	**37 958**	**7 590 703**	**330 595**	**7 959 256**	**9 120 291**
Off-balance	1 601 954	35 140	54 903	95 638	42 772	193 313	1 408 641
Total credit risk exposure	**18 681 502**	**221 422**	**92 861**	**7 686 341**	**373 367**	**8 152 569**	**10 528 932**

31.12.2017 EUR ths.	Credit risk exposure	Collateral: thereof attributable to credit impaired exposure	Collateralised by			Collateral total	Credit risk exposure net of collateral
			Guarantees	Real estate	Other		
Cash and cash balances - other demand deposits	53 802	-	-	-	-	-	53 802
Loans and advances to banks	177 616	-	37	-	-	37	177 580
Loans and advances to customers	12 123 740	194 379	33 553	6 835 398	250 731	7 119 682	5 004 058
of which: Lending for house purchase	6 950 023	132 054	-	5 889 055	41	5 889 095	1 060 927
of which: Credit for consumption	1 715 672	4	-	62	302	364	1 715 307
of which: Corporate loans and others	3 308 125	61 715	33 553	946 281	182 636	1 162 470	2 145 656
of which: Finance lease receivables	77 678	606	-	-	67 752	67 752	9 926
of which: Trade and other receivables	72 242	-	-	-	-	-	72 242
Held to maturity	2 644 730	-	-	-	-	-	2 644 730
Available for sale	972 734	-	18 052	-	-	18 052	954 683
Positive fair value of derivative financial instruments	43 244	-	-	-	-	-	43 244
Total credit risk exposure on-balance	**16 015 866**	**194 379**	**51 642**	**6 835 398**	**250 731**	**7 137 771**	**8 878 097**
Off-balance	1 619 165	35 644	40 373	101 826	38 442	180 641	1 438 524
Total credit risk exposure	**17 635 031**	**230 023**	**92 015**	**6 937 224**	**289 173**	**7 318 412**	**10 316 621**

Assets pledged as collaterals

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

EUR ths. As of 31.12.2018	Carrying amount of transferred assets					Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Repurchase agreements	Other associated liabilities
Financial assets at amortised cost								
Debt securities	208 946	45 657	51 098	112 191	-	225 156	50 846	174 310
Loans and advances to customers	1 696 924	-	-	1 696 924	-	1 390 015	-	1 390 015
Assets pledged as collateral	**1 905 870**	**45 657**	**51 098**	**1 809 115**	**-**	**1 615 171**	**50 846**	**1 564 325**

EUR ths. As of 31.12.2017	Carrying amount of transferred assets					Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Assets pledged for covered bonds	Other transferred assets	Total	Repurchase agreements	Other associated liabilities
Financial assets - available for sale	191 439	79 547	40 634	63 299	7 958	169 781	78 857	90 924
Loans and receivables to customers	1 462 588	-	-	1 462 589	-	1 211 162	-	1 211 162
Financial assets - held to maturity	59 010	-	10 061	48 949	-	49 836	-	49 836
Assets pledged as collateral	**1 713 037**	**79 547**	**50 695**	**1 574 837**	**7 958**	**1 430 779**	**78 857**	**1 351 922**

36. Offsetting of financial assets and financial liabilities

31.12.2018 EUR ths.	Gross amounts of recognised financial instruments	Net amounts of financial instruments in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting Non-cash financial collateral pledged	Net amount after potential offsetting
Assets				
Derivatives	42 941	42 941	-	42 941
Derivatives - hedge accounting	9 905	9 905	-	9 905
Total assets	**52 846**	**52 846**	**-**	**52 846**
Liabilities				
Derivatives	41 062	41 062	35 780	5 282
Derivatives - hedge accounting	41 348	41 348	21 196	20 152
Repurchase agreements	50 846	50 846	50 846	-
Total liabilities	**133 256**	**133 256**	**107 822**	**25 434**

31.12.2018 EUR ths.	Gross amounts of recognised financial instruments	Net amounts of financial instruments in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting Non-cash financial collateral pledged	Net amount after potential offsetting
Assets				
Derivatives	36 484	36 484	-	36 484
Derivatives - hedge accounting	6 761	6 761	-	6 761
Total assets	**43 245**	**43 245**	**-**	**43 245**
Liabilities				
Derivatives	33 344	33 344	26 152	7 191
Derivatives - hedge accounting	42 100	42 100	20 714	21 386
Repurchase agreements	78 857	78 857	78 857	-
Total liabilities	**154 301**	**154 301**	**125 723**	**28 577**

37. Assets under administration

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

As at 31 December 2018 the Bank held assets for collective investment undertakings in the amount of 1 211,2 mil. Eur (2017: 1 261,5 mil. Eur).

As at 31 December 2018 the Bank also held assets for customers other than collective investment undertakings in the amount of 6 384,8 mil. Eur (2017: 6 339,2 mil. Eur).

38. 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 are introduced in the segment reporting of the Bank accordingly and aligned with the Group governance. Consequently the segment structure in force is used for internal and external reporting from 1 January 2016. The overarching principles of internal regular reporting of the segments´ performance to the Board of directors of the Bank is described in the Bank Segment reporting policy.

The segment report represents the single source of truth for reporting of financial performance of the Bank's segments and serves as the basis for business steering of all individual segments, as well as consolidated result of the Bank. All the areas of the Bank, 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 the Bank. It is the responsibility of the respective area to assure that the alignment is achieved. Segment reporting in the Bank has to be aligned with Erste 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 Bank's segment structure serves as a basis for budgeting, forecasting, strategic discussions, setting and tracking of key performance indicators (KPIs).

Business segments

The segment reporting was aligned with Erste group segment principles in order to present the Bank's 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 activities with private individuals, free professionals and micros, which are in the responsibility of account managers in the Retail network. Retail products and services, including current accounts and savings, loans pledged by real estate, mortgage and consumer loans, credit cards, investment and cross selling products (e.g. insurance, asset management products 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, 42 areas and 250 branches (status as at 31 December 2018).

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

- Small and medium-sized enterprises (SME) are small, medium and local 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's 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 Local Corporate Center includes received dividends and 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. This segmentz is divided into Treasury trading a market services (GMT) and financial institutions (GMFI)

- Trading and Market services (GMT) comprises all activities related to active risk taking and managing in regulatory trading books of the Bank, additional to that the execution of trades against the market using the trading books of the Bank 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 (GMFI) 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 a rate of return on allocated equity and cost/income ratio are used. ROE (return on allocated capital) is defined as the net result for the period before minorities in relation to the average allocated equity of the respective segment. Cost/income ratio is calculated for each segment and 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 result, gains/losses from financial instruments measured at fair value through profit or loss, net result from equity method investments, rental income from investment properties & other operating leases).

Business Segments	Retail		Corporates		Group markets		Asset Liability Management and Local Corporate Center		Total	
EUR ths.	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Net interest income	380 516	373 126	61 697	71 269	4 012	3 989	(6 615)	(10 238)	439 610	438 146
Net fee and commission income	91 167	108 209	13 138	16 532	6 330	6 959	2 075	(2 876)	112 710	128 823
Dividend income	-	-	25	-	-	-	3 124	1 064	3 149	1 064
Net trading result	3 646	3 646	3 523	2 332	3 607	3 372	2 997	318	13 773	9 669
Gains/losses from financial instruments measured at fair value through PL	-	-	-	-	-	-	(514)	2 145	(514)	2 145
Rental income from investment properties & other operating leases	-	-	-	-	-	-	325	310	324	310
General administrative expenses	(243 918)	(241 247)	(34 641)	(34 614)	(5 230)	(5 075)	(1 373)	(2 698)	(285 162)	(283 633)
Gains/losses from financial assets and liabilities not at FVPL, net **	-	x	-	x	-	x	300	x	300	x
Other gains/losses from derecognition of financial instruments not at FVPL	x	-	x	-	x	-	x	(93)	x	(93)
Net impairment loss on financial assets	(40 215)	x	9 815	x	43	x	283	x	(30 073)	x
Impairment result from financial instruments	x	(32 768)	x	9 106	x	(13)	x	154	x	(23 522)
Other operating result	(20 904)	(21 440)	(6 149)	(3 937)	(1 275)	(1 608)	(11 624)	(13 336)	(39 952)	(40 321)
Levies on banking activities	(20 083)	(21 440)	(3 370)	(3 937)	(1 336)	(1 608)	(5 339)	(6 045)	(30 128)	(33 031)
Pre-tax profit from continuing operations	**170 292**	**189 526**	**47 409**	**60 688**	**7 487**	**7 624**	**(11 023)**	**(25 250)**	**214 165**	**232 588**
Taxes on income	(36 207)	(39 800)	(9 956)	(12 744)	(1 572)	(1 601)	(4 374)	1 734	(52 109)	(52 412)
Net result for the period	**134 085**	**149 725**	**37 453**	**47 943**	**5 915**	**6 023**	**(15 397)**	**(23 516)**	**162 056**	**180 176**
Net result attributable to owners of the parent	**134 085**	**149 725**	**37 453**	**47 943**	**5 915**	**6 023**	**(15 397)**	**(23 516)**	**162 056**	**180 176**
Operating income	475 329	484 981	78 384	90 133	13 949	14 320	1 391	(9 277)	569 053	580 157
Operating expenses	(243 918)	(241 247)	(34 641)	(34 614)	(5 230)	(5 075)	(1 373)	(2 698)	(285 162)	(283 633)
Operating result	**231 411**	**243 734**	**43 743**	**55 519**	**8 718**	**9 245**	**18**	**(11 975)**	**283 890**	**296 524**
Risk-weighted assets (credit risk, eop)*	2 606 851	2 863 273	2 419 866	2 900 738	25 707	37 922	361 481	528 413	5 413 905	6 330 346
Average allocated capital**	309 891	414 716	171 155	260 123	6 538	7 917	181 824	224 977	669 409	907 733
Cost/income ratio	51,3%	49,7%	44,2%	38,4%	37,5%	35,4%	98,7%	-29,1%	50,1%	48,9%
Return on allocated capital	43,3%	36,1%	21,9%	18,4%	90,5%	76,1%	-8,5%	-10,5%	24,2%	19,8%
Total assets (eop)	9 032 269	9 737 402	2 865 121	3 441 390	246 089	59 728	4 171 263	4 174 581	16 314 743	17 413 100
Total liabilities excluding equity (eop)	10 306 680	11 200 595	1 299 051	1 430 259	598 756	639 127	2 605 710	2 663 247	14 810 197	15 933 228
Impairments										
Net impairment loss on financial assets	**(40 215)**	**x**	**9 815**	**x**	**43**	**x**	**283**	**x**	**(30 074)**	**x**
Net impairment loss on loans and receivables to credit institutions/customers	(40 215)	x	9 853	x	43	x	295	x	(30 024)	x
Net impairment loss on other financial assets	-	x	(38)	x	-	x	(12)	x	(50)	x
Impairment result from financial instruments	**x**	**(32 768)**	**x**	**9 106**	**x**	**(13)**	**x**	**154**	**x**	**(23 522)**
Net impairment loss on financial instruments AC	x	(33 136)	x	6 878	x	(10)	x	251	x	(26 017)
Net impairment loss on financial instruments Leasing	x	-	x	-	x	-	x	72	x	72
Impairments and provisions for commitments and guarantees given	(821)	368	(2 779)	2 228	61	(3)	(13)	(168)	(3 552)	2 424
Net impairment on other non-financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**(1 088)**	**436**	**(1 088)**	**436**

* Credit RWA (eop) after inter company transactions according to Pillar 1, calculated by Erste group for the purpose of segment report and management purposes (without subsidiaries Credit RWA)
** Average allocated capital is calculated based on Erste group controlling methodology.

39. 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.

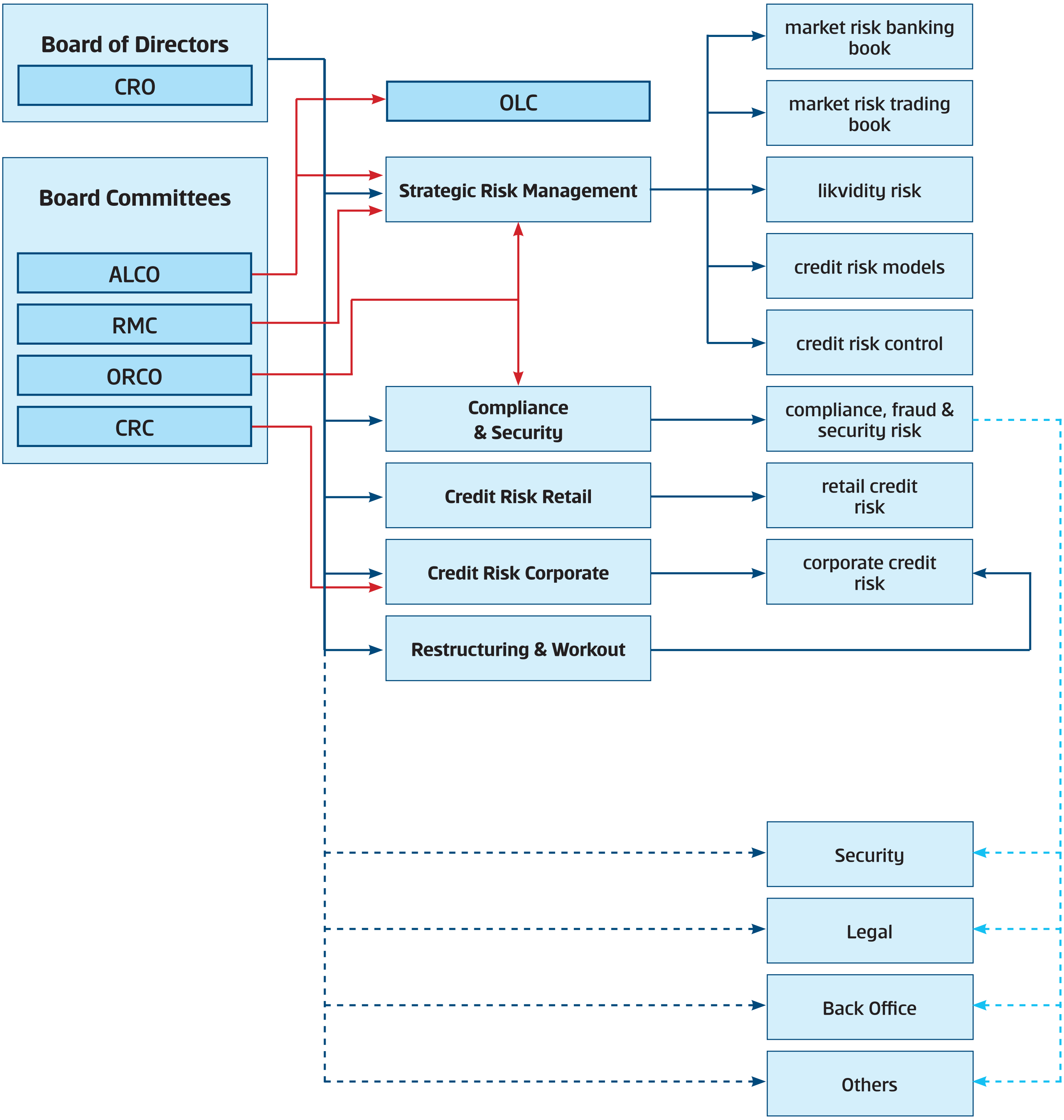
Risk taking is an inseparable part of the Bank's operations and Bank business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

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 an internal capital management process (ICAAP).

The Bank is also committed to follow the risk management provisions defined by both local, as well as 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, Balance Sheet Management (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, collateral management and portfolio management of the retail segment.
- Strategic Risk Management ('SRM') is responsible for integrated risk management ('ICAAP'), liquidity risk, market risk (overall, as well as particular trading and banking books), credit risk control, provisioning, credit risk statistical and rating models.
- 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 operational risk. Within operational risk, it coordinates activities of global scope of other relevant departments (blue / dashed lines in the chart).
- Restructuring & Work out is responsible for effective debt recovery and write-off management of corporate clients. 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 limits' 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 2018 the utilization of the economic capital was below 55%. 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 thousand 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 (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 Control department, is the independent risk control unit in line with capital requirements regulation and directive. 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 capital requirements regulation and directive 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 or Credit Committee) are determined and monitored by SRM.

Retail Credit Risk Management Division
Retail Credit Risk Management Division formulates the credit policy and internal actions 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 and late collection and retail collateral management.

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.

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.

Credit risk classification

For the disclosure of asset quality SLSP assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with SLSP or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention. Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may en-counter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. There are exposure meet criteria according default definition mentioned above. SLSP applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

In order to enhance the comparability of the Group's asset quality, in 2018 Erste Group developed and implemented a new model for the assignment of exposures to risk categories. Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Compared to the method used for the assignment of credit exposures to risk categories until 2017, the most prominent impact concerns the migration of exposures in the category "low risk" to "management attention" (11% as at 31 December 2018). Less significant changes include the migration from "management attention" to "substandard" (3%) and from "low risk" to "substandard" (4% as at 31.12.2018). The "non-performing" risk category was not affected by the change in the methodology. As the newly developed model was implemented during 2018, the disclosure of comparative figures is not appropriate.

Credit risk under IFRS9

SLSP applies IFRS9 from 01.01.2018 for classification and measurement of financial instruments. Due to new methodology raised by IFRS9 we apply staging with relevant credit risk parameters.

IFRS 9 sets out guidance to assist entities in identifying information to be used to determine when a provision for lifetime expected credit losses is required. The application guidance sets out a wide range of potential sources of such information which includes:

- Significant change in internal price
- Other changes in the rates or terms of an existing financial instrument
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same term
- An actual or expected significant change in the financial instrument's external credit rating
- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally
- Significant changes in operating results of the borrower
- A significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations
- Significant changes in the value of the collateral
- Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument
- Significant changes in the expected performance and behaviour of the borrower
- Changes in the entity's credit management approach in relation to the financial instrument

The standard contains a rebuttable presumption that credit risk has increased significantly when contractual payments are more than predefined threshold days past due. This means that when payments are more than predefined threshold days past due, the financial asset is considered to have moved from Stage 1 to Stage 2, and lifetime expected credit losses are recognised. Past due is defined as failure to make a payment when that payment was contractually due.

IFRS 9 sets out a new 'expected loss' impairment model for financial assets and replaced the existing 'incurred loss' model in IAS 39 Financial Instruments: Recognition and Measurement. Under IFRS 9, the impairment model is more forward looking in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised.

For financial assets that are measured at amortised cost or FVOCI and other instruments in scope of IFRS 9 impairment requirements, SLSP will always recognise (at a minimum) 12 months expected losses in profit or loss. Lifetime expected losses will be recognised on instruments for which there is a significant increase in credit risk after initial recognition.

The following financial assets and other instruments are included within the scope of the impairment requirements:

- Originated, purchased, reclassified or modified debt instruments (including trade recievables) that are measured at amortised cost in accordance with IFRS 9
- Debt instrument assets that are required to be measured at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9
- Other debt instruments in the scope of IFRS9 impairment requirements (finance/operating lease receivables, contract assets)
- Loan commitments given (including loan commitments which would result in non-trading loans measured mandatorily at FVPL)
- Financial guarantees contracts to which IFRS 9 applied (except those measured at FVPL)

The calculation of credit loss allowances is done on a daily basis on single exposure level and in the contractual currency of the exposure.

Calculated expected loss is discounted product of exposure at default (EAD) that includes as well credit conversion factor in case of off balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per definition of default), either over next

- 12 month (1Y PD) or over remaining lifetime (LT PD);
- EAD is based on the amounts the bank expects to be owed at the time of default, over next 12 months (1Y EAD) or over re-maining lifetime (LT EAD). bank includes to the estimation current balance, expected repayments and expected drawings up to the current contractual limit by the time of default, should it occur;
- LGD represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit expo-sure at the time of default (EAD).

The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band or credit rating band.

IFRS 9 establishes a three stage approach for impairment of financial assets, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognised (as well as the amount of interest revenue):
- STAGE 1: If credit risk for a financial instrument has not increased significantly since initial recognition an entity shall measure the loss allowance for instrument at an amount equal to 12-month expected credit losses (ECLs)
- STAGE 2: For non-defaulted financial instruments whose credit risk has significantly increased since initial recognition, lifetime ECLs shall be recognised, i.e. estimated lifetime losses from default events that are possible over the entire residual life of the instruments. In this stage, interest revenues are recognised based on the gross carrying amount of the financial assets. The assessment of the significant increase in credit risk since initial recognition contains the days past due, the absolute and relative change of PD and forbearance criteria.
- STAGE 3: A financial assets reaches stage 3 if it is specifically identified as credit-impaired. As for Stage 2, the loss allowance equals full lifetime ECLs. In this stage, recognition of interest revenue is based on the net carrying amount. In general SLSP classifies defaulted exposures as being in Stage 3. From this perspective also defaulted off-balance exposures - loan commitments and financial guarantees – can belong to Stage 3 even when they generate no interest revenue.

12-month expected credit loss is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. From risk management perspective 12-month probabilities of default are relevant for the calculation.

Lifetime expected credit loss is defined as the expected credit losses that result from all possible default events over the expected life of a financial instrument. i.e. from credit risk management perspective it reflects the probabilities of default throughout the expected maturity of the instrument.

In case of product without contractual maturity (typically revolving product such as credit card and overdraft) the expected lifetime credit losses is defined (based on expected maturity).

IFRS 9 guideline indicates that an entity should measure expected credit losses with all reasonable and supportable information that is available without undue cost or effort at the reporting date. This includes information about past events, current conditions and forecasts of future economic conditions. Forecasts of future economic conditions are available at Erste Group and are therefore included in the IFRS 9 ECL calculation.

In addition to that, the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) noted in 2015 that, if there is a nonlinear relationship between the different forward-looking scenarios and their associated credit losses, using a single forward-looking scenario would not result in an unbiased estimator of the ECL. Instead, more than one forward-looking scenario would need to be incorporated into the measurement of expected credit losses. The risk parameters in ECL calculation are therefore adjusted to reflect forward-looking information.

Parameters are determined to reflect the risk as a "point-in-time" measure and with consideration of forward-looking information ("FLI"), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic varia-bles. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Erste Group's research department. Given multiple scenarios, the "neu-tral" PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is in-corporated for first year of ECL measurement. Measurement of the remaining life time returns back to through the cycle ob-servations in the year two immediately.

Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroe-conomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development.

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:

- cash and cash balances - other demand deposits;
- financial assets held for trading – derivatives (without equity instruments);
- non-trading financial assets at fair value through profit or loss (FVTPL) (without equity instruments);
- financial assets at fair value through other comprehensive income (FVTOCI) (without equity instruments);
- financial assets at amortised cost;
- finance lease receivables;
- positive fair value of derivatives – hedge accounting;
- trade and other receivables;
- off-balance sheet positions (financial guarantees, irrevocable loan and other commitments).

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet positions) this means the amount without taking into account loan loss allowances, provisions for guarantees, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.

The gross carrying amount of the credit risk exposure increased by 5,94% to EUR 18,682 bil. Eur (2017: 17,635 bil. Eur).

The following table presents the reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure:

31.12.2018	**Gross carrying amount**	**Credit loss allowances**				**Net carrying amount**
EUR ths.		**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	
Cash and cash balances - other demand deposits	7 196	-	-	-	-	7 196
Financial assets at amortised cost	16 766 596	35 806	33 865	229 722	51 337	16 415 865
Loans and advances to banks	47 820	23	-	-	-	47 797
Loans and advances to customers	13 167 763	35 401	33 865	229 722	51 337	12 817 438
of which: Lending for house purchase	7 519 839	12 431	12 886	85 026	280	7 409 216
of which: Credit for consumption	1 807 046	14 456	15 062	120 330	199	1 657 001
of which: Corporate loans and others	3 840 878	8 514	5 918	24 367	50 858	3 751 221
Debt securities	3 551 013	382	-	-	-	3 550 630
Finance lease receivables	129 707	81	-	110	-	129 516
Trade and other receivables	99 581	307	8	3 252	-	96 012
Non-trading financial assets at fair value through profit or loss - 'Debt securities	23 622	-	-	-	-	23 622
Financial assets - held for trading	42 941	-	-	-	-	42 941
Hedge accounting derivatives	9 905	-	-	-	-	9 905
Total credit risk exposure on-balance	**17 079 548**	**36 194**	**33 873**	**233 084**	**51 337**	**16 725 057**
Off-balance	1 601 954	3 147	723	601	7 598	1 589 885
Total credit risk exposure	**18 681 502**	**39 341**	**34 596**	**233 685**	**58 935**	**18 314 942**

EUR ths. 31.12.2017	Gross carrying amount	Specific allowances for individually assessed financial assets	Specific allowances for collectively assessed financial assets	Collective allowances for incurrred but not reported losses	Net carrying amount
Cash and cash balances	53 802	-	-	-	53 802
Loans and receivables to credit institutions	177 616	-	-	0	177 616
Loans and receivables to customers	12 123 740	82 730	207 065	74 995	11 758 950
of which: Lending for house purchase	6 950 023	3 805	80 339	24 875	6 841 004
of which: Credit for consumption	1 715 672	3	105 156	30 138	1 580 374
of which: Corporate loans and others	3 458 046	78 922	21 570	19 982	3 337 572
Financial assets - held to maturity	2 644 730	-	-	328	2 644 402
Financial assets - held for trading	-	-	-	-	-
Financial assets - at fair value through profit or loss	-	-	-	-	-
Financial assets - available for sale	972 734	-	-	-	972 734
Positive fair value of derivatives	43 244	-	-	-	43 244
Total Credit Rsik Exposure On-Balance	**16 015 867**	**82 730**	**207 065**	**75 323**	**15 650 748**
Off-balance	1 619 165	8 117	461	6 513	1 604 074
Total	**17 635 032**	**90 847**	**207 526**	**81 836**	**17 254 822**

Stage 1 and Stage 2 comprise not impaired credit risks while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated. The defaulted part of POCI amounted to 131,176 mil. Eur, the non-defaulted part to 21,139 mil. Eur.

Adjustments include impairments for financial assets measured at amortised cost, provisions for off-balance sheet positions as well as changes to the carrying amount for financial assets at fair value through other comprehensive income.

On the next pages the credit risk exposure is presented according to the following criteria:

- industry and risk category;
- country of risk and financial instruments;
- impairment view;
- neither past due, not impaired;
- industry;
- Basel 3 exposure class and financial instrument.

The following table presents credit risk exposure by industry and risk category:

EUR ths. 31.12.2018	Low Risk	Management attention	Substandard	Non-performing loans	Total
Agriculture and forestry	76 282	44 627	2 505	1 783	125 197
Mining	42 444	152	3 366	-	45 962
Manufacturing	946 944	68 038	38 981	15 452	1 069 415
Energy and water supply	351 169	3 103	64 286	84	418 642
Construction	218 788	22 822	43 264	7 869	292 743
Development of building projects	16 368	62	16 295	16	32 741
Trade	566 991	81 527	30 066	14 557	693 141
Transport and communication	619 712	44 431	4 450	3 126	671 719
Hotels and restaurants	31 633	7 854	33 323	4 506	77 316
Financial and insurance services	474 240	2 342	35 595	47	512 224
Holding companies	107 979	697	5 099	-	113 775
Real estate and housing	757 564	8 632	365 279	112 103	1 243 578
Services	100 230	25 988	30 541	5 377	162 136
Public administration	3 414 055	18	125 540	18	3 539 631
Education, health and art	71 371	4 318	7 375	155	83 219
Private households	6 493 547	2 430 222	499 781	321 975	9 745 525
Other	22	84	946	-	1 052
Total	**14 164 992**	**2 744 158**	**1 285 298**	**487 052**	**18 681 500**

EUR ths. 31.12.2017	Investment grade	Subinvestment grade	Non-performing loans	Net carrying amount
Agriculture and forestry	80 066	33 949	1 931	115 947
Mining	42 873	4 506	-	47 378
Manufacturing	812 974	80 143	21 081	914 198
Energy and water supply	413 267	5 866	77	419 210
Construction	222 653	10 932	13 451	247 036
Development of building projects	32 651	-	1 849	34 500
Trade	514 718	66 121	20 007	600 846
Transport and communication	584 608	11 754	5 320	601 681
Hotels and restaurants	70 445	4 551	4 904	79 901
Financial and insurance services	571 798	515	305	572 618
Holding companies	24 614	-	280	24 894
Real estate and housing	1 040 774	16 517	114 792	1 172 083
Services	111 830	17 859	6 432	136 121
Public administration	3 558 327	2 114	-	3 560 440
Education, health and art	50 164	2 575	282	53 022
Private households	8 249 763	546 425	318 003	9 114 192
Other	25	333	1	359
Total	**16 324 286**	**804 159**	**506 587**	**17 635 032**

The following table presents credit risk exposure by risk category:

EUR ths. 31.12.2018	Low Risk	Management attention	Substandard	Non-performing	Gross carrying amount
Cash and cash balances - other demand deposits	7 196	-	-	-	7 196
Financial assets at amortised cost	12 649 482	2 589 430	1 093 975	433 707	16 766 594
Loans and advances to banks	47 819	1	-	-	47 820
Loans and advances to customers	9 050 650	2 589 429	1 093 975	433 707	13 167 761
of which: Lending for house purchase	5 418 868	1 630 158	301 170	169 640	7 519 839
of which: Credit for consumption	792 007	693 867	175 637	145 536	1 807 046
of which: Corporate loans and others	2 839 775	265 404	617 168	118 531	3 840 878
Debt securities	3 551 013	-	-	-	3 551 013
Finance lease receivables	122 465	6 196	753	292	129 707
Trade and other receivables	55 457	5 104	35 511	3 508	99 581
Non-trading financial assets at fair value through profit or loss - 'Debt securities	23 570	-	52	-	23 622
Derrivatives - held for trading	39 074	195	3 668	5	42 941
Hedge accounting derivatives	9 753	-	152	-	9 905
Total credit risk exposure on-balance	**12 906 997**	**2 600 925**	**1 134 111**	**437 512**	**17 079 546**
Off-balance	1 257 992	143 235	151 188	49 539	1 601 954
Total credit risk exposure	**14 164 989**	**2 744 160**	**1 285 299**	**487 051**	**18 681 500**

The following table presents credit risk exposure by industry and IFRS9 stage:

EUR ths. 31.12.2018	Stage 1	Stage 2	Stage 3	POCI	Not subject to stage assessment	Total credit risk exposure
Agriculture and forestry	115 921	7 393	1 355	447	81	125 197
Mining	45 891	20	-	-	50	45 961
Manufacturing	1 023 914	27 268	10 418	5 077	2 739	1 069 416
Energy and water supply	370 983	13 290	84	-	34 285	418 642
Construction	277 355	3 134	2 755	8 812	686	292 742
Development of building projects	32 285	14	12	4	425	32 740
Trade	659 882	11 111	9 900	4 679	7 568	693 140
Transport and communication	662 141	5 615	2 154	993	816	671 719
Hotels and restaurants	55 684	1 223	3 989	15 788	632	77 316
Financial and insurance services	474 664	705	46	-	36 808	512 223
Holding companies	113 775	-	-	-	-	113 775
Real estate and housing	1 111 524	17 950	460	111 643	2 002	1 243 579
Services	151 224	5 597	4 378	825	113	162 137
Public administration	3 539 493	120	18	-	-	3 539 631
Education, health and art	81 672	1 349	155	23	21	83 220
Private households	9 178 441	252 218	310 811	4 028	27	9 745 525
Other	211	33	-	-	808	1 052
Total	**17 749 000**	**347 026**	**346 523**	**152 315**	**86 636**	**18 681 500**

The following table presents credit risk exposure by region and financial instrument:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - ,Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers			Debt securities						
			of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others							
Slovakia	-	31	7 514 773	1 805 884	3 754 302	3 250 396	129 707	71 898	3 400	40 485	1 546 917	18 117 793
Central and Eastern Europe	4 378	9 036	1 993	424	37 905	23 138	-	7 295	-	6 275	36 282	126 726
Austria	4 248	311	142	15	2	-	-	456	-	6 235	5 094	16 503
Czech Republic	54	1	1 244	270	37 898	23 138	-	4 509	-	40	28 911	96 065
Hungary	56	8 724	61	23	2	-	-	1 595	-	-	2 229	12 690
Croatia	19	-	112	32	1	-	-	391	-	-	2	557
Romania	1	-	252	47	1	-	-	337	-	-	43	681
Serbia	-	-	182	37	1	-	-	7	-	-	3	230
Other EU	2 726	38 752	1 294	194	48 617	272 403	-	17 257	20 222	6 085	18 200	425 750
Other industrialised countries	92	-	331	79	9	5 076	-	1 828	-	-	5	7 420
Emerging markets	-	1	1 447	466	45	-	-	1 302	-	-	550	3 811
Total	**7 196**	**47 820**	**7 519 838**	**1 807 047**	**3 840 878**	**3 551 013**	**129 707**	**99 580**	**23 622**	**52 845**	**1 601 954**	**18 681 500**

31.12.2017 EUR ths.	Cash and cash balances	Loans and receivables to credit institutions	Loans and receivables to customers			Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - available for sale	Positive fair value of derivatives	Off-balance	Total credit risk exposure
			of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others							
Slovakia	-	79	6 944 768	1 714 487	3 389 479	2 398 418	-	-	881 217	32 893	1 577 604	16 938 945
Central and Eastern Europe	53 302	177 532	1 840	479	33 429	-	-	-	44 139	3 210	34 952	348 882
Austria	3 467	135 718	186	18	493	-	-	-	-	3 120	2 516	145 518
Czech Republic	49 764	39 139	1 152	316	30 679	-	-	-	44 139	90	32 116	197 396
Hungary	57	2 675	66	0	1 583	-	-	-	-	-	273	4 654
Croatia	11	-	-	46	253	-	-	-	-	-	2	312
Romania	3	-	344	51	420	-	-	-	-	-	42	860
Serbia	-	-	93	47	1	-	-	-	-	-	2	142
Other EU	341	4	1 500	212	33 499	246 312	-	-	40 634	7 141	3 670	333 313
Other industrialised countries	159	-	344	38	104	-	-	-	6 744	-	6	7 396
Emerging markets	-	1	1 570	456	1 535	-	-	-	-	-	2 934	6 496
Total	**53 802**	**177 616**	**6 950 023**	**1 715 672**	**3 458 046**	**2 644 730**	**-**	**-**	**972 734**	**43 244**	**1 619 165**	**17 635 032**

The following table presents credit risk exposure according to impairment view:

31.12.2018 EUR ths.	Non-impaired loans							Impaired loans	Total Credit risk exposure
	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due non Impaired		
Cash and cash balances - other demand deposits	-	-	-	-	-	-	7 196	-	7 196
Financial assets at amortised cost	327 630	298 488	17 607	10 681	82	774	16 014 598	424 366	16 766 594
Loans and advances to banks	50	50	-	-	-	-	47 770	-	47 820
Loans and advances to customers	327 580	298 438	17 607	10 681	82	774	12 415 815	424 366	13 167 761
of which: Lending for house purchase	139 961	123 887	10 663	5 061	15	337	7 217 250	162 626	7 519 837
of which: Credit for consumption	84 490	73 627	6 063	4 553	7	240	1 579 113	143 443	1 807 046
of which: Corporate loans and others	103 129	100 924	881	1 067	60	197	3 619 452	118 297	3 840 878
Debt securities	-	-	-	-	-	-	3 551 013	-	3 551 013
Finance lease receivables	30 343	30 119	178	45	-	-	99 072	292	129 707
Trade and other receivables	14 060	12 398	1 562	98	-	1	82 012	3 508	99 581
Non-trading financial assets at fair value through profit or loss - 'Debt securities	-	-	-	-	-	-	23 622	-	23 622
Financial assets - held for trading	-	-	-	-	-	-	42 941	-	42 941
Hedge accounting derivatives	-	-	-	-	-	-	9 905	-	9 905
Total credit risk exposure on-balance	**372 033**	**341 005**	**19 347**	**10 824**	**82**	**775**	**16 279 346**	**428 166**	**17 079 546**
Off-balance	-	-	-	-	-	-	1 552 422	49 532	1 601 954
Total credit risk exposure	**372 033**	**341 005**	**19 347**	**10 824**	**82**	**775**	**17 831 768**	**477 698**	**18 681 500**

31.12.2017 EUR ths.	Non-impaired loans							Impaired loans	Total Credit risk exposure
	Total past due non Impaired	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Neither past due non Impaired		
Cash and cash balances	-	-	-	-	-	-	53 802	-	53 802
Loans and receivables to credit institutions	38	38	-	-	-	-	177 578	-	177 616
Loans and receivables to customers	328 650	298 467	19 821	9 645	490	227	11 346 275	448 815	12 123 740
of which: Lending for house purchase	131 401	116 198	10 482	4 529	125	67	6 646 392	172 229	6 950 023
of which: Credit for consumption	84 289	72 813	6 615	4 534	253	75	1 503 652	127 730	1 715 672
of which: Corporate loans and others	112 959	109 457	2 724	582	112	85	3 196 230	148 856	3 458 046
Financial assets - held to maturity	-	-	-	-	-	-	2 644 730	-	2 644 730
Financial assets - held for trading	-	-	-	-	-	-	-	-	-
Financial assets - at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial assets - available for sale	-	-	-	-	-	-	972 734	-	972 734
Positive fair value of derivatives	-	-	-	-	-	-	43 244	-	43 244
Total Credit Risk Exposure On-Balance	**328 688**	**298 505**	**19 821**	**9 645**	**490**	**227**	**15 238 363**	**448 815**	**16 015 867**
Off-balance	82 546	82 500	33	11	2	-	1 487 928	48 691	1 619 165
Total	**411 234**	**381 005**	**19 854**	**9 656**	**492**	**227**	**16 726 292**	**497 506**	**17 635 032**

The following table presents credit quality for exposures, which are neither past due non impaired:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost					Finance lease receivables	Trade and other receivables	Non-trading financial assets at fair value through profit or loss - ,Debt securities	Positive fair value of derivatives	Off-balance	Total credit risk exposure
			Loans and advances to customers									
		Loans and advances to banks	of which: Lending for house purchase	of which: Credit for consumption	of which: Corporate loans and others	Debt securities						
Low risk	7 196	47 770	5 413 349	791 102	2 799 029	3 551 013	94 825	48 023	23 570	48 827	1 257 992	14 082 696
Management attention	-	-	1 597 361	676 973	241 437	-	3 793	3 143	-	195	143 235	2 666 137
Substandard	-	-	202 891	110 332	578 968	-	454	30 847	52	3 819	151 188	1 078 550
Non-performing loans (NPE)	-	-	3 650	706	17	-	-	-	-	5	7	4 385
Total	**7 196**	**47 770**	**7 217 251**	**1 579 113**	**3 619 451**	**3 551 013**	**99 072**	**82 013**	**23 622**	**52 846**	**1 552 422**	**17 831 768**

31.12.2017 EUR ths.	Cash and cash balances	Loans and receivables to credit institutions	Loans and receivables to customers			Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - available for sale	Positive fair value of derivatives	Off-balance	Total credit risk exposure
			of which: Lending for house purchase	of which: Credit for consump-tion	of which: Corporate loans and others							
Investment grade (1-5)	53 802	177 578	6 406 690	1 382 367	3 026 762	2 644 730	-	-	972 734	42 549	1 419 989	16 127 201
Subinvestment grade (6)	-	-	181 300	85 684	144 719	-	-	-	-	677	57 175	469 555
Subinvestment grade (7)	-	-	44 467	25 149	16 474	-	-	-	-	10	9 669	95 770
Subinvestment grade (8)	-	-	10 509	9 447	8 232	-	-	-	-	-	1 012	29 200
Non-performing loans (NPE)	-	-	3 425	1 005	44	-	-	-	-	8	83	4 565
Total	**53 802**	**177 578**	**6 646 392**	**1 503 652**	**3 196 230**	**2 644 730**	**-**	**-**	**972 734**	**43 244**	**1 487 928**	**16 726 292**

The following table credit risk exposure by industry:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost			Finance lease receivables	Trade and other recei-vables	Non-trading fi-nancial assets at fair value through profit or loss - ,Debt securities	Positive fair value of deri-vatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers	Debt securities						
Agriculture and forestry	-	-	97 778	-	1 693	110	-	81	25 536	125 198
Mining	-	-	41 236	-	290	238	-	50	4 147	45 961
Manufacturing	-	-	705 607	9 356	32 271	54 512	-	563	267 107	1 069 416
Energy and water supply	-	-	302 942	-	4 733	2 211	-	34 285	74 471	418 642
Construction	-	-	117 205	-	3 880	621	-	686	170 351	292 743
Development of building projects	-	-	27 794	-	-	6	-	425	4 515	32 740
Trade	-	-	460 600	-	9 392	34 792	-	215	188 140	693 139
Transport and communication	-	-	409 010	86 656	68 492	1 237	-	816	105 508	671 719
Hotels and restaurants	-	-	71 184	-	417	3	-	632	5 081	77 317
Financial and insurance services	7 196	47 820	158 473	171 072	56	987	23 622	12 547	90 452	512 225
Holding companies	-	-	67 687	25 378	-	-	-	-	20 710	113 775
Real estate and housing	-	-	1 005 499	-	697	178	-	2 002	235 202	1 243 578
Services	-	-	97 120	-	5 887	3 762	-	113	55 254	162 136
Public administration	-	-	235 185	3 283 930	13	9	-	-	20 494	3 539 631
Education, health and art	-	-	66 110	-	1 768	919	-	21	14 401	83 219
Private households	-	-	9 399 585	-	117	-	-	27	345 795	9 745 524
Other	-	-	228	-	-	-	-	808	16	1 052
Total Credit risk exposure	**7 196**	**47 820**	**13 167 762**	**3 551 014**	**129 706**	**99 579**	**23 622**	**52 846**	**1 601 955**	**18 681 500**

31.12.2017 EUR ths.	Cash and cash balances - other demand deposits	Loans and receivables to credit institutions	Loans and receivables to customers	Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - available for sale	Positive fair value of derivatives	Off-balance	Total credit risk exposure
Agriculture and forestry	-	-	99 112	-	-	-	-	127	16 709	115 947
Mining	-	-	39 180	-	-	-	-	86	8 112	47 378
Manufacturing	-	-	612 990	-	-	-	6 605	519	294 083	914 198
Energy and water supply	-	-	331 939	-	-	-	-	26 832	60 439	419 210
Construction	-	-	99 240	-	-	-	-	649	147 148	247 036
Development of building projects	-	-	28 857	-	-	-	-	621	5 022	34 500
Trade	-	-	438 560	-	-	-	-	704	161 583	600 846
Transport and communication	-	-	351 018	-	-	-	114 371	485	135 807	601 681
Hotels and restaurants	-	-	72 822	-	-	-	-	332	6 746	79 901
Financial and insurance services	53 802	177 616	94 945	92 205	-	-	69 256	10 793	74 000	572 618
Holding companies	-	-	3 715	-	-	-	-	9	21 170	24 894
Real estate and housing	-	-	906 964	10 232	-	-	-	2 261	252 625	1 172 083
Services	-	-	87 308	-	-	-	-	16	48 797	136 121
Public administration	-	-	208 858	2 542 292	-	-	782 502	-	26 789	3 560 440
Education, health and art	-	-	38 443	-	-	-	-	7	14 572	53 022
Private households	-	-	8 742 337	-	-	-	-	99	371 755	9 114 192
Other	-	-	24	-	-	-	-	333	2	359
Total Credit risk exposure	**53 802**	**177 616**	**12 123 740**	**2 644 730**	**-**	**-**	**972 734**	**43 244**	**1 619 165**	**17 635 032**

The following table presents credit risk exposure by Basel 3 exposure class and financial instrument:

31.12.2018 EUR ths.	Cash and cash balances - other demand deposits	Financial assets at amortised cost			Finance lease receivables	Trade and other recei-vables	Non-trading fi-nancial assets at fair value through profit or loss - ,Debt securities	Positive fair value of deri-vatives	Off-balance	Total credit risk exposure
		Loans and advances to banks	Loans and advances to customers	Debt securities						
Sovereigns	-	-	230 133	3 301 947	57	9	-	-	20 478	3 552 625
Institutions	7 196	47 820	-	127 676	-	188	20 170	12 472	60 872	276 394
Corporates	-	-	2 918 467	121 390	125 790	97 795	3 452	40 346	1 051 592	4 358 832
Retail	-	-	10 019 162	-	3 859	1 588	-	27	469 012	10 493 649
Total	**7 196**	**47 820**	**13 167 762**	**3 551 013**	**129 706**	**99 580**	**23 622**	**52 845**	**1 601 954**	**18 681 500**

31.12.2017 EUR ths.	**Cash and cash balances - other demand deposits**	**Loans and receivables to credit institu-tions**	**Loans and receivables to customers**	**Financial assets - held to maturity**	**Financial assets - held for trading**	**Financial assets - at fair value through profit or loss**	**Financial assets - avai-lable for sale**	**Positive fair value of deri-vatives**	**Off-balance**	**Total credit risk exposure**
Sovereigns	-	-	217 113	2 542 292	-	-	800 553	-	26 737	3 586 696
Institutions	53 802	177 616	-	92 205	-	-	51 204	10 261	44 959	430 048
Corporates	-	-	2 596 397	10 232	-	-	120 977	32 884	1 058 040	3 818 530
Retail	-	-	9 310 230	-	-	-	-	99	489 429	9 799 758
Total	**53 802**	**177 616**	**12 123 740**	**2 644 730**	**-**	**-**	**972 734**	**43 244**	**1 619 165**	**17 635 032**

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are presented in aggregated form. The aggregated exposure class 'sovereigns' also contains regional and local governments as well as public sector entities in addition to central governments, central banks, international organisations and multinational development banks. Institutions include banks and recognised investment firms.

Concerning contingent liabilities the gross carrying amount refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A net carrying amount is not presented in the case of contingent liabilities.

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.	31.12.2017	31.12.2018
Renegotiated loans	81 615	81 515
Total	**81 615**	**81 515**

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 %	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Cash and cash balances	640	1 704	0,00%	0,01%
Loans and receivables to customers	440 184	450 735	2,70%	2,59%
Securities portfolio	3 060 427	3 006 180	18,76%	17,26%
Deferred tax asset	33 758	44 696	0,21%	0,26%
Total	**3 535 009**	**3 503 315**	**21,67%**	**20,12%**

The following table presents a breakdown of state debt securities held by the Bank per portfolio and type of security:

EUR ths.	31.12.2017	31.12.2018
Securities available for sale	736 123	x
Slovak government Eurobonds	736 123	x
Securities held to maturity	2 324 304	x
State bonds denominated in EUR	2 295 245	x
State bonds denominated in USD	29 059	x
Financial assets at amortised cost	-	3 006 180
State bonds denominated in EUR	-	2 975 833
State bonds denominated in USD	-	30 347
Total	**3 060 427**	**3 006 180**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Moody's is A2 with positive outlook (since 7 April 2017).

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 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.

VAR for the overall banking employes Monte Carlo simulation to generate potential future yield curves (99.9 or 0.01 percentiles of the simulated short rate paths) that are then used to calculate change in value caused by that shifts in yield curves.

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 ths.	2017	2018
Trading book VAR	0,0	0,0
Banking book VAR - ALM portfolio	10,5	10,0
Banking book VAR - Corporate portfolio	1,0	0,8
Banking book VAR – ALCO portfolio	0,1	0,2
Overall Banking book VAR	84,3	138,0
Overall Banking book sensitivity (200bp shock)	143,5	98,6

VAR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

FX risk

Basis principle behind managing FX risk is to transfer positions stemming from banking book activities to Erste Holding. However, in reasonable cases, banking book is permitted to hold strategic FX positions. This would typically be opened in order to hedge existing FX positions that are not explicitly seen on the balance sheet.

Strategic positions are subject to ALCO approval and shall be managed on a daily basis by Balance Sheet Management. They are covered by sufficient limit structure and reporting on VAR, stop-loss limit and P/L (responsibility of Strategic Risk Management).

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 2018 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 – Liquidity Coverage Ratio, NSFR – Net Stable Funding Ration 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 month

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 - sum of top 10 biggest clients of each monitored group of wholesale funding providers (public, financial, credit institutions and corporates) may not account for more than 500 mil. Eur. 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

All regulatory ratios were well above the defined regulatory limits during the year 2018.

Internal analysis

Counter-balancing capacity – the minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was around 3,9 bn. Eur throughout 2018 (well above the 1,5 bn. Eur limit).

2018 EUR ths.	< 1 week	1 week 1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	394	-	-	-	-
Liquid assets	3 527	-	-	(142)	-
Counterbalancing capacity	**3 921**	**-**	**-**	**(142)**	**-**

2017 EUR ths.	< 1 week	1 week 1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	353	-	-	-	-
Liquid assets	3 529	-	-	-	(39)
Counterbalancing capacity	**3 882**	**-**	**-**	**-**	**(39)**

Survival period horizon

During the year 2018 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 9 month but on average was about 12 month.

Funding concentrations

During the year 2018 the funding concentrations limits was violated a few times (on average by 153 mil. Eur). All of these limit violations were caused by short-dated deposits and all of them were covered by temporary increase of minimum liquidity reserve by the amount of exceeding.

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 insurance 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 is generally forward-looking. While it is inevitable to use historical loss data, they are supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors are 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 maintains a central database of operational risk events and losses. This is 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, Fraud Prevention, Card Services, Internal Services or Legal Unit. Second stage is a data consistency check and is performed by Operational Risk Management. Events are 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 is covered by Operational 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 also includes adequate external event data in its risk identification system. These cover infrequent severe events with relevance to the Bank or financial industry. The Bank systematically incorporate external data into its risk measurement methodology. External data collection is coordinated with the Erste group efforts on this matter and will be conducted by Operational Risk Management.

Scenario analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Bank includes 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 Operational 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. Operational 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 has the following properties:

- it is easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate;
- it is 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 is used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems is 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 is 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 is validated through comparison to actual experience and appropriate corrections are made. Design of the risk measurement model is within the responsibility of Erste Holding. Modelling inputs are provided by Operational 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, Operational 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.

Operational Risk Management 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 implements 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 will 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 Bank's ICS in order to determine whether the Bank is following enacted policies and procedures. Operational Risk Management issues associated Internal Control System Policy giving detailed information on the system. However, Operational Risk Management 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 engages in a comprehensive insurance program. This covers 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 Operational 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, inter alia, covers 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 is 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. Operational Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These are 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. Operational Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

40. 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 instrument 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 Banks'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 Banks's probability of default has been derived from the buy-back levels of the Banks'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 2018 the cumulative CVA adjustment amounted 0,9 mil. Eur (2017: 0,3 mil. Eur) and the cumulative DVA adjustment amounted 0,2 mil. Eur (2017: 0,2 mil. Eur). The responsibility for valuation of exposures measured at fair value is carried by Risk management unit, which is independent from all trading, sales and investment units.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1
The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an

ongoing basis. These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2

In case a market quote is used for 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. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the 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. These include OTC derivatives, less liquid shares, bonds and funds as well as asset backed securities (ABS), collateralized debt obligations (CDO) and own issues.

Level 3

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of 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 besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. These include shares and funds not quoted, illiquid bonds as well as illiquid asset backed securities (ABS) and collateralized debt obligations (CDO).

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

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	Marked to model based on observable market data	Marked to model based on non-observable inputs	Total	Quoted market prices in active markets	Marked to model based on observable market data	Marked to model based on non-observable inputs	Total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	31.12.2017				31.12.2018			
Assets								
Financial assets - held for trading	-	36 484	-	36 484	-	42 941	-	42 941
Derivatives	-	36 484	-	36 484	-	42 941	-	42 941
Financial assets - at fair value through profit or loss	-	-	5 600	5 600	x	x	x	x
Non-trading financial assets at fair value through profit or loss	x	x	x	x	-	-	29 242	29 242
Equity instruments	x	x	x	x	-	-	5 620	5 620
Debt securities	x	x	x	x	-	-	23 622	23 622
Financial assets - available for sale	835 376	182 185	3 058	1 020 619	x	x	x	x
Financial assets at fair value through other comprehensive income	x	x	x	x	-	-	56 395	56 395
Equity instruments	x	x	x	x	-	-	56 395	56 395
Hedge accounting derivatives	-	6 761	-	6 761	-	9 905	-	9 905
Assets held for sale	-	-	-	-	-	-	-	-
Total assets	**835 376**	**225 430**	**8 658**	**1 069 464**	**-**	**52 846**	**85 637**	**138 483**
Liabilities								
Financial liabilities - held for trading	-	33 344	-	33 344	-	41 062	-	41 062
Derivatives	-	33 344	-	33 344	-	41 062	-	41 062
Hedge accounting derivatives	-	42 100	-	42 100	-	41 348	-	41 348
Total liabilities	**-**	**75 444**	**-**	**75 444**	**-**	**82 410**	**-**	**82 410**

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.

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. 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.

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.	1.1.2018	Impact of IFRS 9	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purcha-ses	Sales	Settle-ments	Additions to the group	Disposals out of the group	Transfers into Level 3	Trans-fers out of Level 3	Currency translation	31.12.2018
Non-trading financial assets at fair value through profit or loss	8 660	10 198	2 373	-	-	(1 999)	(72)	-	-	10 082	(1)	-	29 242
Equity instruments	3 058	-	2 541	-	-	-	-	-	-	21	(1)	-	5 620
Debt securities	5 602	10 198	(168)	-	-	(1 999)	(72)	-	-	10 061	-	-	23 622
Financial assets at fair value through other comprehensive income	-	-	-	(11 330)	-	-	-	-	-	67 725	-	-	56 395
Equity instruments	-	-	-	(11 330)	-	-	-	-	-	67 725	-	-	56 395
Total assets	**8 660**	**10 198**	**2 373**	**(11 330)**	**-**	**(1 999)**	**(72)**	**-**	**-**	**77 807**	**(1)**	**-**	**85 637**

EUR ths.	1.1.2017	Impact of IFRS 9	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purcha-ses	Sales	Settle-ments	Additions to the group	Disposals out of the group	Transfers into Level 3	Trans-fers out of Level 3	Currency translation	31.12.2017
Assets													
Financial assets held for trading	405	x	-	-	-	-	-	-	-	-	(405)	-	-
Derivatives	405	x	-	-	-	-	-	-	-	-	(405)	-	-
Financial assets at fair value through profit or loss	6 118	x	(517)	-	-	-	-	-	-	-	-	-	5 602
Financial assets - available for sale	25 836	x	-	2 380	-	(298)	-	-	-	27 394	(52 254)	-	3 058
Total assets	**32 359**	**x**	**(517)**	**2 380**	**-**	**(298)**	**-**	**-**	**-**	**27 394**	**(52 659)**	**-**	**8 660**
Liabilities													
Financial liabilities held for trading	288	x	-	-	-	-	-	-	-	-	(288)	-	-
Derivatives	288	x	-	-	-	-	-	-	-	-	(288)	-	-
Total liabilities	**288**	**x**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(288)**	**-**	**-**

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.	31.12.2017	31.12.2018
Assets		
Financial assets - at fair value through profit or loss	(517)	x
Non-trading financial assets at fair value through profit or loss	x	(563)
Debt securities	x	(563)
Financial assets at fair value through other comprehensive income	x	-
Hedge accounting derivatives	-	-
Total assets	**(517)**	**(563)**

The volume of Level 3 financial assets consists solely of a few positions in illiquid securities and can be allocated to the following three categories:

- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.
- Non-SPPI compliant loans

Fair value of financial instruments disclosed in the notes

The following table shows fair values of the financial instruments disclosed in the notes as at 31 December 2018 and 31 December 2017:

EUR ths.	Carrying amount	Fair value	Carrying amount	Fair value
	31.12.2017		31.12.2018	
Assets				
Cash and cash balances	424 229	424 229	416 093	416 093
Financial assets held to maturity	2 644 402	3 064 786	x	x
Loans and receivables to credit institutions	177 616	181 674	x	x
Loans and receivables to customers	11 758 950	12 122 501	x	x
Financial assets at amortised cost	x	x	16 415 865	17 197 544
Loans and advances to banks	x	x	47 796	47 974
Loans and advances to customers	x	x	12 817 438	13 141 115
Debt securities	x	x	3 550 631	4 008 455
Finance lease receivables	x	x	129 516	130 644
Trade and other receivables	x	x	96 012	96 012
Liabilities				
Financial liabilities measured at amortised cost	14 628 022	14 645 263	15 747 148	15 704 873
Deposits from banks	488 564	499 905	251 300	255 483
Deposits from customers	12 481 221	12 462 106	13 657 372	13 588 877
Debt securities in issue	1 567 216	1 592 231	1 803 287	1 825 324
Other financial liabilities	91 021	91 021	35 189	35 189

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 aggregated 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 amortised 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 amortised 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 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 2018 the estimated fair value of investment property was in amount of 1,9 mil. Eur (2017: 2,0 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 3 of the fair value hierarchy.

41. Current and non-current assets and liabilities

The classification of assets, liabilities and equity to current (due within 1 year) and non-current (due over 1 year) based on their expected maturity is shown in the following table:

EUR ths.	< 1 rok	> 1 rok	< 1 rok	> 1 rok
	2017		2018	
Assets				
Cash and cash balances	424 221	8	416 093	-
Financial assets - held for trading	2 046	34 438	910	42 031
Derivatives	2 046	34 438	910	42 031
Financial assets at fair value through profit or loss	-	5 600	x	x
Non-trading financial assets mandatorily at fair value through profit or loss	x	x	20 170	9 072
Equity instruments	x	x	-	5 620
Debt securities	x	x	20 170	3 452
Financial assets available for sale	26 953	993 666	x	x
Financial assets at fair value through other comprehensive income	x	x	-	56 395
Equity instruments	x	x	-	56 395
Financial assets held to maturity	26 464	2 617 938	x	x
Loans and receivables to credit institutions	177 616	-	x	x
Loans and receivables to customers	1 648 141	10 110 809	x	x
Financial assets at amortised cost	x	x	1 705 664	14 710 201
Debt securities	x	x	140 299	3 410 332
Loans and advances to banks	x	x	47 796	-
Loans and advances to customers	x	x	1 517 569	11 299 869
Finance lease receivables	x	x	30 505	99 011
Hedge accounting derivatives	-	6 761	-	9 905
Property, plant, equipment	-	90 255	-	85 720
Investment properties	-	2 031	-	1 879
Intangible assets	-	55 457	-	39 041
Investments in subsidiaries and associates	-	23 041	-	23 048
Current tax assets	10 618	-	4 639	-
Deferred tax assets	-	33 758	-	44 696
Trade and other receivables	x	x	-	96 012
Other assets	24 922	-	-	18 109
Total	**2 340 981**	**13 973 762**	**2 177 981**	**15 235 120**
Liabilities				
Financial liabilities - held for trading	2 267	31 077	1 435	39 627
Derivatives	2 267	31 077	1 435	39 627
Financial liabilities - measured at amortised costs	5 782 810	8 845 212	5 998 786	9 748 362
Deposits from banks	287 434	201 130	88 090	163 210
Deposits from customers	5 122 051	7 359 170	5 604 721	8 052 651
Debt securities in issue	282 304	1 284 912	270 786	1 532 501
Other financial liabilities	91 021	-	35 189	-
Hedge accounting derivatives	-	42 100	-	41 348
Provisions	-	25 067	20 677	-
Current tax liabilities	-	-	-	-
Other Liabilities	81 664	-	82 994	-
Total	**5 866 741**	**8 943 456**	**6 103 892**	**9 829 337**

The following table details the Bank's non-derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

2018 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 costs	12 112 349	426 143	1 464 563	967 964	871 193	15 842 212
Deposits from banks	51 273	13 091	23 798	66 619	101 453	256 234
Deposits from customers	12 025 094	343 680	1 234 413	55 295	37	13 658 519
Debt securities issued	793	69 372	206 352	846 050	769 703	1 892 270
Other financial liabilities	35 189	-	-	-	-	35 189
Guarantees provided	368 083	-	-	-	-	368 083
Guarantees from letter of credit	819	1 054	8 295	-	-	10 168
Loan commitments and undrawn loans	1 223 703	-	-	-	-	1 223 703
Total	**13 704 954**	**427 197**	**1 472 858**	**967 964**	**871 193**	**17 444 166**

2017 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 costs	10 604 612	828 299	1 596 422	1 349 267	293 142	14 671 742
Deposits from banks	180 884	80 072	26 426	87 928	111 130	486 440
Deposits from customers	10 332 547	579 226	1 451 867	119 174	30	12 482 844
Debt securities issued	160	169 001	118 129	1 142 165	181 982	1 611 437
Other financial liabilities	91 021	-	-	-	-	91 021
Guarantees provided	319 122	-	-	-	-	319 122
Guarantees from letter of credit	357	1 086	3 351	5 824	-	10 618
Loan commitments and undrawn loans	1 289 425	-	-	-	-	1 289 425
Total	**12 213 516**	**829 385**	**1 599 773**	**1 355 091**	**293 142**	**16 290 907**

The following table details the Bank's derivative financial liabilities based on their remaining contractual maturity (calculated as undiscounted cash flows):

2018 EUR ths.	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total
Derivatives held for trading	73 948	10 283	8 913	90 295	765	184 204
Hedge accounting derivatives	2 625	3 467	7 503	49 710	31 198	94 503
Total	**76 573**	**13 750**	**16 416**	**140 005**	**31 963**	**278 707**

2017 EUR ths.	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total
Derivatives held for trading	60 826	14 569	22 066	96 893	1 320	195 674
Hedge accounting derivatives	2 625	3 468	7 503	51 910	42 525	108 031
Total	**63 451**	**18 037**	**29 569**	**148 803**	**43 845**	**303 705**

42. 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 the Bank 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 the Bank for regulatory purposes and for the disclosure of regulatory information.

The Bank fulfilled regulatory capital requirements in both years 2018 and 2017 consisting from Pillar 1 requirement, Pillar 2 requirement and combined buffer requirement.

Accounting principles

The financial and regulatory figures published by the Bank 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 unified reporting date of the consolidated financial statements and consolidated regulatory figures of the Bank is
31 December of each respective year.

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 the Bank

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, the Bank 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 the Bank and therefore are considered in RWAs.

The following table shows threshold calculations according to Articles 46 and 48 CRR:

EUR ths.	31.12.2017	31.12.2018
Non significant investments in financial sector entities		
Threshold (10% of CET1)	110 281	108 240
Holdings in CET1	3 059	5 620
Holdings in AT1	-	-
Holdings in T2	-	-
Distance to threshold	**107 222**	**102 620**
Significant investments in financial sector entities		
Threshold (10% of CET1)	110 281	108 240
Holdings in CET1	23 038	23 044
Distance to threshold	**87 243**	**85 196**
Deferred tax assets		
Threshold (10% of CET1)	110 281	108 240
Deferred tax assets that are dependent on future profitability and arise from temporary differences	32 982	44 359
Distance to threshold	**77 299**	**63 881**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	194 646	191 043
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	56 019	67 403
Distance to threshold	**138 627**	**123 640**

Own funds

Own funds of an institution according to CRR consist of the sum of the Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital of the institution. To assess the capital adequacy, each Tier of the capital after applying all prudential filters and deductions is expressed as a percentage of the total risk exposure amount.

The following table shows the structure of own funds according to implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (the positions not relevant for the Bank were excluded):

EUR ths.	Article pursuant to CRR	31.12.2017	31.12.2018
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	212 000	212 000
Own CET1 instruments	36 (1) (f), 42	-	-
Retained earnings	26 (1) (c), 26 (2)	886 015	898 250
Interim profit	26 (2)	-	-
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	94 254	39 446
Minority interest recognised in CET1	4 (1) (120) 84	-	-
Transitional adjustments due to additional minority interests	479, 480	-	-
Prudential filter: cash flow hedge reserve	33 (1) (a)	-	-
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	-	-
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	241	153
Value adjustments due to the requirements for prudent valuation	34, 105	(3 394)	(4 554)
Goodwill	4 (1) (113), 36 (1) (b), 37	-	-
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(55 457)	(39 041)
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	36 (1) (c), 38	(777)	(336)
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-	-
Development of unaudited risk provisions during the year (EU No 183/2014)		(30 073)	(23 522)
Excess of deduction from AT1 items over AT1	36 (1) (j)	-	-
Common equity tier 1 capital (CET1)	**50**	**1 102 809**	**1 082 396**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	150 000	150 000
Own AT1 instruments	52 (1) (b), 56 (a), 57	-	-
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	-	-
Transitional adjustments due to grandfathered AT1 instruments	483 (4) (5), 484 to 487, 489, 491	-	-
AT1 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 56 (d), 59, 79	-	-
Excess of deduction from T2 items over T2	36 (1) (j)	-	-
Additional tier 1 capital (AT1)	**61**	**150 000**	**150 000**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**1 252 809**	**1 232 396**

Table continues on the following page.

EUR ths.	Article pursuant to CRR	31.12.2017	31.12.2018
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**1 252 809**	**1 232 396**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	37 877	43 485
Own T2 instruments	63 (b) (i), 66 (a), 67	-	-
Instruments issued by subsidiaries recognised in T2	87, 88	-	-
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	-	-
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	-	-
IRB excess of provisions over expected losses eligible	62 (d)	32 389	36 870
Standardised approach general credit risk adjustments	62 (c)	-	-
Other transitional adjustments to T2	476, 477, 478, 481	-	-
T2 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 66 (d), 68, 69, 79	-	(5 255)
Tier 2 capital (T2)	**71**	**70 266**	**75 100**
Total own funds	**4 (1) (118) and 72**	**1 323 075**	**1 307 497**
Capital requirement	**92 (3), 95, 96, 98**	**569 040**	**586 235**
CET1 capital ratio	**92 (2) (a)**	**15,50%**	**14,77%**
Tier 1 capital ratio	**92 (2) (b)**	**17,61%**	**16,82%**
Total capital ratio	**92 (2) (c)**	**18,60%**	**17,84%**

The Following table shows risk exposure amounts reflecting the structure according to Regulation (EU) No 575/2013:

EUR ths.	Article pursuant to CRR	31.12.2017		31.12.2018	
		Total risk	Capital requirement	Total risk	Capital requirement
Total Risk Exposure Amount	**92 (3), 95, 96, 98**	**7 113 001**	**569 040**	**7 327 936**	**586 235**
Risk weighted assets (credit risk)	92 (3) (a) (f)	5 697 110	455 769	6 378 693	510 296
Standardised approach		298 904	23 912	233 671	18 694
IRB approach		5 398 206	431 857	6 145 022	491 602
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	4 031	322	2 750	220
Operational Risk	92 (3) (e), 92 (4) (b)	1 382 282	110 583	909 105	72 728
Exposure for CVA	92 (3) (d)	29 578	2 366	37 388	2 991
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	-	-	-	-

The following tables show equity items and how they are affecting regulatory own funds:

EUR ths. 31.12.2018	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	779 351	-	779 351
Other comprehensive income (OCI)	c	39 446	-	39 446
Cash flow hedge reserve	g	-	-	-
Financial assets at fair value through other comprehensive income		50 740	-	50 740
unrealized gains according to Art. 35 CRR	h	50 740	-	50 740
unrealized losses according to Art. 35 CRR		-	-	-
other		-	-	-
Currency translation		-	-	-
Remeasurement of net liability of defined pension plans		(808)	-	(808)
Deferred tax		(10 486)	-	(10 486)
Profit or loss attributable to equity holders of the parent		180 176	(180 176)	-
Other		-	-	-
Equity attributable to the owners of the parent		1 479 872	(180 176)	1 299 696
Equity attributable to non-controlling interests	d	-	-	-
Total equity		**1 479 872**	**(180 176)**	**1 299 696**

EUR ths. 31.12.2017	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	767 338	(221)	767 116
Other comprehensive income (OCI)	c	94 253	-	94 253
Cash flow hedge reserve	g	-	-	-
Available for sale reserve		119 917	-	119 917
unrealized gains according to Art. 35 CRR	h	119 922	-	119 922
unrealized losses according to Art. 35 CRR		(5)	-	(5)
other		-	-	-
Currency translation		-	-	-
Remeasurement of net liability of defined pension plans		(609)	-	(609)
Deferred tax		(25 055)	-	(25 055)
Profit or loss attributable to equity holders of the parent		162 056	(162 056)	-
Other		-	-	-
Equity attributable to the owners of the parent		1 504 546	(162 277)	1 342 268
Equity attributable to non-controlling interests	d	-	-	-
Total equity		**1 504 546**	**(162 277)**	**1 342 268**

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:

EUR ths. 31.12.2018	Balance sheet	Regulatory adjustments	Own funds
Intangible assets	39 041	-	39 041
deductible from CET1 acc. to transitional provisions	-	-	-
deductible from AT1 acc. to transitional provisions	-	-	-
Intangible assets	**39 041**	**-**	**39 041**

EUR ths. 31.12.2017	Balance sheet	Regulatory adjustments	Own funds
Intangible assets	55 457	-	55 457
deductible from CET1 acc. to transitional provisions	-	-	-
deductible from AT1 acc. to transitional provisions	-	-	-
Intangible assets	**55 457**	**-**	**55 457**

The following tables show deferred taxes:

EUR ths. 31.12.2018	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		336	-	336
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		44 359	-	44 359
Deferred tax assets		**44 696**	**-**	**44 696**

EUR ths. 31.12.2017	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		777	-	777
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		32 981	-	32 981
Deferred tax assets		**33 758**	**-**	**33 758**

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 the Bank at the year end 2017. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

The following tables show subordinated liabilities:

EUR ths. 31.12.2018	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		72 792	(29 307)	43 485
Tier 2 capital instruments (including related share premium) issued by the parent company	k	72 792	(29 307)	43 485
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		**72 792**	**(29 307)**	**43 485**

EUR ths. 31.12.2017	Own funds disclosure table - reference	Balance sheet	Regulatory adjustments	Own funds
Subordinated issues and deposits and supplementary capital		77 446	(39 569)	37 877
Tier 2 capital instruments (including related share premium) issued by the parent company	k	77 446	(39 569)	37 877
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		**77 446**	**(39 569)**	**37 877**

The following table shows own funds development between the start and the end of the period:

EUR ths.	31.12.2017	31.12.2018
CET1 at the beginning of the period	1 045 335	1 102 809
Changes in retained earnings	10 026	12 236
Changes in accumulated other comprehensive income	11 316	(54 808)
Changes in minority interest	-	-
Changes in prudential filters	523	(1 248)
Changes in regulatory deductions	17 448	16 856
goodwill	-	-
other intangibles	16 499	16 415
Other	18 162	6 551
CET1 at the end of the period	1 102 810	1 082 396
Additional Tier 1 development		
AT1 at the beginning of the period	150 000	150 000
Net increase / decrease in AT1	-	-
Changes in regulatory deduction	-	-
Other	-	-
AT1 at the end of the period	150 000	150 000
Tier 2 development		
T2 at the beginning of the period	75 189	70 266
Net increase / (decrease) in T2	(10 188)	5 609
Changes in regulatory deduction	-	(5 255)
IRB Excess and SA credit risk adjustments	5 265	4 481
T2 at the end of the period	70 266	75 101
Total own funds	**1 323 076**	**1 307 497**

Transitional provisions

The transitional Provisions are not applied by the Bank.

Own funds template

Disclosure requirements: Art. 437 (1) (d) (e) CRR

The Bank 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.	Reference to reconciliation tables	31.12.2017	31.12.2018
Common equity tier 1 (CET1) capital: instruments and reserves			
1 Common equity tier 1 (CET1) capital: instruments and reserves	a	212 000	212 000
thereof ordinary shares	a	212 000	212 000
2 Retained earnings	b	886 015	898 250
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		94 254	39 446
3a Fund for general banking risk	c	-	-
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		-	-
Public sector capital injections grandfathered until Jan 18		-	-
5 Minority interests (amount allowed in consolidated CET1)	d	-	-
5a Independently reviewed interim profits net of any foreseeable charge or dividend		-	-
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments		**1 192 269**	**1 149 696**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments		-	-
7 Additional value adjustments (negative amount)		(3 394)	(4 554)
8 Intangible assets (net of related tax liability) (negative amount)	e	(55 457)	(39 041)
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)	f	(777)	(336)
11 Fair value reserves related to gains or losses on cash flow hedges	g	-	-
12 Negative amounts resulting from the calculation of expected loss amounts		-	-
13 Any increase in equity that results from securitised assets (negative amount)		-	-
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		241	153
15 Defined-benefit pension fund assets (negative amount)		-	-
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		-	-
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)		-	-
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)		-	-
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)		-	-
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		-	-
20b of which: qualifying holdings outside the financial sector (negative amount)		-	-
20c of which: securitisation positions (negative amount)		-	-
20d of which: free deliveries (negative amount)		-	-
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)		-	-
22 Amount exceeding the 15% threshold (negative amount)		-	-
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		-	-
24 Empty Set in the EU		-	-
25 of which: deferred tax assets arising from temporary differences		-	-
25a Losses for the current financial year (negative amount)		-	-
25b Foreseeable tax charges relating to CET1 items (negative amount)		-	-
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		-	-
unrealised gain	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		-	-
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		-	-
CET1 other deductions		(30 073)	(23 522)
28 Total regulatory adjustments to Common equity Tier 1 (CET1)		**(89 459)**	**(67 300)**
29 Common Equity Tier 1 (CET1) capital		**1 102 809**	**1 082 396**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
Additional Tier 1 (AT1) capital: instruments			
30 Capital instruments and the related share premium accounts		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	i	-	-
Public sector capital injections grandfathered until 1 January 2018		-	-
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		-	-
35 of which: instruments issued by subsidiaries subject to phase out		-	-
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)		-	-
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)		-	-
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)		-	-
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)		-	-
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		-	-
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		-	-
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		-	-
Of which: ... possible filter for unrealised losses		-	-
Of which: ... possible filter for unrealised gains		-	-
Of which: ...		-	-
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		-	-
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)		**1 252 809**	**1 232 396**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
Tier 2 (T2) capital: Instruments and provisions		**-**	**-**
46 Capital instruments and the related share premium accounts	k	37 877	43 485
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		-	-
Public sector capital injections grandfathered until 1 January 2018		-	-
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	l	-	-
49 of which: instruments issued by subsidiaries subject to phase out	m	-	-
50 Credit risk adjustments		32 389	36 870
51 Tier 2 (T2) capital before regulatory adjustments		**70 266**	**80 355**
Tier 2 (T2) capital: regulatory adjustments		**-**	**-**
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		-	-
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)		-	-
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)		-	-
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)		-	(5 255)
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		-	-
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		-	-
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		-	-
Of which: ... possible filter for unrealised losses		-	-
Of which: ... possible filter for unrealised gains		-	-
Of which: ...		-	-
57 Total regulatory adjustments to Tier 2 (T2) capital		**-**	**(5 255)**
58 Tier 2 (T2) capital		**70 266**	**75 100**
59 Total capital (TC = T1 + T2)		**1 323 075**	**1 307 497**

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
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.)		-	-
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.)		-	-
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.)		-	-
60 Total risk-weighted assets		**7 113 001**	**7 327 936**
Capital ratios and buffers		**-**	**-**
61 Common Equity Tier 1 (as a percentage of risk exposure amount)		16%	15%
62 Tier 1 (as a percentage of total risk exposure amount)		18%	17%
63 Total capital (as a percentage of total risk exposure amount)		19%	18%
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)		355 337	417 593
65 of which: capital conservation buffer requirement		177 825	183 198
66 of which: countercyclical buffer requirement		35 252	87 836
67 of which: systemic risk buffer requirement		71 130	73 279
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		71 130	73 279
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		11,00%	10,27%
69 [non-relevant in EU regulation]		-	-
70 [non-relevant in EU regulation]		-	-
71 [non-relevant in EU regulation]		-	-
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)		3 059	5 620
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)		23 038	23 044
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)		32 982	44 359

Table continues on the following page.

EUR ths.	Reference to reconciliation tables	31.12.2017	31.12.2018
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)		-	-
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach		-	-
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		68 165	91 871
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		32 389	36 870
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		-	-
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		-	-
82 Current cap on AT1 instruments subject to phase out arrangements		-	-
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		-	-
84 Current cap on T2 instruments subject to phase out arrangements		-	-
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		-	-

43. Events after the reporting period

During the first quarter of 2019 the Bank consider to acquire S Slovensko, spol. s r.o. (leasing company with total assets of 163,7 mil. Eur) from Erste Group Bank AG.

Since 31 December 2018 up to the date of issue of these separate financial statements there were no other 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 13 February 2019.

Ing. Peter Krutil
Chairman of the Board of Directors
and Chief Executive Officer

Ing. Pavel Cetkovský
Member of the Board of Directors
and Deputy of Chief Executive Officer