**OTP Banka Slovensko, a.s.**

**Separate Financial Statements for the Year Ended 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditor's Report**

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

## Contents

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# OTP Banka Slovensko, a.s.

# INDEPENDENT AUDITOR'S REPORT

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of OTP Banka Slovensko, a.s. (the "Bank"), which comprise the separate statement of financial position as at 31 December 2017, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

### Basis for Opinion

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

### Key Audit Matters

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

| Description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud | Summary of the auditor's response to the risks |
|---|---|
| **Individual Loan Loss Provisions for Non-Retail Loans to Clients** | |
| *Refer to Note 8 of the financial statements*<br><br>Loan loss provisions for large non-retail loan receivables are determined on an individual basis and require management to apply a significant level of judgement.<br><br>The level of individual loan loss provisions reflects assumptions made by management in evaluating the following critical areas:<br>a) Existence of impairment events,<br>b) Valuation of collateral,<br>c) Determination of expected future cash-flows. | We tested the design and operating effectiveness of key controls management has established over the impairment evaluation processes. For loan loss provisions determined on an individual basis this included controls over the compilation and review of the credit watch list, regular client creditworthiness review processes, approval of experts' collateral valuation and management review and approval of the impairment evaluation results. |

| | |
|---|---|
| Loan loss provisions for non-retail loans assessed on an individual basis amount to EUR 39.52 million of the total recorded allowances of EUR 86.03 million as at 31 December 2017. | On a sample of large exposures we evaluated appropriateness of provisioning methodologies and their application. We formed an independent view on the levels of provisions required by examining available external and internal information. This work involved assessing the work performed by experts used by the Bank to value the collateral or to assess the estimates of future cash flows.<br><br>On the same sample, we also verified correctness of discounted cash flows calculations applied in deriving the recoverable amount of the loan. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to assess whether there was any indication of error or management bias.<br><br>The overall conclusion was overlaid with an analysis performed at an overall portfolio level aimed at identification of unusual or irregular developments. |
| **Interest income and fee and commission income recognition** | |
| *Refer to Note 23 and Note 25 of the financial statements*<br><br>While interest income is accrued over the life of the financial instrument, the moment of fee and commission income recognition depends on the nature of the fees and commissions as follows:<br>• Fees and commissions that are directly attributable to the financial instrument are accrued over the expected life of such an instrument using the effective interest rate method;<br>• Fees and commissions for services provided are recognised when service is provided;<br>• Fees and commissions for the execution of an act are recognised when the act has been completed.<br><br>The revenues recognition specifics, their high volume consisting of many individually insignificant transactions, the need for high input data quality and the reliability of IT solutions for their recognition resulted in this matter being identified as a key audit matter.<br><br>For the year ended 31 December 2017 interest income was EUR 47.37 million and fee and commission income was EUR 15.95 million, the main source being customer loans and client deposits transactions. | We tested the design and/or operating effectiveness of key controls management has established over the interest and fee and commission income recognition processes and focused on controls over:<br>• Assessment of interest/fees recognition policies during new product approval<br>• Validity and correctness of data inputs related to customer loans and deposits, including authorisation of changes in the interest and fee price list and authorisation of non-standard interest/fees;<br>• Management oversight over recognition of fee and commissions income and interest income; and<br>• IT controls over access rights and change management of relevant IT applications with the assistance of our IT specialists.<br><br>We performed the following procedures with regard to interest and fee and commission income recognition:<br>1) We evaluated the accounting treatment applied by the Bank in respect of fees charged to clients to determine whether the used methodology complies with the requirement of the relevant accounting standards. We focused our testing on challenging the correct classification of:<br>  • Fees and commissions that are directly attributable to the financial instrument;<br>  • Fees and commissions that are not directly attributable to the financial instrument.<br>2) We evaluated the correctness of mathematical formula used for accruing the relevant income over the expected loan life.<br>3) We performed analytical re-calculation of material interest income and fee income<br>4) We assessed the completeness and accuracy of data used for the calculation of interest income using data analytics. |

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

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

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

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

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

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

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

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

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

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on Information Disclosed in the Annual Report

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

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

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

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

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

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

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

#### Appointment of the Auditor

We were appointed as the statutory auditor by the Bank's General Meeting on 4 April 2017. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 16 years.

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

Our audit opinion expressed herein is consistent with the additional report prepared for the Bank's Audit Committee, which we issued on 20 February 2018.

#### Non-Audit Services

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

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

Bratislava, 1 March 2018

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

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

## Separate Statement of Financial Position
as at 31 December 2017

| (EUR '000) | Note | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|
| **Assets** | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 4 | 181 333 | 179 663 |
| Placements with other banks, net of provisions for possible placement losses | 5 | 9 | 2 |
| Financial assets at fair value through profit or loss | 6 | 1 | 6 |
| Available-for-sale financial assets | 7 | 9 970 | 9 331 |
| Loans and receivables, net of provisions for possible losses | 8 | 1 142 231 | 1 146 135 |
| Held-to-maturity financial investments | 9 | 83 874 | 84 107 |
| Investments in subsidiaries | 10 | - | - |
| Non-current tangible assets | 11 | 20 761 | 21 780 |
| Non-current intangible assets | 11 | 8 299 | 6 479 |
| Current tax asset | 20 | 1 904 | - |
| Deferred tax asset | 20 | 5 033 | 4 933 |
| Other assets | 12 | 4 152 | 3 143 |
| **Total assets** | | **1 457 567** | **1 455 579** |
| **Liabilities** | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 13 | 10 368 | 3 144 |
| Amounts due to customers | 14 | 1 109 679 | 1 181 491 |
| Liabilities from issued debt securities | 15 | 167 745 | 116 309 |
| Current tax liability | 20 | - | 596 |
| Provisions for liabilities | 21 | 3 231 | 3 814 |
| Other liabilities | 16 | 20 997 | 22 545 |
| Subordinated debt | 17 | 20 008 | 20 008 |
| **Total liabilities** | | **1 332 028** | **1 347 907** |
| **Equity** | | | |
| Share capital | 18 | 111 580 | 88 539 |
| Reserve funds | | 6 338 | 6 179 |
| Retained earnings | | 13 487 | 16 508 |
| Revaluation reserve – available-for-sale financial assets | | 64 | (533) |
| Profit/(loss) for the year | | (5 930) | (3 021) |
| **Total equity** | | **125 539** | **107 672** |
| **Total liabilities and equity** | | **1 457 567** | **1 455 579** |

These financial statements were approved by the Board of Directors and authorised for issue on 27 February 2018.

Zita Zemková
Chairman of the Board of Directors

Rastislav Matejsko
Member of the Board of Directors

## Separate Statement of Comprehensive Income
**for the year ended 31 December 2017**

| (EUR '000) | Note | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|---|
| Interest income | | 47 372 | 55 665 |
| Interest expense | | (3 496) | (8 158) |
| **Net interest income** | 23 | **43 876** | **47 507** |
| **Provisions for impairment losses on loans and off-balance sheet, net** | 24 | **(24 844)** | **(26 224)** |
| **Net interest income after provisions for impairment losses on loans and off-balance sheet** | | **19 032** | **21 283** |
| Fee and commission income | | 15 952 | 14 734 |
| Fee and commission expense | | (4 216) | (4 214) |
| **Net fee and commission income** | 25 | **11 736** | **10 520** |
| Gains/(losses) on financial transactions, net | 26 | 695 | (422) |
| Gains/(losses) on financial assets, net | 27 | - | 4 104 |
| General administrative expenses | 28 | (37 511) | (38 465) |
| Other operating revenues/(expenses), net | 29 | 259 | (606) |
| **Profit/(loss) before income tax** | | **(5 789)** | **(3 586)** |
| Income tax | 19 | (141) | 565 |
| **Net profit/(loss) after tax** | | **(5 930)** | **(3 021)** |
| **Items of other comprehensive income that will be reclassified subsequently to profit or loss, net of tax** | | | |
| Reclassification adjustment from sale of available-for-sale financial assets, net | 30 | - | (2 259) |
| Gain/(loss) on revaluation of available-for-sale financial assets, net | 30 | 597 | (1 058) |
| **Total comprehensive income for the year** | | **(5 333)** | **(6 338)** |
| Profit/(loss) per share in face value of EUR 3.98 (in EUR) | 40 | (0.264) | (0.136) |
| Profit/(loss) per share in face value of EUR 39 832.70 (in EUR) | 40 | (2 637.70) | (1 359.05) |
| Profit/(loss) per share in face value of EUR 1.00 (in EUR) | 40 | (0.066) | (0.034) |

## Separate Statement of Changes in Equity
**as at 31 December 2017**

| (EUR '000) | Share Capital | Reserve Funds | Retained Earnings | Revaluation of Available-for-Sale Financial Assets | Profit/(Loss) for the Year | Total |
|---|---|---|---|---|---|---|
| **Equity as at 1 Jan 2016** | **88 539** | **5 695** | **16 803** | **2 784** | **-** | **113 821** |
| Transfers | - | 295 | (295) | - | - | **-** |
| Share-based payments | - | 189 | - | - | - | **189** |
| Total comprehensive income | - | - | - | (3 317) | (3 021) | **(6 338)** |
| **Equity as at 31 Dec 2016** | **88 539** | **6 179** | **16 508** | **(533)** | **(3 021)** | **107 672** |

| (EUR '000) | Share Capital | Reserve Funds | Retained Earnings | Revaluation of Available-for-Sale Financial Assets | Profit/(Loss) for the Year | Total |
|---|---|---|---|---|---|---|
| **Equity as at 1 Jan 2017** | **88 539** | **6 179** | **13 487** | **(533)** | **-** | **107 672** |
| Transfers | - | - | - | - | - | **-** |
| Increase in the share capital | 23 041 | - | - | - | - | **23 041** |
| Share-based payments | - | 159 | - | - | - | **159** |
| Total comprehensive income | - | - | - | 597 | (5 930) | **(5 333)** |
| **Equity as at 31 Dec 2017** | **111 580** | **6 338** | **13 487** | **64** | **(5 930)** | **125 539** |

## Separate Statement of Cash Flows
**for the year ended 31 December 2017**

| (EUR '000) | Note | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| **Net profit/(loss) after tax** | | **(5 930)** | **(3 021)** |
| *Adjustments to reconcile net income/(loss) to net cash provided by operating activities:* | | | |
| Provisions for loans and off-balance sheet | | 24 844 | 26 224 |
| Provisions for other assets | | (28) | 26 |
| Provisions for contingent liabilities | | (610) | 806 |
| Provisions for investments in subsidiaries | | - | - |
| Foreign exchange (gains)/losses on cash and cash equivalents | | 166 | 2 468 |
| Depreciation and amortisation | | 3 809 | 4 703 |
| Net effect of assets sold | | 189 | 27 |
| Net effect of income tax | | 141 | (565) |
| Share-based payments | | 159 | 189 |
| *Changes in operating assets and liabilities:* | | | |
| Net decrease/(increase) in statutory minimum reserves stipulated by the National Bank of Slovakia | | (5 460) | (2 171) |
| Net decrease/(increase) in placements with other banks | | - | - |
| Net decrease/(increase) in financial assets at fair value through profit or loss | | 5 | 818 |
| Net decrease/(increase) in available-for-sale financial assets | | 117 | (1 263) |
| Net decrease/(increase) in loans and receivables before provisions for possible losses | | (20 913) | (27 708) |
| Net (decrease)/increase in amounts due to banks and deposits from the National Bank of Slovakia and other banks | | 8 007 | 2 000 |
| Net (decrease)/increase in amounts due to customers | | (71 812) | (52 043) |
| Net decrease/(increase) in other assets before provisions for possible losses | | (2 886) | (884) |
| Net (decrease)/increase in other liabilities | | (2 543) | 5 036 |
| **Net cash flows from/(used in) operating activities** | | **(72 745)** | **(45 358)** |
| **CASH FLOW FROM INVESTMENT ACTIVITIES** | | | |
| Net decrease/(increase) in held-to-maturity investments | | 233 | (10 464) |
| Net decrease/(increase) in investments in subsidiaries | | - | 93 |
| Net decrease/(increase) in non-current tangible and intangible assets | | (4 799) | (4 384) |
| **Net cash flows from/(used in) investment activities** | | **(4 566)** | **(14 755)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Net (decrease)/increase in issued debt securities | | 51 436 | 81 466 |
| Net (decrease)/increase in subordinated debt | | - | 1 |
| Increase of share capital | | 23 041 | - |
| **Net cash flows from/(used in) financial activities** | | **74 477** | **81 467** |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (166) | (2 468) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(3 000)** | **18 886** |
| **Cash and cash equivalents at the beginning of the reporting period** | **34** | **171 249** | **152 363** |
| **Cash and cash equivalents at the end of the reporting period** | **34** | **168 249** | **171 249** |

In 2017, OTP Banka Slovensko, a.s. received cash from interest in the amount of EUR 47 666 thousand (2016: EUR 56 164 thousand) and paid out interest in the amount of EUR 4 522 thousand (2016: EUR 10 278 thousand).

## 1. Introduction

OTP Banka Slovensko, a.s. (hereinafter the "Bank" or "OTP Slovensko") was established on 24 February 1992 and incorporated on 27 February 1992. The Bank's seat is at Štúrova 5, 813 54 Bratislava. The Bank's identification number (IČO) is 31318916 and its tax identification number (DIČ) is 2020411074.

***Members of Statutory and Supervisory Boards as at 31 December 2017***

**Board of Directors:**
Ing. Zita Zemková (Chairman)
Ing. Rastislav Matejsko
Ing. Radovan Jenis
Dr. Sándor Patyi

**Supervisory Board:**
József Németh (Chairman)
Ágnes Rudas
Atanáz Popov
Tamás Endre Vörös
Ing. Angelika Mikócziová
Ing. Attila Angyal

*Changes in the Bank in 2017:*

**Supervisory Board:**

Tamás Endre Vörös, start of office with effect from 11 April 2017
Ing. Jozef Brhel, end of term of office as at 23 October 2017
Ing. Attila Angyal, start of office with effect from 24 October 2017

***Scope of Business***

The Bank holds a universal banking licence issued by the National Bank of Slovakia ("NBS" or "National Bank of Slovakia") and carries out business in Slovakia.

The core activity of the Bank is the provision of a wide range of banking and financial services to various entities, mainly to large- and mid-sized enterprises, private individuals, and institutional customers.

The Bank's core scope of business, under the banking licence from the NBS, is as follows:

- Acceptance of deposits;
- Provision of loans;
- Provision of investment services, investment activities and non-core services under Act No. 566/2001 Coll. on Securities and Investment Services within the scope of the banking licence granted by the NBS;
- Trading on own account with money market financial instruments in both the local and foreign currency including the exchange activity;
- Trading on own account with capital market financial instruments in both the local and foreign currency;
- Trading on own account with coins made of precious metals, commemorative bank notes and coins, with bank note sheets and sets of circulating coins;
- Administration of receivables in the client's account including related advisory services;
- Financial leasing;
- Domestic transfers of funds and cross-border transfers of funds (payments and settlements);
- Issuance and administration of payment instruments;
- Granting of bank guarantees, opening and validation of letters of credit;
- Issuance of securities, participation in issues of securities and provision of related services;
- Financial brokerage;
- Business consulting services;
- Safe custody;
- Depository services pursuant to separate regulations;
- Banking information services;
- Renting of safe deposit boxes;
- Special mortgage instruments pursuant to Article 67 par. 1 under provision 2 par. 2 n) to Act No. 483/2001 Coll.; and
- Processing of bank notes, coins, commemorative bank notes and coins.

The Bank is authorised to provide investment services, investment activities, and non-core services under the Act on Securities as follows:

- Receipt and transfer of the client's instruction related to one or more financial instruments in relation to financial instruments: negotiable securities, money market instruments, trust certificates or securities issued by foreign entities of collective investment, swaps related to interest rates or earnings which can be settled by delivery or in cash;
- Execution of the client's instruction at its own account in relation to financial instruments: negotiable securities, money market instruments, trust certificates or securities issued by foreign entities of collective investment;
- Trading at own account in relation to financial instruments: negotiable securities, money market instruments, trust certificates or securities issued by foreign entities of collective investment, currency futures and forwards which can be settled by delivery or in cash;
- Investment advisory in relation to financial instruments: negotiable securities, money market instruments, trust certificates or securities issued by foreign entities of collective investment;
- Firm commitment underwriting and placement of financial instruments in relation to negotiable securities;
- Placement of financial instruments without firm commitment in relation to financial instruments: negotiable securities, trust certificates or securities issued by foreign entities of collective investment;
- Custody of trust certificates or securities issued by foreign entities of collective investment, custody and administration of negotiable securities at the client's account excluding holder's administration, and related services, mainly administration of cash and financial collaterals;
- Trading with foreign exchange values if relevant to the provision of investment services;
- Conducting of investment research and financial analysis or other form of general recommendation related to transactions with financial instruments;
- Services related to underwriting of financial instruments;
- Execution of orders on behalf of clients under the provision of Article 6 (1b) of the Act on Securities with respect to swaps related to interest rates or interest income that may be settled physically or in cash, as stipulated in the provision of Article 5 (1d) of the Act on Securities; and
- Dealing on own account under the provision of Article 6 (1c) of the Act on Securities with respect to swaps related to interest rates or interest income that may be settled physically or in cash, as stipulated in the provision of Article 5 (1d) of the Act on Securities.

Operating profit/loss was mainly generated from the provision of banking services in Slovakia.

***Shareholders' Structure***

The majority shareholder of the Bank is OTP Bank Nyrt. Hungary ("OTP Bank Nyrt.") with 99.38% share of the Bank's share capital. OTP Bank Nyrt. is the direct parent company of the Bank. The shareholders' structure (with respective shares exceeding 1%) and their share on the share capital are as follows:

| Name/Business Name | Share in Subscribed Share Capital as at 31 Dec 2017 | Share in Subscribed Share Capital as at 31 Dec 2016 |
|---|---|---|
| OTP Bank Nyrt. Hungary | 99.38% | 99.26% |
| Other minority owners | 0.62% | 0.74% |

The shareholders' shares of voting rights are equal to their shares of the share capital.

***Organisational Structure and Number of Employees***

As at 31 December 2017, the Bank operated 5 regional centres (31 December 2016: 5) and 61 branches (31 December 2016: 61) in Slovakia.

As at 31 December 2017, the full-time equivalent of the Bank's employees was 656 (31 December 2016: 662 employees), of which 22 managers (31 December 2016: 24).

As at 31 December 2017, the actual registered number of employees was 665 (31 December 2016: 657), of which 22 managers (31 December 2016: 24).

"Managers" means members of the Board of Directors and managers directly reporting to the statutory body or a member of the statutory body.

The full-time equivalent of employees and the actual registered number of employees does not include members of the Supervisory Board.

As at 31 December 2017, the Bank's Supervisory Board had 6 members (31 December 2016: 5).

***Regulatory Requirements***

The Bank is subject to the banking supervision and regulatory requirements of the NBS. These regulations include indicators, and limits pertaining to liquidity, capital adequacy ratios, risk management system and the currency position of the Bank.

***Data on Consolidating Entity***

The Bank is part of the consolidation group of OTP Group; consolidated financial statements for all groups of consolidation group entities are prepared by Országos Takarékpénztár és Kereskedelmi Bank Nyrt., the parent company with its seat at Nádor utca 16, 1051 Budapest, Hungary ("OTP Bank Nyrt."). OTP Bank Nyrt. is also an immediate consolidating entity of the Bank.

## 2. Principal Accounting Policies

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

***Statement of Compliance***

The separate financial statements of the Bank for the year ended 31 December 2017 and comparative data for the previous reporting periods have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

IFRS as adopted by the EU do not differ from the standards issued by the International Accounting Standards Board ("IASB"), except for portfolio hedge accounting under IAS 39, which has not been approved by the EU. The Company has determined that portfolio hedge accounting under IAS 39 would not impact these separate financial statements had it been approved by the EU at the reporting date.

***Adaption of New and Revised Standards***

***a) Standards and Interpretations Effective in the Current Period***

The Bank adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the EU that are relevant to its operations and effective for reporting periods commencing 1 January 2017:

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

- Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of the standards, interpretations and amendments has not resulted in any changes in the Bank's accounting policies.

***b) Standards and Interpretations in Issue not yet Effective***

At the preparation date of these financial statements, the following standards and interpretations did not apply to the reporting period beginning 1 January 2017 and were not effective:

IASB documents endorsed by the EU:

- IFRS 15 "Revenue from Contracts with Customers" – The core principle of the new standard is to allow the entity to recognise revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services (effective for annual periods beginning on or after 1 January 2018).

- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).

- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time).

- Amendments to various standards "Improvements to IFRSs (cycle 2014 – 2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

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

- IFRS 9 "Financial Instruments", which is to supersede IAS 39 Financial Instruments: Recognition and Measurement. The final wording includes requirements for the classification and measurement of financial assets and financial liabilities; it also includes an expected credit loss model and hedge accounting (hedging) (effective for annual periods beginning on or after 1 July 2018).

  In 2017, as part of the Group IFRS 9 project (managed by the parent company, OTP Bank, Nyrt.), the Bank completed most activities relating to the first application of IFRS 9, focusing on the biggest challenges. The identification of any differences that exist between the currently applied procedures under IAS 39 and new requirements under IFRS 9 – for classification and measurement, provisions for possible losses and hedge accounting – was either completed, or the final analyses were ongoing at the time of preparation of these financial statements.

  **Classification and Measurement**

  Compared to IAS 39, IFRS 9 establishes new financial reporting principles for most financial assets and financial liabilities, which provide users of financial statements with relevant and useful information to assess the amount, timing and uncertainty of a reporting entity's future cash flows.

  IFRS 9 introduces three categories for the classification of financial instruments depending on whether they are subsequently measured at amortised cost (AC), at fair value with gains and losses recognised in other comprehensive income (fair value through other comprehensive income – FVOCI), or at fair value with gains and losses recognised in profit or loss (fair value through profit or loss – FVTPL).

  A financial asset is measured at amortised cost if the following two conditions are met:
  a) The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
  b) The contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if the following two conditions are met:

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

A financial asset is measured at fair value through profit or loss if it is not measured at amortised cost or fair value through other comprehensive income. However, a reporting entity may make an irrevocable election at initial recognition to present subsequent fair value changes of certain equity investments, which would otherwise be measured at fair value through profit and loss, in other comprehensive income.

A reporting entity should only reclassify relevant financial assets if its business model for the management of financial assets changes.

A reporting entity is required to classify its financial assets based on its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows, where:

a) The principal is the fair value of the financial asset at initial recognition; and
b) The interest consists of consideration for the time value of money, credit risk associated with the outstanding principal amount during the relevant period, other basic risks and expenses of borrowing and the profit margin.

The classification of financial instruments under IFRS 9 in OTP Banka Slovensko, a.s. (hereinafter "OBS") is based on the business model used by the Bank to manage its financial assets and on whether the contractual cash flows represent solely payments of principal and interest (SPPI). The business model expresses how the Bank manages its financial assets to generate cash flows and create value. Therefore, the business model determines whether cash flows will flow from the collection of contractual cash flows, from the sale of financial assets, or from both.

If a financial instrument is held to collect contractual cash flows, it may be classified in the AC category if it also meets the SPPI requirement. Financial instruments that meet the SPPI requirement, which are held in the Bank's portfolio of financial assets to collect cash flows and sell financial assets, may be classified as FVOCI. Financial assets that do not generate cash flows meeting the SPPI must be measured at FVTPL (eg financial derivatives).

The Bank's basic business model for investing in financial assets is:

- Ensuring a primary return on invested funds by collecting contractual cash flows;
- Investing in instruments and counterparties that may be used for refinancing transactions if necessary; and
- Stabilising interest income.

For all credit products, the intent of the Bank's transaction with a client is to collect contractual cash flows and realise a margin. A credit transaction involves an agreed repayment schedule consisting of repayments of principal, interest and fees, if applicable. The loan price, ie the interest rate, is calculated from the loan principal and takes into account the transaction's/client's credit risk, financing costs (or time value of money), other costs associated with the loan provision and the Bank's business margin. The Bank does not intend to sell its receivable from the client in any of its credit products. The Bank does not purchase impaired receivables from banks or other third parties. Receivables are only sold in the event of a significant increase in credit risk and/or impairment of a receivable and based on approved recovery strategies.

The Bank analysed the requirements under IFRS 9 and classified financial instruments pursuant to the requirements under IFRS 9 and concluded that as of the date of first application (1 January 2018), the measurement method for the Bank's financial instruments should be changed, compared to IAS 39, as regards the bonds in the available-for-sale portfolio - from FVOCI to FVTPL. The related remeasurement recognised in equity as Revaluation of available-for-sale financial assets will be transferred to the Retained earnings as at 1 January 2018, without affecting the value of the Bank's equity.

**Provisions for Possible Losses**

IFRS 9 introduces a three-step model that reflects changes in the credit quality since the initial recognition. Impairment-related requirements are based on an expected credit loss model ("ECL") which replaces the incurred-loss model under IAS 39.

The first level (Stage 1) includes financial instruments with no significant increase in credit risk since initial recognition. For these assets, the Bank records a 12-month ECL, and interest income is recognised based on the gross book value of assets.

The second level (Stage 2) includes financial instruments with a significant increase in credit risk since the initial recognition, but no objective proof of impairment exists. For these assets, the Bank records an ECL for the whole life cycle, and interest income is recognised based on the gross book value of assets.

The third level (Stage 3) includes financial instruments with a significant increase in credit risk since initial recognition, and objective proof of their impairment exists. For these assets, the Bank records an ECL for the whole life cycle, and interest income is recognised based on the net book value of assets.

The Bank identifies a credit risk increase using predefined criteria at the level of individual transactions and portfolio-level estimates. The ECL estimation should represent a probability-weighted result and the effect of the time-value of money should be based on adequate and documentable information which is available without unreasonable costs or excessive effort.

As part of the IFRS 9 Group Project, the Bank has developed and set up processes, definitions and analytical methods for risk management. Models have been developed to identify significant increases in credit risk and ECL calculation using the relevant parameters in accordance with IFRS 9.

Based on the analysis of the required methodological changes, the main principles of IFRS 9 have been developed and subsequently implemented. The required changes to the Bank's information systems are currently being implemented and tested.

The impact of the transition to IFRS 9 has been calculated as at the reporting date. It represents the current best estimate of OTP Group's management and probably cannot be considered as final. Methodological rules and procedures for the classification, measurement and provisions for possible losses have been finalised in detail. The most significant open issue is SICR (measurement of an increase in credit risk in the staging area) and alternative estimates have been made in this respect.

More information on first adoption and the impact of IFRS 9 in the OTP Group are given in the consolidated financial statements of OTP Bank, Nyrt.

**Hedge accounting**

IFRS 9 introduces a substantially modified model for hedge accounting with extended requirements for the disclosure of risk management information. This new model allows more efficient presentation of hedge accounting in corporate financial statements, so users of financial statements obtain better information on risk management and the impact of hedge accounting on corporate performance.

**Own credit risk**

IFRS 9 removes the volatility in profits or losses arising from obligations issued by the Bank caused by changes in own credit risk, when profits or losses were measured at fair value. Profits arising from a deterioration of the entity's own credit risk will no longer be recognised in the income statement, but rather in equity.

- IFRS 16 "Leases" will supersede IAS 17 "Leases" (effective for annual periods beginning on or after 1 January 2019). The objective of the standard is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents such transactions. The reporting entity must consider the business terms and conditions of contracts and all relevant facts and circumstances when applying this standard.

IFRS 16 will have a significant impact on accounting for leases, especially by a lessee. In accordance with IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard will have an impact on the balance sheet, statement of comprehensive income and statement of cash flows and on the related indicators.

The Bank is preparing to implement IFRS 16. During the preparation of these financial statements, an analysis of the contracts was ongoing to identify contracts that should be classified as leases, which are currently not treated as leases, in line with the provisions of IFRS 16.

The Bank has elected not to adopt the standards and interpretations that were issued as at the reporting date, but were not yet effective before their effective dates.

***c) Standards and Interpretations not yet Endorsed by the EU***

At present, IFRS as adopted by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments and interpretations that were not endorsed for use as at the reporting date.

IASB documents not yet endorsed by the EU:

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).
- Amendments to various standards "Improvements to IFRSs (cycle 2015 – 2017)" resulting from the annual improvement project of IFRS (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
- IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019).

Bank management anticipates that the adoption of these standards, amendments to existing standards and interpretations will have no material impact on the Bank's financial statements during the period of initial application.

***Purpose of Preparation***

These separate financial statements were prepared in Slovakia so as to comply with the article 17a) of Act on Accounting No. 431/2002 Coll. as amended, under special regulations - Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS).

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

***Basis for the Financial Statements Preparation***

Separate financial statements were prepared under the historical cost basis, except for certain financial instruments, which have been recognised at fair value. The financial statements were prepared under the accrual principle of accounting: transactions and recognised events are recorded in the period to which they are related in time.

Separate financial statements were prepared under the assumption that the Bank will continue as a going concern in the foreseeable future.

The reporting currency used for disclosure in these separate financial statements is the Euro, which is rounded to thousands of euros, unless stipulated otherwise. The amounts in brackets refer to negative values.

***Significant Accounting Assessments and Judgements***

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

Significant areas of judgment include the following:

In connection with the current economic environment, based on the currently-available information the management has considered all relevant factors which could have an impact on the valuation and impairment of assets and liabilities in these financial statements, impact on the liquidity, funding of operations of the Bank and other effects these may have on financial statements. All such impacts, if any, have been reflected in these financial statements. The Bank’s management continues to monitor the situation and any further possible impacts of the economic environment on its operations.

The provisioning for loan losses and identified contingent liabilities includes many uncertainties as to the outcomes of the aforementioned risks and requires the Bank’s management to make subjective judgments when estimating loss amounts. As described below, the Bank creates provisions for the impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are negatively impacted. These provisions are based on the Bank’s historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to loan default, as well as subjective judgments of the Bank’s management about estimated future cash-flows. Considering current economic conditions, the outcome of these uncertainties could differ from the amounts of impairment provisions recognised as at 31 December 2017 and the difference could be material.

The amounts recognised as provisions for liabilities are based on the judgement of the Bank’s management and represent the best estimate of expenditures required to settle a liability of uncertain timing or amount resulting from an obligation.

In recent years, income tax rules and regulations underwent significant changes. In connection with the broad and complex issues affecting the banking industry, there are no historical precedents and/or interpretation judgments. In addition, tax authorities have broad powers as regards the interpretation of the effective tax laws and regulations during the tax audit of a taxpayer. As a result, there is a higher degree of uncertainty as to the final outcome of a potential audit conducted by tax authorities.

***Translation of Amounts Denominated in Foreign Currencies***

Assets and liabilities denominated in a foreign currency are translated to euros using the reference exchange rate determined and announced by the European Central Bank valid as at the reporting date. Revenues and expenses denominated in a foreign currency are recognised as translated using the exchange rate valid as at the transaction date. Foreign exchange gains/losses on transactions are recognised on the statement of comprehensive income line *"Gains/(losses) on financial transactions, net".*

***Cash and Cash Equivalents***

Cash and cash equivalents comprise cash and balances in demand deposits with the NBS, and only include amounts of cash immediately available and highly-liquid investments with an original maturity of up to three months. For the purposes of the cash flow statement, such amounts exclude a mandatory minimum reserve deposited with the NBS. The items are recorded in the statement of financial position line *"Cash, due from banks and balances with the National Bank of Slovakia".*

***Placements with Other Banks and Loans to Other Banks***

Placements with other banks and loans to other banks are stated at amortised costs net of provisions for possible placement losses in the statement of financial position line "*Placements with other banks, net of provisions for possible placement losses".* Interest is accrued using the effective interest rate method and credited to the profit or loss based on the amount of an outstanding receivable. Such interest is recognised in the statement of comprehensive income in *"Interest income".*

***Financial Instruments - Initial Recognition***

All financial assets are recognised and derecognised on the trade date on which the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial investments, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

***Financial Assets at Fair Value through Profit or Loss***

Financial assets at fair value through profit or loss include securities and derivative financial instruments held for trading and for the purposes of profit generating. At acquisition, held-for-trading securities are measured at cost. Subsequently, they are remeasured to fair value. Revaluation gains and losses are recognised in the statement of comprehensive income line "*Gains/(losses) on financial assets, net"*.

If quoted market prices are not available, the fair value of debt securities is determined based on a model using valuation techniques.

Net interest income from securities at fair value through profit or loss is accrued using the effective interest rate method and recognised directly in the statement of comprehensive income line *"Interest income".*

***Available-for-Sale Financial Assets***

Available-for-sale financial assets include securities that the Bank intends to hold for an indefinite period or which may be sold as liquidity requirements arise or market conditions change. Upon acquisition, these investments are measured at cost. Available-for-sale financial assets are then remeasured to fair value. Gains and losses on revaluation are recognised in equity as *"Revaluation of available-for-sale financial assets".* Upon sale of the available-for-sale financial asset, accumulated gains/losses from revaluation previously recognised in equity are recognised through the statement of comprehensive income as "*Gains/(losses) on financial assets, net*".

Interest income is accrued using the effective interest rate and recognised directly through the statement of comprehensive income as *"Interest income".*

Available-for-sale financial assets also include investments with ownership interest less than 20% of the registered capital and/or voting rights. These investments are measured at cost less impairment provisions for a permanent decrease in value, as their market price in an active market cannot be reliably measured. The Bank assesses the value of such investments on an individual basis and compares movements in the equity of companies to their cost. A continued significant decrease in the equity is regarded by the Bank as objective evidence of the impairment and, thus, provisions are recorded. Impairment losses are recognised in the statement of comprehensive income line "*Gains/(losses) on financial assets, net*".

***Sale and Repurchase Agreements***

Debt or equity securities sold under sale and repurchase agreements are recognised as assets in the statement of financial position line "*Financial assets at fair value through profit or loss" and "Available-for-sale financial assets"* and the contracted payable is recorded in *"Due to banks and deposits from the National Bank of Slovakia and other banks"* and/or in "*Amounts due to customers"*.

Securities purchased under agreements to resell securities are recorded as assets in the statement of financial position line *"Cash, due from banks and balances with the National Bank of Slovakia",* and/or in "*Placements with other banks, net of provisions for possible losses",* or in "*Loans and receivables, net of provisions for possible losses".*

The difference between the sale and repurchase prices is treated as interest and accrued over the life of each REPO agreement using the effective interest rate method.

***Loans and Receivables and Provisions for Possible Losses***

Loans to customers are stated at amortised cost net of provisions for loan losses in the statement of financial position line *"Loans and receivables, net of provisions for possible losses".* Interest is accrued using the effective interest rate method and credited to the profit or loss based on the amount of an outstanding receivable in the line *"Interest income".* Interest is no longer accrued on loan receivables when bankruptcy is declared on a debtor, upon the start of the restructuring proceedings by law, in the case of withdrawal by either party from the loan agreement or in extraordinary cases when interest is waived based on the Bank's decision.

Fees and commissions related to loans are gradually amortised over the contractual term of the loan using the effective interest rate method and are recognised in the line "*Loans and receivables, net of provisions for possible losses"*.

In line with the Bank's objectives, loan receivables acquired through assignment are classified in accordance with IAS 39 as *"Loans and receivables*". Upon initial recognition, loans are measured at cost including all transaction costs related to acquisition. For purchased loans, this means that their initial measurement equals the amount of financial settlement for assigned receivables.

Any differences between the carrying amount as at the date of acquisition of loan receivables acquired by an assignment and the due amount (acquisition cost, transfer fee, margin differentials etc.) are accrued over the whole maturity period of the loan using the effective interest rate method.

As at the date of the financial statements, the Bank assesses and reassesses provisions for provided loans.

Provisions cover estimated losses from impairment of loans if objective proof of impairment exists as a result of one or more loss events that occurred after the initial loan recognition, and when such event(s) has(have) an impact on the estimated recoverable amount. Provisions representing the impairment of loan receivables are recognised if their carrying amount is higher than their estimated recoverable amount. The recoverable amount is the present value of estimated future cash flows including cash flows from the realisation of collateral using the discount rate on the loan as at the recognition date.

Objective proof of loan impairment includes observable data which documents loss events and is available to the Bank. In April 2016, the Bank introduced Group methodology for monitoring and assessing loss events that was initiated by the parent bank with the aim of unifying the definition of loss events at subsidiaries of OTP Bank Nyrt. Hungary.

These loss circumstances are:

Objective fact – payment delay of more than 90 days and such delays are material;
- Any credit liability of a debtor is overdue by more than 90 days and the amount owed exceeds the materiality level and/or;
- A debtor breaches a defined limit of an overdraft loan facility (limit exceeded) and the limit is exceeded for more than 90 days and the amount of the exceeded limit exceeds the materiality level.

Probability of default – probability that a debtor will not be able to fully repay its credit liabilities;
- The financial institution will cease to charge interest on a credit liability;
- The financial institution recognises a specific adjustment to a loan resulting from a clearly significant decrease in the loan's credit quality after the financial institution has an exposure;
- The financial institution sells the credit liability with a material loss;
- The financial institution agrees to the forced restructuring of the credit liability which will probably result in an impaired financial liability triggered by a material waiver, or postponement of the payment of the principal, interest or fees. If capital exposures are assessed based on a PD/LGD approach, this also means the forced restructuring of the shares;
- The financial institution filed for the debtor's bankruptcy, or issued a similar order in relation to the debtor's credit liabilities to the financial institution, parent company or any of its subsidiaries; and
- The debtor filed for bankruptcy or bankruptcy or a similar regime was declared in respect of the debtor, and the debtor enabled or postponed the settlement of credit liabilities to the financial institution, parent company or any of its subsidiaries.

Loans identified as impaired are internally classified as default loans.

When classifying impairment, the Bank has set a materiality level for retail clients of EUR 50 per exposure and for non-retail clients of EUR 250 per client.

The Bank assesses credit risk on an individual and portfolio basis and creates specific and portfolio provisions. The Bank creates specific provisions for individually-significant loan receivables and portfolio provisions for the loan receivables that are not individually significant, or for which no impairment was identified based on an individual assessment.

Provisions are recorded and reversed through *"Provisions for impairment losses on loans and off-balance sheet, net"* in the statement of comprehensive income.

The Bank recognises write-offs of loans as *"Provisions for impairment losses on loans and off-balance sheet, net"* with releasing the relevant provisions for loan losses. Written-off loans and advances made to clients are recorded on the off-balance sheet, whereas the Bank continues to monitor and recover such loans except for loans where the Bank lost the legal title for their recovery or where the Bank ceased the recovery process as the recovery costs exceed the amount receivable. Each subsequent income on written-off receivables is recognised in the statement of comprehensive income as *"Provisions for impairment losses on loans and off-balance sheet, net".*

Detailed information about the credit risk management is stated in Note 36 Credit Risk.

***Held-to-Maturity Financial Investments***

Held-to-maturity financial investments represent debt financial assets with pre-defined date of maturity that the Bank intends and has the ability to hold until their maturity. At acquisition, such assets are measured at cost, which include transaction costs. These investments are subsequently remeasured to the amortised cost based on the effective interest rate method, net of provisions for impairment.

Interest income, discounts and premiums on held-to-maturity securities are accrued using the effective interest rate method and recognised directly in the statement of comprehensive income line *"Interest income".*

***Investments in Subsidiaries***

Investments in subsidiaries include the Bank's investments in companies with an ownership interest more than 50% of the registered capital or more than 50% of the voting rights. Investments in subsidiaries are recognised at cost less provisions for the impairment.

Impairment losses are recognised in the statement of comprehensive income line "*Gains/(losses) on financial assets, net*". Income from dividends is recognised in the statement of comprehensive income as "*Gains/(losses) on financial assets, net*" at the moment when the Bank's title to receive dividends originates.

***Non-Current Tangible and Intangible Assets***

Non-current tangible and intangible assets (Property, Plant and Equipment) are stated at cost, less accumulated depreciation and accumulated impairment losses. Depreciation charges are computed using the straight-line method over the estimated useful lives of the assets corresponding to future economic benefits from assets as follows:

| **Type of Asset** | **Estimated Useful Life for 2016 and 2017** |
|---|---|
| ATMs and motor vehicles, computers, office machines, telecommunication equipment, intangible assets | 4 |
| Software | 2-10 |
| Fixtures, fittings and office equipment, machines and equipment | 6 |
| Computers, machines, equipment, ATMs, furniture | 8 |
| Technical upgrade of leased buildings | 10-20 |
| Time vaults | 10 |
| Heavy bank program (safes), transportation means, air-conditioning facilities | 12 |
| Buildings and structures | 40 |

Depreciation of non-current assets is charged to the statement of comprehensive income line *"General administrative expenses".* Depreciation commences in the month that such assets are put into use. Land and works of art are not depreciated.

At the reporting date, the Bank reviews the carrying value of its non-current assets, and the estimated useful life and the method of depreciation thereof. The Bank also reassesses the recoverable amount of the asset, which is estimated to determine the extent (if any) of the impairment loss. Where the carrying value of buildings and equipment is greater than the estimated recoverable amount, it is written down to the estimated recoverable amount through the profit or loss. If the impairment is of a temporary nature, impairment provisions are recognised in the statement of comprehensive income as "*Other operating revenues/(expenses), net*".

At the reporting date, the Bank also assesses whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset. If the estimated recoverable amount exceeds the carrying value of an asset, it is dissolved through the statement of comprehensive income in "*Other operating revenues/(expenses), net*".

In the Bank, non-current intangible assets mainly include software.

***Accrued Interest Receivable/Payable***

Accrued interest on loans and placements made is recognised in lines "*Placements with other banks, net of provisions for possible placement losses*" and "*Loans and receivables, net of provisions for possible losses*". Accrued interest on received loans and deposits is recognised in line *"Due to banks and deposits from the National Bank of Slovakia and other banks" and "Amounts due to customers*". Accrued interest on securities is recognised for individual items of securities in the statement of financial position.

The Bank recognises accrued interest on loans, deposits and securities using the effective interest rate method.

***Recognition of Revenues and Expenses***

Revenues and expenses are recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest rate. Interest income on securities includes revenues from fixed and floating interest rate coupons and accrued discount and premium.

For loans in relation to which restructuring proceedings started pursuant to the Act on Bankruptcy and Restructuring, interest income is not recognised in the profit or loss from the commencement date of such restructuring proceedings, as it is unlikely that interest income will result in economic benefits for the Bank. If the court confirms the restructuring plan, the Bank loses its title to such interest.

Fees and commissions are recognised in the profit or loss on an accrual basis. Fees and commissions related to the provision of loans are accrued over the entire maturity period of a loan and recognised in the statement of comprehensive income line "*Interest income*".

Fees and commissions that are not part of the effective interest rate are recognised as expenses and income in the statement of comprehensive income line "*Fee and commission expense*" and "*Fee and commission income*" on an accrual basis and as at the date of transaction.

Income from dividends is recognised in the period of the origin of the title to receive dividends and is recognised in the statement of comprehensive income as "*Gains/(losses) on financial assets, net"*.

Other expenses and revenues are recognised in the relevant period on an accrual basis.

***Income Tax and Other Tax***

The annual income tax liability is based on the tax base calculated from the profit/loss under IFRS and Slovak tax law. To determine the current income tax, tax rates valid as at the reporting date are applied.

The deferred income tax is calculated by the Bank using the balance sheet liability method in respect of all temporary differences between the tax bases of assets and liabilities and their carrying amount in the statement of financial position.

Deferred income taxes are computed using tax rates set for the subsequent taxable period and applicable at the moment of the tax asset realisation or the tax liability recognition. The tax rate of 21% remains applicable for 2018.

Deferred tax assets are recognised if it is probable, beyond any significant doubt, that profits will be available in the future against which deductible temporary difference can be utilised. Tax assets are reassessed as at the reporting date.

Deferred tax is recognised in the profit or loss as "*Income Tax*", except for the deferred tax arising from items that are recognised through equity, such as available-for-sale financial assets. In this case, the deferred tax is also recognised through equity as part of items of comprehensive income.

The Bank is a payer of the value added tax and selected local taxes. Taxes are recognised in the statement of comprehensive income line *"General administrative expenses"*, except for the value added tax on acquisition of tangible and intangible assets, which enters the cost of non-current tangible and intangible assets.

***Special Levy on Selected Financial Institutions and Resolution Fund***

As of 1 January 2012, Act No. 384/2011 Coll. on the Special Levy of Selected Financial Institutions came into effect. The levy calculation is based on the amount of the Bank's liabilities less equity, subordinated debt and deposits protected by the Deposit Protection Fund. In 2012, Act No. 233/2012 Coll. amending and supplementing the Act on the Special Levy of Financial Institutions was adopted with effect from 1 September 2012. The amendment primarily regulates the base for levy calculation, where the amount of deposits protected by the Deposit Protection Fund does not decrease the base for levy calculation, and stipulates the conditions under which the rate for the levy calculation is decreased.

Average recalculated figures derived from data as at the last date of a calendar month of the preceding calendar quarter are used to determine the base for calculating the levy for the relevant calendar quarter. The levy is paid in quarterly instalments at the beginning of the relevant quarter.

The Ministry of Finance of the Slovak Republic published in the Collection of Laws Decree No. 253 dated 10 September 2014 on the meeting of the condition for the rate of a special levy for certain financial institutions under Article 8 (5) of Act 384/2011 Coll., in which the Ministry declares the meeting of the condition under Article 8 (1) of Act 384/2011 Coll. with effect from 25 September 2014. The Bank had no obligation for the special levy for 4Q 2014. The rate for calculating the special levy for selected financial institutions was reduced from 0.4% to 0.2% for 2015.

On 12 October 2016, the Ministry of Finance of the Slovak Republic published in the Collection of Laws Act No. 281/2016 Coll. amending Act No. 384/2011 Coll. on the Special Levy of Selected Financial Institutions. It repealed the Decree of the Ministry of Finance of the Slovak Republic No. 253/2014 Coll. on meeting the condition for the rate of a special levy for certain financial institutions under Article 8 and added a new Article 11, which stipulates the rate of the levy for 2017 to 2020 in the amount of 0.2% p.a.

The rate for calculating the special levy for selected financial institutions remained in the amount of 0.2%.

On 1 January 2015, Act No. 371/2014 on the resolution of crisis situations on the financial market became effective and introduced an obligation to banks to pay a contribution to the resolution fund. The resolution fund is financed from financial contributions made by financial institutions, ie banks and selected security dealers. The financial funds of the national fund are deposited in a separate account held with the National Bank of Slovakia. The administration of such funds is provided by the Deposit Protection Fund. The resolution fund may be used under strictly defined conditions for the resolution of crisis situations.

The Bank recognises the levies as incurred in the statement of comprehensive income line *"General administrative expenses" (Note 28)*.

***Derivative Financial Instruments***

In the ordinary course of business, the Bank is a party to contracts for derivative financial instruments, which represent a low initial value investment compared to the notional value of the contract. Generally, derivative financial instruments include currency forwards and currency swaps. The Bank mainly uses these financial instruments for business purposes and to hedge its currency exposures associated with transactions in financial markets.

Derivative financial instruments are initially recognised at acquisition cost, which includes transaction expenses and which is subsequently again re-measured to fair value. Their fair values are determined using valuation techniques by discounting future cash flows by a rate derived from the market yield curve and foreign currency translations using the ECB rates valid on the calculation day.

Changes in the fair value of derivative financial instruments that are not defined as hedging derivatives are recognised in the statement of comprehensive income line *"Gains/(losses) on financial transactions, net".* Derivatives with positive fair values are recognised as assets in the in the statement of financial position line "*Financial assets at fair value through profit or loss".* Derivatives with negative fair values are recognised as liabilities in the statement of financial position line *"Other liabilities".*

Transactions with derivative financial instruments, although providing the Bank with an effective economic hedging in risk management, do not qualify for the recognition of hedging derivatives under specific rules of IAS 39, and therefore, they are recognised in the accounting books as derivative financial instruments held for trading, and gains and losses from the fair value are recognised as *"Gains/(losses) on financial transactions, net".*

***Liabilities from Issued Debt Securities***

Liabilities from issued debt securities are recognised at amortised cost. The Bank mainly issues bank bonds and mortgage bonds. Interest expense is included in the statement of comprehensive income line "*Interest expense"*, and it is accrued using the effective interest rate method.

***Subordinated Debts***

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

***Provision for Off-Balance Sheet Liabilities***

In the ordinary course of business, off-balance sheet liabilities, such as guarantees, financial commitments to grant a loan and a letter of credit are recorded by the Bank. Provisions for expected losses from off-balance sheet contingent liabilities are recognised in such amounts that enable the covering of possible future losses. The management determines the adequacy of the provisions based on the reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of products, and other pertinent factors.

To cover estimated losses on contingent unused loans, guarantees and letters of credit, the Bank creates provisions in the case when a payable - as a result of past events - has to be settled and it is likely that such settlement of a payable will require a cash outflow and the amount payable can be reliably determined. The calculation of the provisions for off-balance sheet liabilities is analogical to credit exposures. Issued guarantees, irrevocable letters of credit, and unused loan commitments are subject to similar monitoring of credit risks and credit principles, as in the case of extended loans.

Provisions for estimated losses are recognised through the profit or loss when the Bank has a present legal or implied obligation to make a payment as a result of a past event, when it is probable that an outflow of sources representing economic benefits will be required, and when a reliable estimate of the amount to be paid can be reliably determined.

Provisions are recognised in the statement of financial position line "*Provisions for liabilities*". Expenses for the recorded provision are recognised in the statement of comprehensive income as "*Provisions for impairment losses on loans and off-balance sheet, net*".

***Provision for Liabilities and Employee Benefits***

The amount of provisions for liabilities is recognised as an expense and a liability when the Bank is exposed to potential liabilities from litigation or indirect liabilities as a result of past events, and when it is probable that to settle such liabilities a cash outflow will be required, which will result in the reduction of resources embodying the economic benefits and a reasonable estimate of the amount of the resulting loss can be made. Any amount related to the recognition of the provision for liabilities is recognised in the profit or loss for the period.

In line with the valid legislation, the Bank provides a lump-sum payment upon retirement. The recorded provision represents a liability to an employee that is calculated using the set actuarial methods; the calculation is based on discounted future expenditures. As at the reporting date, the liability is measured at the present value.

The provision is recognised in the statement of financial position line "*Provisions for liabilities*". Expenses for the recorded provision are recognised through the statement of comprehensive income line *"General administrative expenses"*.

Representatives of the Bank's statutory body and selected employees receive remuneration for rendered services in a form of a cash-settled payment and an equity-settled financial instrument in the form of parent company's shares. The remuneration is paid based on the compensation policy of the OTP Group. In the case of a cash-settled remuneration, the payment is recognised in the statement of comprehensive income in *"General administrative expenses"* with the counter entry in *"Other liabilities"* in the statement of financial position. A portion of the remuneration in the form of a financial instrument being the parent company's shares is recognised in the statement of comprehensive income in *"General administrative expenses"* with the corresponding entry in *"Reserve funds"* in the statement of financial position (see Note 32). The Bank recognises remuneration and share-based payments from the moment when the claim can be exercised.

The compensation policy within the OTP Group is consistent with the compensation policy and principles for risk management under Act No. 483/2001 Coll. on Banks, as amended.

***Bank's Regulatory Capital***

In the administration of its regulatory capital, the Bank aims to ensure business prudence and to maintain the Bank's regulatory capital continuously at least at the level required for Bank's own funds while taking into account the defined minimum requirement in respect of the system for the assessment of internal capital adequacy for the relevant year and the relevant amounts of capital buffer.

To accomplish this, when preparing the yearly business plan the Bank also prepares a plan of adequacy of regulatory capital considering its business objectives and applying the knowledge gained from previous experience.

During the year, the Bank monitors the development of requirements for regulatory capital on a monthly basis for internal purposes and prepares reports on regulatory capital and on the requirements for the Bank's regulatory capital, which are submitted to the National Bank of Slovakia, on a quarterly basis. The achieved results are also discussed at the Board of Directors and Supervisory Board meetings on a quarterly basis.

The Bank's regulatory capital is defined by Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. The Bank's regulatory capital comprises the sum of its TIER 1 capital (regulatory and supplementary) and TIER 2 capital.

***Segment Reporting***

When preparing segment reporting, the Bank uses its internal information, which is presented to the Bank's management on a regular basis. The breakdown by individual segment categories recognised in the notes is based on the principle applied for the classification of the Bank's customers as follows:

- Retail customers;
- Corporate customers;
- Treasury;
- Not specified.

The "retail customers" segment includes the following customers: individuals. The Bank provides to retail customers standard bank products, particularly: consumer loans, mortgage loans, general-purpose loans, deposit products. The most common deposit products offered are current accounts, term deposits, saving accounts, credit and payment cards. The core products of this segment included housing loans and consumer loans.

The "corporate customers" segment includes domestic and foreign companies and state-owned entities. This segment comprises the following subsegments: micro clients with sales of up to EUR 1 million, small and medium-sized enterprises (SMEs) with sales of up to EUR 17 million and large clients and project financing with sales of over EUR 17 million. In terms of products, corporate customers were mostly provided with the following products: overdraft otp MICROloans facilities, otp EU MICROloans (with EIF guarantee), otp refinancing MICROloans, overdraft facilities, EU AGROloans, investment loans including project financing loans from EU funds, and loans for the reconstruction of residential buildings for the apartment owners associations and apartment owners represented by management companies/housing cooperatives.

The "Treasury" segment includes transactions performed on the Bank's own account or on the client's account and comprises the following types of transaction: trading with securities, trading with derivative instruments, trading on money and foreign currency markets, and management of the Bank's liquidity and foreign exchange position.

Geographically, operating profit was primarily generated by the provision of banking services in Slovakia. Some assets and liabilities are placed outside Slovakia.

The breakdown of selected items of the financial statements by segments, the summary of the most significant exposures of total assets and liabilities to foreign entities and information on the amount of total revenues from foreign entities is included in Note 31.

***Statement of Cash Flows***

Cash and cash equivalents for the purposes of cash flow presentation include cash, amounts due from banks and balances with the National Bank of Slovakia, excluding the compulsory minimum reserve required by the NBS and amounts due to banks due up to three months.

## 3. Fair Value of the Bank's Financial Assets and Liabilities

The fair value of the Bank's financial assets and liabilities is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other valuation models as appropriate. Market inputs are used in valuation models to the maximum extent. Changes in underlying assumptions, including discount rates and estimated future cash flows or other factors, significantly impact the estimates. Therefore, the estimated fair market values may not be realised in the current sale of the financial instrument.

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

*Level 1*: quoted prices from active markets for identical assets or liabilities;

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

*Level 3*: input data for assets or liabilities, which cannot be derived from market data.

The following tables present an analysis of financial instruments that are measured after their initial recognition at fair value. Financial instruments are classified into three levels/categories based on the level of the fair value determination:

| **31 December 2017 (EUR '000)** | **Level 1** | **Level 2** | **Level 3** | **TOTAL** |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | - | 1 | - | **1** |
| *Derivative financial instruments for trading* | - | *1* | - | ***1*** |
| Available-for-sale financial assets | 8 721 | - | 1 243 | **9 964** |
| *Available-for-sale securities – bonds issued by foreign banks* | *8 721* | - | - | ***8 721*** |
| *Available-for-sale securities – shares* | - | - | *1 243* | ***1 243*** |
| **Liabilities** | | | | |
| Liabilities from derivative transactions | - | - | - | **-** |

| **31 December 2016 (EUR '000)** | **Level 1** | **Level 2** | **Level 3** | **TOTAL** |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | - | 6 | - | **6** |
| *Derivative financial instruments for trading* | - | *6* | - | ***6*** |
| Available-for-sale financial assets | 8 353 | - | 972 | **9 325** |
| *Available-for-sale securities – bonds issued by foreign banks* | *8 353* | - | - | ***8 353*** |
| *Available-for-sale securities – shares* | - | - | *972* | ***972*** |
| **Liabilities** | | | | |
| Liabilities from derivative transactions | - | 1 | - | **1** |

The following tables present the fair value hierarchy for financial instruments measured in assets and liabilities at amortised cost (the values below represent amortised cost):

| **31 December 2017 (EUR '000)** | **Level 1** | **Level 2** | **Level 3** | **TOTAL** |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and receivables | - | - | 1 142 231 | **1 142 231** |
| Held-to-maturity financial investments | 83 874 | - | - | **83 874** |
| **Liabilities** | | | | |
| Amounts due to customers | - | - | 1 109 679 | **1 109 679** |
| Liabilities from issued securities | - | 167 745 | - | **167 745** |
| Subordinated debt | - | 20 008 | - | **20 008** |

| 31 December 2016 (EUR '000) | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and receivables | - | - | 1 146 135 | **1 146 135** |
| Held-to-maturity financial investments | 84 107 | - | - | **84 107** |
| **Liabilities** | | | | |
| Amounts due to customers | - | - | 1 181 491 | **1 181 491** |
| Liabilities from issued securities | - | 116 309 | - | **116 309** |
| Subordinated debt | - | 20 008 | - | **20 008** |

The fair value of term deposits with a fixed interest rate is estimated by discounting their future cash flows, while current interest rates offered by the Bank for customers' term deposits are used for discounting.

When estimating the fair value of its financial instruments, the Bank used the following methods and assumptions:

***Cash, Amounts due from Banks, and Balances with the National Bank of Slovakia and Placements with Other Banks***

The net book values of cash and balances with central banks are generally deemed to approximate their fair value.

The estimated fair value of amounts due from banks that mature in 365 days or less approximates their net book values. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk).

***Loans and Receivables***

Generally, the fair value of variable yield loans that are regularly re-valued approximates their net book values with no significant changes in credit risks. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit risks. The fair value of non-performing loans to customers is decreased on a pro-rata basis using a percentage of the impairment.

***Held-to-Maturity Financial Investments***

The fair value of securities recorded in the held-to-maturity portfolio was determined based on quoted prices on active markets, if available, and using valuation techniques when applying market input factors. In government and banking bonds, whose issuers have rating comparable with the country rating, the fair value is calculated using the market yield curve without credit margin. For other types of securities the credit margin reflecting the issuer's credit risk is applied in addition to the market yield curve.

***Amounts due to Banks and Deposits from the National Bank of Slovakia and Other Banks and Amounts due to Customers***

The estimated fair value of amounts due to banks with maturity within 365 days approximates their net book values. The fair value of term deposits payable on demand represents the net book value of amounts payable on demand as at the statement of financial position date. The fair value of term deposits at variable interest rates approximates their net book values. The fair value of term deposits with a fixed interest rate is estimated by their discounted future cash flows using current interest rates offered by the Bank for customers' term deposits with various maturity periods – Level 3 of the fair value estimate.

***Liabilities from Issued Debt Securities and Subordinated Debt***

The fair value of issued debt securities and subordinated debt is determined using valuation techniques by discounting future cash flows by a rate derived from the market yield curve by level 2 of the fair value estimate. Fair value is determined separately for individual issues of securities considering the relevant credit margin.

The following table presents a comparison of the estimated fair value and carrying amount of the selected financial assets and liabilities where the difference between such values is material:

| (EUR '000) | Fair Value 31 Dec 2017 | Net Book Value 31 Dec 2017 | Difference 31 Dec 2017 |
|---|---|---|---|
| **Assets** | | | |
| Loans and receivables | 1 150 002 | 1 142 231 | 7 771 |
| Held-to-maturity financial investments | 95 310 | 83 874 | 11 436 |
| **Liabilities** | | | |
| Amounts due to customers | 1 110 095 | 1 109 679 | 416 |
| Liabilities from issued debt securities | 167 954 | 167 745 | 209 |

| (EUR '000) | Fair Value 31 Dec 2016 | Net Book Value 31 Dec 2016 | Difference 31 Dec 2016 |
|---|---|---|---|
| **Assets** | | | |
| Loans and receivables | 1 166 494 | 1 146 135 | 20 359 |
| Held-to-maturity financial investments | 96 972 | 84 107 | 12 865 |
| **Liabilities** | | | |
| Amounts due to customers | 1 183 014 | 1 181 491 | 1 523 |
| Liabilities from issued debt securities | 116 206 | 116 309 | (103) |

## Supplementary Data to the Financial Statements

### 4. Cash, Due from Banks and Balances with the National Bank of Slovakia

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Cash on hand: | | |
| In EUR | 30 923 | 26 856 |
| In foreign currency | 4 320 | 2 478 |
| | **35 243** | **29 334** |
| Due from banks and balances with NBS: | | |
| Residual maturity within one year: | | |
| In EUR | 135 854 | 147 965 |
| In foreign currency | 10 236 | 2 364 |
| | **146 090** | **150 329** |
| **Total** | **181 333** | **179 663** |

Included in the 'Due from banks and balances with NBS' denominated in EUR is the compulsory minimum reserve with the NBS in the amount of EUR 12 732 thousand (31 December 2016: EUR 7 272 thousand), the withdrawal of which is restricted.

The average amount of the Bank's compulsory minimum reserves during the period bears an average threshold interest rate of the Eurosystem main refinancing operation. Excess monetary reserves bear no interest. As at 31 December 2017, compulsory minimum reserves bear interest at 0.00% (31 December 2016: 0.00%).

As at 31 December 2017, the Bank recognised term deposits with the NBS in the amount of EUR 121 996 thousand (31 December 2016: EUR 139 997 thousand).

### 5. Placements with Other Banks, Net of Provisions for Possible Placement Losses

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Residual maturity within one year: | | |
| In EUR | 9 | 2 |
| In foreign currency | - | - |
| **Total** | **9** | **2** |

Interest on deposits with other banks, loans to other banks:

| | 31 Dec 2017 in % | | 31 Dec 2016 in % | |
|---|---|---|---|---|
| | From | Until | From | Until |
| Contractual maturity within one year: | | | | |
| In EUR | 0.00 | 0.00 | 0.00 | 0.00 |
| In foreign currency | - | - | - | - |

As at 31 December 2017, the Bank had no short-term deposits denominated in a foreign currency (31 December 2016: EUR 0).

During 2017, the Bank entered into reverse REPO transactions with OTP Bank Nyrt. The Bank did not recognise an open reverse REPO transaction as at 31 December 2017 (31 December 2016: EUR 0). Income from these transactions is recognised in the statement of comprehensive income as "*Interest income*".

## 6. Financial Assets at Fair Value through Profit or Loss

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Derivative financial instruments held for trading (Note 22) | 1 | 6 |
| **Total financial instruments held for trading** | **1** | **6** |

As at 31 December 2016, the held-for-trading securities portfolio included ordinary shares of businesses which are in the bankruptcy proceedings.

Derivative financial instruments held for trading do not comprise hedging derivatives; they are held to earn profit. They include forward currency swaps.

As at 31 December 2017, the Bank recognised a net gain/loss on financial assets at FVTPL from derivative transactions (Note 26) in the amount of EUR –483 thousand (31 December 2016: EUR -1 308 thousand).

## 7. Available-for-sale financial assets

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Available-for-sale securities – bonds issued by foreign banks | 8 721 | 8 353 |
| Available-for-sale securities – shares of foreign entities | 1 243 | 972 |
| Investments in corporate entities | 6 | 6 |
| **Total available-for-sale financial instruments** | **9 970** | **9 331** |

The structure as per interest rates and residual maturities (except for investments in corporations) is provided below:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| No maturity, variable interest * | 8 721 | 8 353 |
| No maturity, interest-free | 1 243 | 972 |
| **Total** | **9 964** | **9 325** |

All bonds are denominated in EUR bearing interest at 2.672% as at 31 December 2017 (31 December 2016 at 2.687%).

As at 31 December 2017, the Bank recognised no pledged securities as part of available-for-sale financial assets (31 December 2016: EUR 0).

**In 3Q 2013, the Bank purchased for the available-for-sale financial assets portfolio subordinated bonds issued by the parent company, OTP Nyrt. The proceeds from such bonds are recognised in the statement of comprehensive income as "Interest income".*

*Under the issue terms and conditions, the subordinated bond has no fixed maturity as regards the face value. The Bank's management expected that the bond was very likely to be repaid at face value in November 2016. In line with the issue terms and conditions, the issuer decided not to repay the bond on the referred date. Interest on the bond changed from fixed to variable. The issuer will again have an option to repay the bond in November 2018. Interest income arising from this bond is recognised using the effective interest rate method totalling EUR 244 thousand in 2017 (2016: EUR 1 348 thousand).*

As at 31 December 2017, the portfolio of available-for-sale debt securities was remeasured to fair value. A profit on revaluation for 2017 amounts to EUR 597 thousand (2016: a loss of EUR 1 058 thousand), net of deferred income tax (Note 30). The revaluation of the portfolio is recognised through equity as "*Revaluation reserve – available-for-sale financial assets".*

An analysis of investments in corporate entities as at 31 December 2017 and 31 December 2016:

| Company Name | Business Activity | Share | Cost | Provision | Net |
|---|---|---|---|---|---|
| S.W.I.F.T (Belgium) | International clearing | 0.005% | 6 | - | 6 |
| **Total (EUR '000)** | | | **6** | **-** | **6** |

In 4Q 2016, the Bank sold its ownership interests in OTP Buildings, s.r.o. and RVS, a.s. The proceeds from these transactions are recognised in the income statement as "*Gains/(losses) on financial assets, net*".

An analysis of movements in the provision for available-for-sale financial assets related to an equity share in corporate entities is as follows:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of reporting period | - | 353 |
| Decrease in provisions due to sale of equity shares | - | (353) |
| **Balance at the end of reporting period** | **-** | **-** |

The Bank is not an unlimited guarantee partner in any reporting entities.

## 8. Loans and Receivables, Net of Provisions for Possible Losses

### Loans and Receivables by Type of Product

| 31 Dec 2017 (EUR '000) | Carrying Amount Before Provisions | Specific Provision | Portfolio Provision | Carrying Amount After Provisions |
|---|---|---|---|---|
| **Non-retail loans** | **489 930** | **34 059** | **4 591** | **451 280** |
| Overdrafts and revolving loans | 70 944 | 5 031 | 538 | 65 375 |
| Investment, operation and other loans | 407 359 | 29 028 | 2 239 | 376 092 |
| Overdrafts on term deposit accounts | 2 959 | - | 1 776 | 1 183 |
| Factoring loans | 8 665 | - | 38 | 8 627 |
| Other | 3 | - | - | 3 |
| **Retail loans** | **738 329** | **5 459** | **41 919** | **690 951** |
| Mortgage loans | 23 180 | 961 | 1 024 | 21 195 |
| Consumer loans | 711 428 | 4 498 | 39 615 | 667 315 |
| Overdrafts on term deposit accounts | 3 272 | - | 1 165 | 2 107 |
| Other | 449 | - | 115 | 334 |
| **Total** | **1 228 259** | **39 518** | **46 510** | **1 142 231** |

| 31 Dec 2016 (EUR '000) | Carrying Amount Before Provisions | Specific Provision | Portfolio Provision | Carrying Amount After Provisions |
|---|---|---|---|---|
| **Non-retail loans** | **518 568** | **35 437** | **4 352** | **478 779** |
| Overdrafts and revolving loans | 74 119 | 7 537 | 727 | 65 855 |
| Investment, operation and other loans | 433 751 | 27 873 | 1 852 | 404 026 |
| Overdrafts on term deposit accounts | 3 140 | - | 1 751 | 1 389 |
| Factoring loans | 7 558 | 27 | 22 | 7 509 |
| Other | - | - | - | - |
| **Retail loans** | **706 900** | **3 984** | **35 560** | **667 356** |
| Mortgage loans | 30 701 | 919 | 1 518 | 28 264 |
| Consumer loans | 672 629 | 3 065 | 32 856 | 636 708 |
| Overdrafts on term deposit accounts | 3 185 | - | 1 094 | 2 091 |
| Other | 385 | - | 92 | 293 |
| **Total** | **1 225 468** | **39 421** | **39 912** | **1 146 135** |

### The Summary of Provisions for Possible Loan Losses

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of reporting period | 79 333 | 53 416 |
| Provisions for impairment losses on loans, net | 24 817 | 26 179 |
| Loan write-offs and assignments (Note 24) | (18 121) | (262) |
| Foreign exchange differences | (1) | - |
| **Balance at the end of reporting period** | **86 028** | **79 333** |

In 2017, the amount of provisions increased by EUR 6.69 million (in 2016, an increase by EUR 25.9 million). Provisions for retail loans increased by EUR 9 million (in 2016, an increase by EUR 15.7 million) and provisions for non-retail loans decreased by EUR 2.3 million (in 2016, an increase by EUR 10.2 million).

As regards retail loans, the increase in provisions was mainly caused by an increase in the volume of consumer loans to households, a change in input parameters and an increase in defaulted loans. By creating higher additional provisions, the Bank ensured sufficient coverage of identified and losses.

As regards non-retail loans, with effect from 2016 the Bank has applied a stricter assessment of its loan portfolio quality, while taking into consideration the plans and guidelines of its parent company concerning the setting up of the risk profile for the assets of the Banking Group as a whole at an acceptable level. In 2017, the Bank recorded a decrease in the delinquency portfolio, which was reflected in a lower need for provisions for assets.

### Interest on loans and receivables:

| | 31 Dec 2017 in % | | 31 Dec 2016 in % | |
|---|---|---|---|---|
| | From | Until | From | Until |
| Contractual maturity within one year: | | | | |
| In EUR | 0.40 | 16.76 | 1.40 | 20.50 |
| In foreign currency | 3.80 | 4.31 | 0.00 | 20.00 |
| Contractual maturity over one year: | | | | |
| In EUR | 0.30 | 30.70 | 0.04 | 30.90 |
| In foreign currency | 1.60 | 1.60 | 2.29 | 2.29 |

### Other Information on Loans and Receivables

Loans with non-accrual status as at 31 December 2017 amounted to EUR 8 166 thousand, net of provisions for potential loan losses (31 December 2016: EUR 10 984 thousand). The Bank has stopped charging interest on these loans as bankruptcy was declared on the debtor or due to the Bank's withdrawal from the loan contract following the client's failure to meet contractual conditions.

For loans in bankruptcy and restructuring proceedings (under the Act on Bankruptcy and Restructuring) for 2017, the Bank records interest income that was not recognised in the statement of comprehensive income (Note 2) in the amount of EUR 38 thousand (2016: EUR 98 thousand).

Interest income of the Bank for 2017 from loans impaired as at 31 December 2017 amounted to EUR 4 998 thousand and are recognised in the income statement in *"Interest income"* (31 December 2016: EUR 4 654 thousand). The receivables from interest income are combined with related loan balances when determining impairment provision.

As at 31 December 2017, loans denominated in a foreign currency accounted for approximately 0.02% of the loan portfolio before provisions for potential loan losses (31 December 2016: 0.03%).

## 9. Held-to-Maturity Financial Investments

As at 31 December 2017 and 31 December 2016, the Bank recognised the following held-to-maturity investments:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Government bonds | 73 314 | 73 482 |
| Foreign government bonds | 10 560 | 10 625 |
| **Total held-to-maturity securities** | **83 874** | **84 107** |

All held-to-maturity securities are denominated in euros.

In 2016, the Bank purchased government bonds of other EU Member States with a face value of EUR 10 000 thousand for its held-to-maturity securities portfolio.

Interest on held-to-maturity investments:

| | 31 Dec 2017 in % | | 31 Dec 2016 in % | |
|---|---|---|---|---|
| | From | Until | From | Until |
| Contractual maturity within one year: | | | | |
| In EUR | - | - | - | - |
| Contractual maturity over one year: | | | | |
| In EUR | 2.95 | 3.00 | 2.95 | 3.00 |

As at 31 December 2017 and 31 December 2016, the Bank did not record any pledged securities or other restrictions on the disposal of securities in its portfolio within held-to-maturity investments.

## 10. Investments in Subsidiaries

As at 31 December 2017 and 31 December 2016, the Bank recognised no investments in subsidiaries.

In 2010, as part of the strategic decisions made at the OTP Group level, a decision was adopted to terminate OTP Faktoring Slovensko, a.s.'s activities. On 1 April 2011, OTP Faktoring Slovensko, a.s. entered into liquidation and also its business name was changed from the original "OTP Faktoring Slovensko, a.s." to "Faktoring SK, a.s. v likvidácii". The company's liquidation was completed on 15 December 2015. In 2015, the Bank created additional provisions in the amount of EUR 58 thousand to cover an expected loss from the liquidation. The company's General Meeting was held in 2Q 2016 at which the liquidation conclusions were confirmed and a decision on the distribution of the liquidation balance was approved. In connection with the settlement of the liquidation balance of EUR 93 thousand, the Bank derecognised the investment in the subsidiary and reversed the created provisions.

A summary of changes in provisions for investments in subsidiaries:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of the reporting period | - | 1 109 |
| Decrease in provisions due to liquidation of a subsidiary | - | (1 109) |
| **Balance at the end of the reporting period** | **-** | **-** |

## 11. Non-Current Tangible and Intangible Assets

| Movements of Assets (EUR '000) | Buildings and Land | Fittings and Fixtures | Motor Vehicles | Tangible Assets in Acquisition | Intangible Assets | Intangible Assets in Acquisition | Total |
|---|---|---|---|---|---|---|---|
| Cost at 1 Jan 2016 | 27 309 | 23 823 | 1 006 | 860 | 28 912 | 716 | 82 626 |
| Additions (+) | 990 | 1 597 | 32 | 2 629 | 1 772 | 1 809 | 8 829 |
| Disposals (-) | (547) | (1 538) | (142) | (2 628) | - | (1 771) | (6 626) |
| **Cost at 31 Dec 2016** | **27 752** | **23 882** | **896** | **861** | **30 684** | **754** | **84 829** |
| Accumulated depreciation and provisions at 1 Jan 2016 | 11 916 | 18 477 | 788 | - | 22 840 | - | 54 021 |
| Depreciation (+) | 1 053 | 1 407 | 124 | - | 2 119 | - | 4 703 |
| Disposal (-) | (476) | (1 536) | (142) | - | - | - | (2 154) |
| **Accumulated depreciation and provisions at 31 Dec 2016** | **12 493** | **18 348** | **770** | **-** | **24 959** | **-** | **56 570** |
| **Net book value at 31 Dec 2016** | **15 259** | **5 534** | **126** | **861** | **5 725** | **754** | **28 259** |
| Cost at 1 Jan 2017 | 27 752 | 23 882 | 896 | 861 | 30 684 | 754 | 84 829 |
| Additions (+) | 482 | 1 114 | 206 | 1 704 | 2 398 | 3 115 | 9 019 |
| Disposals (-) | (674) | (3 210) | (125) | (1 769) | (2 336) | (2 433) | (10 547) |
| **Cost at 31 Dec 2017** | **27 560** | **21 786** | **977** | **796** | **30 746** | **1 436** | **83 301** |
| Accumulated depreciation and provisions at 1 Jan 2017 | 12 493 | 18 348 | 770 | - | 24 959 | - | 56 570 |
| Depreciation (+) | 1 024 | 1 443 | 82 | - | 1 260 | - | 3 809 |
| Disposal (-) | (480) | (3 197) | (125) | - | (2 336) | - | (6 138) |
| **Accumulated depreciation and provisions at 31 Dec 2017** | **13 037** | **16 594** | **727** | **-** | **23 883** | **-** | **54 241** |
| **Net book value at 31 Dec 2017** | **14 523** | **5 192** | **250** | **796** | **6 863** | **1 436** | **29 060** |

A summary of insurance of non-current tangible and intangible assets as at 31 December 2017:

| (EUR '000) | Anticipated Annual Premium | Actual Insurance Costs |
|---|---|---|
| MTPL insurance | 4 | 4 |
| Motor hull insurance | 25 | 23 |
| Insurance of assets | 37 | 34 |
| **Total** | **66** | **61** |

Costs of insurance coverage are recognised in the statement of comprehensive income line *"General administrative expenses"*.

As at 31 December 2017, the Bank's non-current tangible and intangible assets were insured up to 100% of the total amount of assets (31 December 2016: 100%).

As at 31 December 2017, the Bank does not record as part of its non-current tangible and intangible assets the following:

- Assets encumbered by a pledge;
- Assets with a limited right of disposal;
- Acquired assets for which the ownership title was not recorded in the Land Register as at the reporting date, but which is used by the Bank; and
- Assets acquired in privatisation.

## 12. Other Assets

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Loss receivables (non-credit) from various debtors | 2 645 | 2 639 |
| Loss receivables from securities | 6 104 | 6 104 |
| Amounts due from assigned receivables | 43 | - |
| Operating advances made | 186 | 180 |
| Inventories | 80 | 124 |
| Deferred expenses | 755 | 751 |
| Accrued income | 94 | 88 |
| Receivables from various debtors | 482 | 389 |
| Receivables from shortages and damage | 118 | 149 |
| Other receivables from clients | 2 124 | 1 160 |
| Other receivables | 415 | 479 |
| **Other assets before provisions** | **13 046** | **12 063** |
| Provisions for possible losses from other assets | (8 894) | (8 920) |
| **Total other assets** | **4 152** | **3 143** |

Provisions for possible losses from other assets mainly relate to the loss receivables from various debtors and loss receivables from securities.

An analysis of movements in provisions for possible losses from other assets is as follows:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of reporting period | 8 920 | 8 893 |
| Provisions for impairment losses on other assets, net (Note 29) | (28) | 26 |
| Other assets written-off and assigned (Note 29) | 1 | - |
| FX difference | 1 | 1 |
| **Balance at the end of reporting period** | **8 894** | **8 920** |

As at 31 December 2017 and 31 December 2016, the Bank does not recognise as part of other assets any amounts to which a pledge is attached or for which it has a limited right of disposal.

The Bank does not recognise any subordinated financial assets as part of other assets.

## 13. Due to Banks and Deposits from the National Bank of Slovakia and Other Banks

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Residual maturity within one year: | | |
| In EUR | 1 535 | 929 |
| In foreign currency | 262 | 215 |
| Residual maturity of over one year: | | |
| In EUR | 8 571 | 2 000 |
| **Total** | **10 368** | **3 144** |

Amounts due to banks by type of product:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Deposits | 4 | 206 |
| Term accounts of other banks | 266 | 218 |
| Loans received from other financial institutions* | 10 007 | 2 001 |
| Other liabilities to financial institutions | 91 | 719 |
| **Total** | **10 368** | **3 144** |

**In 2016, the Bank participated in a sustainable energy project financing programme in cooperation with the European Bank for Reconstruction and Development. At the end of 2017, the Bank recorded funds of EUR 10 000 thousand (31 December 2016: EUR 2 000 thousand).*

An analysis of received loans by individual types of banks (all loans are denominated in EUR, unless stated otherwise):

| (EUR '000) | Type of Loan According to Maturity | Contractual Maturity as at 31 Dec 2017 | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|---|
| Loans received from banks: | | | | |
| European Bank for Reconstruction and Development | Long-term | 25 Oct 2021 | 10 007 | 2 001 |
| **Total** | | | **10 007** | **2 001** |

Of the total amounts due to banks as at 31 December 2017 and 31 December 2016, the Bank does not recognise any overdue payables.

Interest on amounts due to banks:

| | 31 Dec 2017 in % | | 31 Dec 2016 in % | |
|---|---|---|---|---|
| | From | Until | From | Until |
| Contractual maturity within one year: | | | | |
| In EUR | - | - | - | - |
| In foreign currency | (0.20) | 1.90 | (0.05) | 1.90 |
| Contractual maturity of over one year: | | | | |
| In EUR | 0.55 | 0.55 | 0.47 | 0.47 |

## 14. Amounts due to Customers

Amounts due to customers by type:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current accounts and other short-term amounts due to customers | 701 017 | 654 569 |
| Term deposits | 346 641 | 466 458 |
| Pass books | 17 925 | 17 932 |
| Received loans | 7 371 | 9 200 |
| Municipality accounts and local governments | 36 363 | 33 052 |
| Other liabilities | 362 | 280 |
| **Total** | **1 109 679** | **1 181 491** |

In 2014, the Bank participated in the financing programme for SME clients in co-operation with the Slovenský záručný a rozvojový fond. At the end of 2017, the Bank recorded funds amounting to EUR 7 371 thousand (2016: EUR 9 200 thousand).

Amounts due to customers by sector:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Non-financial organisations | 289 452 | 288 154 |
| Individuals | 643 332 | 701 932 |
| Financial institutions | 8 624 | 7 582 |
| Trade licence holders | 18 246 | 20 023 |
| Insurance companies | 6 772 | 5 245 |
| Non-profit organisations | 38 394 | 39 124 |
| Non-residents | 68 496 | 86 379 |
| Government sector | 36 363 | 33 052 |
| **Total** | **1 109 679** | **1 181 491** |

Amounts due to customers by residual maturity:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Residual maturity within one year: | | |
| In EUR | 1 021 511 | 1 071 715 |
| In foreign currency | 24 097 | 27 148 |
| Residual maturity over one year: | | |
| In EUR | 64 066 | 82 618 |
| In foreign currency | 5 | 10 |
| **Total** | **1 109 679** | **1 181 491** |

Interest on amounts due to customers:

| | 31 Dec 2017 in % | | 31 Dec 2016 in % | |
|---|---|---|---|---|
| | From | Until | From | Until |
| Contractual maturity within one year: | | | | |
| In EUR | 0.01 | 1.00 | 0.01 | 1.00 |
| In foreign currency | 0.00 | 0.90 | 0.01 | 1.00 |
| Contractual maturity over one year: | | | | |
| In EUR | 0.15 | 12.00 | 0.01 | 12.00 |
| In foreign currency | 0.00 | 0.00 | 0.00 | 0.00 |

As part of its liquidity risk management efforts, the Bank regularly monitors deposit exposures and adjusts the structure of its assets to ensure its sufficient liquidity (in the form of highly-liquid assets) in the event that it may need to pay out cash deposits or grant loans.

As at 31 December 2017, the total of primary deposits of depositors with deposits exceeding EUR 3 320 thousand represented 10.61% of the Bank's funds (31 December 2016: 11.52%).

## 15. Liabilities from Issued Debt Securities

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Residual maturity within one year: | | |
| Liabilities from financial bills of exchange | 653 | 1 150 |
| Liabilities from mortgage bonds | 16 999 | 20 010 |
| Liabilities from issued bonds | 105 093 | 50 149 |
| Residual maturity over one year: | | |
| Liabilities from issued bonds | 45 000 | 45 000 |
| **Total** | **167 745** | **116 309** |

Interest on liabilities from issued debt securities:

| | 31 Dec 2017 in % | | 31 Dec 2016 in % | |
|---|---|---|---|---|
| | From | Until | From | Until |
| Contractual maturity within one year: | | | | |
| In EUR | (0.15) | 0.50 | (0.11) | 1.00 |
| In foreign currency | - | - | - | - |
| Contractual maturity over one year: | | | | |
| In EUR | 0.49 | 0.49 | 0.49 | 0.49 |
| In foreign currency | - | - | - | - |

In 2017, the Bank issued short-term bonds with a total face value of EUR 105 000 thousand and Mortgage Bonds, with a total face value of EUR 17 000 thousand.

In 2017, the Bank repaid Mortgage Bonds with a total face value of EUR 20 010 thousand and short-term bonds with a total face value of EUR 50 000 thousand.

In 2016, the Bank issued short-term bonds with a total face value of EUR 50 000 thousand and long-term bonds with a total face value of EUR 45 000 thousand and issued Mortgage Bonds with a total face value of EUR 20 000 thousand.

In 2016, the Bank repaid Mortgage Bonds with a total face value of EUR 30 952 thousand.

Summary of mortgage bonds as at 31 December 2017 and 31 December 2016:

| Mortgage Bonds Issued | Currency | Quantity | Face Value per Share in EUR | Face Value of Issue | Net Book Value 31 Dec 2017 | Net Book Value 31 Dec 2016 | Interest Income (coupon) | Frequency of Coupon Payout | Issue Date | Due Date |
|---|---|---|---|---|---|---|---|---|---|---|
| Mortgage bonds Issue XXV | EUR | 7 962 | 1 000.00 | 7 962 | - | 10 | 4.00% | Annual | 28 Sep 2012 | 28 Sep 2016 |
| Mortgage bonds Issue XXVIII | EUR | 50 | 100 000.00 | 5 000 | - | 5 000 | 3M EURIBOR + 0.39% p.a. | Quarterly | 30 Mar 2016 | 29 Mar 2017 |
| Mortgage bonds Issue XXIX | EUR | 10 | 100 000.00 | 1 000 | - | 1 000 | 3M EURIBOR + 0.35% p.a. | Quarterly | 28 Sep 2016 | 27 Sep 2017 |
| Mortgage bonds Issue XXX | EUR | 140 | 100 000.00 | 14 000 | - | 14 000 | 3M EURIBOR + 0.21% p.a. | Quarterly | 16 Dec 2016 | 15 Dec 2017 |
| Mortgage bonds Issue XXXI | EUR | 80 | 100 000.00 | 8 000 | 8 000 | - | 3M EURIBOR + 0.21% p.a. | Quarterly | 29 Mar 2017 | 28 Mar 2018 |
| Mortgage bonds Issue XXXII | EUR | 90 | 100 000.00 | 9 000 | 8 999 | - | 3M EURIBOR + 0.18% p.a. | Quarterly | 15 Dec 2017 | 14 Dec 2018 |
| **Total** | | | | | **16 999** | **20 010** | | | | |

No mortgage bonds of the Bank were listed on the Bratislava Stock Exchange as at 31 December 2017 and 31 December 2016.

According to the Banking Act, the mortgage bonds issued must cover at least 90% of the outstanding amount of mortgage loans provided by the Bank. This threshold was reduced to 70% for the Bank for the period from 1 March 2017 until – 28 February 2019 under the decision of the NBS. As at 31 December 2017, the Bank's coverage was 76.34% (31 December 2016: 74.79%).

## 16. Other Liabilities

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Various creditors | 2 086 | 1 927 |
| Tax liabilities (except for income tax liabilities) | 284 | 627 |
| Provisions for unbilled and other liabilities | 726 | 770 |
| Social fund | 112 | 89 |
| Settlement with employees | 1 178 | 1 431 |
| Settlement with social institutions | 280 | 360 |
| Negative fair value of financial derivatives (Note 22) | - | 1 |
| Liabilities from payment transactions | 13 312 | 14 201 |
| Other liabilities | 3 019 | 3 139 |
| **Total** | **20 997** | **22 545** |

Summary of changes in the social fund:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of reporting period | 89 | 67 |
| Additions during the reporting period | 192 | 189 |
| Drawings during the reporting period | (169) | (167) |
| **Balance at the end of reporting period** | **112** | **89** |

## 17. Subordinated Debt

| Type of Loan | Curr. | Type of Loan by Maturity | Start of Loan Drawdown | Contractual Maturity | Interest Rate | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|---|---|---|---|
| Subordinated debt: | | | | | | | |
| – OTP Financing Netherlands B.V. | EUR | Long-term | Sep 2014 | Sep 2021 | 3M EURIBOR + 3.41% p. a. | 18 008 | 18 008 |
| – OTP Financing Malta Company Ltd. | EUR | Long-term | Dec 2015 | Dec 2022 | 3M EURIBOR + 2.37% p. a. | 2 000 | 2 000 |
| **Total (EUR '000)** | | | | | | **20 008** | **20 008** |

Subordinated debt totalling EUR 20 million represents Tier 2 capital for the Bank in the amount of EUR 15.4 million pursuant to Regulation of the European Parliament and of the Council No. 575/2013 (Note 33).

OTP Financing Netherlands B.V. is a financial company, a member of the OTP Group, with its seat at Westblaak 89, 3012 KG Rotterdam, Netherlands. OTP Financing Malta Company Ltd. is a member of the OTP Group with seat at Level 2, Regional Business Centre, University Heights, MSD 1751, Msida, Malta.

The scope of business of the above companies primarily includes:

- Raising and provision of financial borrowings and loans, accession to a debt as a co-debtor;
- Provision of financial guarantees, provision of securities to third parties;
- Advisory and consulting activities;
- Investments of financial funds; and
- Lease, development, management, acquisition of movable and immovable assets.

## 18. Equity

The Bank's equity comprises:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Share capital | 111 580 | 88 539 |
| Reserve funds | 6 338 | 6 179 |
| Retained earnings | 13 487 | 16 508 |
| Revaluation of available-for-sale financial assets | 64 | (533) |
| Gain/(loss) for the reporting period | (5 930) | (3 021) |
| **Total equity** | **125 539** | **107 672** |

### *Share Capital*

The Bank's share capital as at 31 December 2017 is as follows:

| Face Amount | ISIN | Number of Shares | Face Value of Shares |
|---|---|---|---|
| ***Repaid and registered in the Commercial Register*** | | | |
| EUR 3.98 per share | SK1110001452 | 3 000 000 | 11 940 |
| EUR 3.98 per share | SK1110004613 | 8 503 458 | 33 843 |
| EUR 39 832.70 per share | SK1110003003 | 570 | 22 705 |
| EUR 1.00 per share | SK1110016559 | 10 019 496 | 10 020 |
| EUR 1.00 per share | SK1110017532 | 10 031 209 | 10 031 |
| EUR 1.00 per share | SK1110019850 | 23 041 402 | 23 041 |
| **Total share capital** | | | **111 580** |

The Bank's share capital increased by EUR 23 041 thousand in 2017 and has been fully paid. The increase in the share capital was effected by the repayment of subscribed shares by the shareholders.

The Bank's share capital as at 31 December 2016 was as follows:

| Face Amount | ISIN | Number of Shares | Face Value of Shares |
|---|---|---|---|
| ***Repaid and registered in the Commercial Register*** | | | |
| EUR 3.98 per share | SK1110001452 | 3 000 000 | 11 940 |
| EUR 3.98 per share | SK1110004613 | 8 503 458 | 33 843 |
| EUR 39 832.70 per share | SK1110003003 | 570 | 22 705 |
| EUR 1.00 per share | SK1110016559 | 10 019 496 | 10 020 |
| EUR 1.00 per share | SK1110017532 | 10 031 209 | 10 031 |
| **Total share capital** | | | **88 539** |

The type, form, nature and tradability of shares as at 31 December 2017 was as follows:

| Face Amount | ISIN | Type | Form | Nature | Tradability |
|---|---|---|---|---|---|
| EUR 3.98 per share | SK1110001452 | ordinary | registered | uncertified | publicly tradable |
| EUR 3.98 per share | SK1110004613 | ordinary | registered | uncertified | publicly tradable |
| EUR 39 832.70 per share | SK1110003003 | ordinary | registered | uncertified | publicly non-tradable |
| EUR 1.00 per share | SK1110016559 | ordinary | registered | uncertified | publicly tradable |
| EUR 1.00 per share | SK1110017532 | ordinary | registered | uncertified | publicly tradable |
| EUR 1.00 per share | SK1110019850 | ordinary | registered | uncertified | publicly non-tradable* |

** The Bank is obliged under the terms of issue to launch the issue to the securities market. As of the reporting date, this procedure was completed.*

The type, form, nature and tradability of shares as at 31 December 2016 was as follows:

| Face Amount | ISIN | Type | Form | Nature | Tradability |
|---|---|---|---|---|---|
| EUR 3.98 per share | SK1110001452 | ordinary | registered | uncertified | publicly tradable |
| EUR 3.98 per share | SK1110004613 | ordinary | registered | uncertified | publicly tradable |
| EUR 39 832.70 per share | SK1110003003 | ordinary | registered | uncertified | publicly non-tradable |
| EUR 1.00 per share | SK1110016559 | ordinary | registered | uncertified | publicly tradable |
| EUR 1.00 per share | SK1110017532 | ordinary | registered | uncertified | publicly tradable |

No special rights are attached to the shares. Voting rights per share are equivalent to the face value per share.

As at 31 December 2017, no shares of OTP Banka Slovensko, a.s. are held by the Bank and its subsidiaries.

### *Reserve Funds*

As at 31 December 2017, reserve funds in the amount of EUR 6 338 thousand (31 December 2016: EUR 6 179 thousand) comprise the legal reserve fund in the amount of EUR 5 034 thousand (31 December 2016: EUR 5 034 thousand) and other capital reserves in the amount of EUR 1 304 thousand (31 December 2016: EUR 1 145 thousand).

The legal reserve fund is intended to cover potential future losses; its distribution to shareholders is restricted in accordance with the Slovak Commercial Code.

### *Retained Earnings*

As at 31 December 2017, the Bank recognises in equity retained earnings in the amount of EUR 13 487 thousand (31 December 2016: EUR 16 508 thousand).

In line with the General Meeting's decision (Note 41), in 2Q 2017 the Bank settled a loss reported for 2016 by decreasing retained earnings by the amount of EUR 3 021 thousand.

### *Revaluation of Available-for-sale Financial Assets*

Available-for-sale financial assets are remeasured to fair value. Gains and losses on revaluation are recognised in equity as *"Revaluation of available-for-sale financial assets"*.

As at 31 December 2017, the Bank recognises in equity a profit on revaluation of available-for-sale financial assets, net of income tax, in the amount of EUR 64 thousand (31 December 2016: a loss of EUR 533 thousand).

## 19. Income Taxes

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current tax expense | 399 | 2 420 |
| Deferred tax (income)/expense | (258) | (2 985) |
| **Total** | **141** | **(565)** |

As at 31 December 2017, the Bank recognised income tax expense in the amount of EUR 141 thousand in the statement of comprehensive income (31 December 2016: tax revenue of EUR 565 thousand). The Bank recognised an increase in the deferred tax liability for 2017 in the amount of EUR 158 thousand in items recognised through equity (2016: decrease of EUR 927 thousand).

The Bank's tax on pre-tax profit differs from the theoretical tax which would arise if the income tax rate was applied as follows:

| (EUR '000) | 31 Dec 2017 | 31 Dec 20165 |
|---|---|---|
| **Pre-tax profit/(loss)** | **(5 789)** | **(3 586)** |
| Theoretical tax at 21% (2016: 22%) | (1 216) | (789) |
| Non-taxable income | (289) | (184) |
| Non-deductible expenses | 1 322 | 456 |
| Provisions for assets and provisions for liabilities, net | (108) | (2) |
| Adjustment of provisions for uncertain utilisation of deferred tax assets | 432 | (410) |
| Adjustment of the current tax for the previous year | - | 4 |
| Effect of a change in the corporate income tax rate | - | 360 |
| **Income tax expense/(revenue) for the current reporting period** | **141** | **(565)** |
| **Effective tax for the reporting period** | **(2.43)%** | **15.76%** |

For the reporting period, the Bank recorded a positive tax base of EUR 2 358 thousand (31 December 2016: a positive tax base of EUR 11 439 thousand).

## 20. Current and Deferred Income Tax

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current tax asset/(liability) | 1 904 | (596) |
| **Total current tax asset/(liability)** | **1 904** | **(596)** |

Deferred income taxes are recognised using the liability method on a balance sheet basis. The application of this method reports temporary differences, ie the differences between the tax base of assets or liabilities and their carrying amount in the statement of financial position. The effective 21% tax rate valid for the following reporting period was applied (2016: 21%):

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| **Deferred tax liability** | | |
| Difference between net book value and net tax value of tangible assets | (632) | (647) |
| Revaluation reserves on available-for-sale securities (recognised through equity) | (83) | (2) |
| **Total deferred tax liability** | **(715)** | **(649)** |
| **Deferred tax asset** | | |
| Loans (provisions for loan impairment losses) | 8 660 | 7 807 |
| Provisions for liabilities | 222 | 302 |
| Tax losses that can be carried forward | - | 96 |
| Revaluation reserves on available-for-sale securities (recognised through equity) | 66 | 144 |
| **Total deferred tax asset** | **8 948** | **8 349** |
| **Adjustment for uncertain utilisation of deferred tax asset** | **(3 200)** | **(2 767)** |
| **Net deferred tax asset/(liability)** | **5 033** | **4 933** |

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| **Net deferred tax asset/(liability) – opening balance at 1 Jan** | 4 933 | 1 021 |
| (Debited)/credited to profit/loss for the reporting period | 258 | 2 985 |
| (Debited)/credited to equity | (158) | 927 |
| **Net deferred tax asset/(liability) – closing balance** | **5 033** | **4 933** |

When recognising the deferred tax asset, the Bank followed the prudence principle. Based on the approved budget and effective tax legislation the Bank expects to recognise positive tax bases in the following years.

The Bank did not recognise a deferred tax asset of EUR 3 200 thousand (31 December 2016: EUR 2 767 thousand), associated with temporary differences resulting from provisions for loans and a portion of tax losses carried-forward, owing to its uncertain timing and utilisation in future reporting periods.

## 21. Provisions for Liabilities, Contingent Liabilities and Other Off-Balance Sheet Items

In the ordinary course of business, the Bank becomes party to various financial transactions that are not reflected in the statement of financial position but recognised in the off-balance sheet. These include liabilities resulting from provided guarantees, unused loan commitments and issued letters of credit. The following represent notional amounts of these off-balance sheet financial liabilities, unless stated otherwise.

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Unused loan commitments | 27 288 | 27 170 |
| Other guarantees provided to banks | 402 | 218 |
| Other guarantees provided to clients | 23 198 | 15 620 |
| Unused overdrafts and authorised overdraft facilities | 24 671 | 23 940 |
| Issued letters of credit | 150 | - |
| **Total** | **75 709** | **66 948** |

Loan commitments represent the unused part of permissions to provide financial funds as loans, guarantees, or letter of credits. The Bank faces potential losses related to credit risks resulting from loan commitments in the amount of unused loan commitments. The estimated amount of exposure is, however, lower than the total unused loan commitments, since the majority of such commitments are subject to loan covenants that clients are required to comply with.

To cover estimated losses on unused loans, guarantees, and letters of credit, the Bank creates provisions in the case when a payable - as a result of past events - has to be settled and it is likely that such settlement of a payable will require cash outflow, and the amount payable can be reliably estimated. The calculation of the provision for off-balance sheet liabilities is analogous to the case of credit exposure. Issued guarantees, irrevocable letters of credit, and unused loan commitments are subject to detailed monitoring of credit risks and loan principles, as in the case of loans extended.

Within its ordinary activities the Bank is party to court and other disputes and litigation. Each dispute is subject to monitoring and regular re-assessment as part of the Bank's standard procedures. If it is probable that the Bank will be required to settle the claim and a reliable estimate of the amount can be made, provisions are recorded.

The management of the Bank believes that obligations that could arise from these disputes and litigation would not significantly affect the current and future financial situation of the Bank. Considering the advice of lawyers and the status of individual cases, the Bank created provisions for these risks in the amount of EUR 2 946 thousand as at 31 December 2017 (31 December 2016: EUR 3 550 thousand).

The Bank recognised the following provisions:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Provisions for: | | |
| Unused loan commitments | 139 | 119 |
| Guarantees | 31 | 25 |
| Issued letters of credit | 1 | - |
| Litigations and other disputes | 2 946 | 3 550 |
| Retirement payments | 114 | 120 |
| **Total** | **3 231** | **3 814** |

The creation and release of provisions for off-balance sheet liabilities is recognised in the statement of comprehensive income line "*Provisions for impairment losses on loans and off-balance sheet, net*". The creation and release of a provision for retirement payments is recognised in the income statement's line "*General administrative expenses*". The creation and release of provisions for litigations and other disputes is recognised in the statement of comprehensive income line "*Other operating revenues/(expenses), net*".

An analysis of changes in provisions for guarantees and unused loan commitments:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of reporting period | 144 | 99 |
| Creation of provision | 532 | 403 |
| Release of provision | (505) | (358) |
| **Balance at the end of reporting period** | **171** | **144** |

An analysis of changes in the provision for litigations and other disputes:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of reporting period | 3 550 | 2 757 |
| Creation of provision | 80 | 813 |
| Use of provision | (658) | (13) |
| Release of provision | (26) | (7) |
| **Balance at the end of reporting period** | **2 946** | **3 550** |

In 2017, the provision was used to cover expenses resulting from resolved legal disputes.

An analysis of changes in the provision for retirement payments:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Balance at the beginning of reporting period | 120 | 107 |
| Creation of provision | 16 | 31 |
| Release of provision | (22) | (18) |
| **Balance at the end of reporting period** | **114** | **120** |

## 22. Derivative Financial Instruments

The tables below represent the financial derivative instruments at face and fair values as at 31 December 2017 and 31 December 2016:

| (EUR '000) | Face Value of Assets | | Face Value of Liabilities | |
|---|---|---|---|---|
| | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2017 | 31 Dec 2016 |
| **Currency instruments** | | | | |
| Currency swaps | 9 504 | 16 025 | - | 6 042 |
| **Total** | **9 504** | **16 025** | **-** | **6 042** |

| (EUR '000) | Positive Fair Value | | Negative Fair Value | |
|---|---|---|---|---|
| | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2017 | 31 Dec 2016 |
| **Currency instruments** | | | | |
| Currency swaps | 1 | 6 | - | 1 |
| **Total** | **1** | **6** | **-** | **1** |

Positive fair value is included in "*Financial assets at fair value through profit or loss*" and negative fair value is included in "*Other liabilities*". Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of comprehensive income line "*Gains/(losses) on financial transactions, net*".

## 23. Net Interest Income

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| Interest income: | | |
| Loans and other receivables | 44 732 | 50 964 |
| Placements with other banks | 216 | 1 280 |
| Financial assets for sale | 244 | 1 348 |
| Held-to-maturity financial investments | 2 180 | 2 073 |
| Total interest income | 47 372 | 55 665 |
| Interest expense: | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks and other payables | (47) | (4) |
| Amounts due to customers | (2 724) | (7 020) |
| Liabilities from issued debt securities | (121) | (510) |
| Subordinated debt | (604) | (624) |
| Total interest expense | (3 496) | (8 158) |
| **Net interest income** | **43 876** | **47 507** |

## 24. Provisions for impairment losses on loans and off-balance sheet, net

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| Creation of provisions for loan receivables | (43 881) | (42 521) |
| Release of provisions for loan receivables | 18 275 | 16 178 |
| Use of provisions for written-off and assigned loans | 18 910 | 426 |
| Loans written off and assigned (Note 8) | (18 121) | (262) |
| (Creation)/reversal of provisions for guarantees and unused loan commitments, net (Note 21) | (27) | (45) |
| **Provisions for impairment losses on loans and off-balance sheet, net** | **(24 844)** | **(26 224)** |

## 25. Net Fee and Commission Income

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| Fee and commission income: | | |
| Banks | 1 771 | 1 613 |
| Public administration | 228 | 240 |
| Individuals | 6 945 | 6 790 |
| Other sectors | 7 008 | 6 091 |
| Total fee and commission income | 15 952 | 14 734 |
| Fee and commission expense: | | |
| Banks | (1 352) | (1 487) |
| Individuals | (82) | (106) |
| Other sectors | (2 782) | (2 621) |
| Total fee and commission expense | (4 216) | (4 214) |
| **Net fee and commission income** | **11 736** | **10 520** |

## 26. Gains/(Losses) on Financial Transactions, Net

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| Gain/(loss) from foreign exchange transactions | 1 178 | 886 |
| Gain/(loss) from futures and forwards | (483) | (1 308) |
| **Net gains/(losses) on financial operations** | **695** | **(422)** |

In 2017 and 2016, the Bank carried out interrelated transactions within the Group, which are assessed as a whole. Such transactions include currency swaps concluded with the parent company and subsequent investing of available funds or through reverse repurchase transactions with the parent company (Note 5). The total profit/(loss) from such transactions is presented in the following table:

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| Loss on fixed futures and forwards | (489) | (1 327) |
| Interest income on reverse repurchase transactions | 183 | 1 118 |
| **Total** | **(306)** | **(209)** |

## 27. Gains/(Losses) on Financial Assets, Net

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| Net gain/(loss) on financial assets transactions | | |
| AFS securities – shares* | - | 4 237 |
| *Of which* | | |
| *Reclassification of the 2015 remeasurement to the 2016 profit/loss* | - | *2 896* |
| *Increase in 2016* | - | *1 341* |
| Investments in subsidiaries and other ownership interests (net of applicable provisions) | - | (133) |
| **Net gains/(losses) on financial assets** | **-** | **4 104** |

**Sale of shares of VISA Europe Ltd. (see Note 7)*

## 28. General Administrative Expenses

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| **Personnel expenses** | | |
| Wages and salaries | (12 831) | (12 879) |
| Social security expenses | (4 655) | (4 471) |
| Supplementary pension scheme contributions | (182) | (187) |
| Other social expenses | (192) | (189) |
| **Expenses for provisions** | | |
| (Creation)/release of provisions for retirement payments, net | 6 | (13) |
| **Other administrative expenses** | | |
| Purchased services | (5 914) | (5 864) |
| Expenses for IT administration and maintenance | (2 491) | (2 577) |
| Entertainment expenses | (1 855) | (1 746) |
| Other purchased supplies | (1 501) | (1 444) |
| Local and other taxes other than income tax | (1 017) | (1 054) |
| Special levy on selected financial institutions | (2 630) | (2 635) |
| Contributions to other funds* | (108) | (407) |
| Other expenses | (332) | (296) |
| **Depreciation, amortisation and write-downs of non-current tangible and intangible assets** | | |
| Non-current tangible assets | (2 549) | (2 584) |
| Non-current intangible assets | (1 260) | (2 119) |
| **General administrative expenses - total** | **(37 511)** | **(38 465)** |

**This item includes a contribution to the Deposit Protection Fund and expenses for a resolution fund.*

A significant year-to-year decrease in amortisation of non-current intangible assets resulted from a reassessment of the useful life of software, as the Bank plans to use software for longer than originally planned.

In 2017, the costs of auditing the financial statements amounted to EUR 124 thousand (2016: EUR 111 thousand). The costs of non-audit services provided by the audit firm and its network member firms amounted to EUR 73 thousand (2016: EUR 59 thousand).

Non-audit services include: audit of the consolidation package and of the Bank's prudential reports, preparation of a long-form auditor's report and a review of measures of the securities trader for the NBS, conferences, training courses, services related to a review of receivables (only in 2016), information system security review, tax advisory (only in 2016) and MIFID II consulting services (only in 2017).

The Bank has no pension scheme other than Slovakia's state pension system. Pursuant to the Slovak legal regulations, an employer is obliged to pay contributions to social security, health insurance, medical insurance, accident insurance, unemployment insurance, and contributions to a guarantee fund set as a percentage of the assessment base. These expenses are charged to the statement of comprehensive income in the period in which the employee was entitled to receive the salary.

## 29. Other Operating Revenues/(Expenses), Net

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| **Provisions for impairment losses on other assets** | | |
| Creation of provisions for other assets | (19) | (44) |
| Release of provisions for other assets | 46 | 18 |
| Other assets written-off and assigned (Note 12) | 1 | - |
| **Costs for the creation of provisions** | | |
| (Creation)/release of provisions for litigations and other disputes and other risks, net (Note 21) | (54) | (806) |
| **Other revenues** | | |
| Revenues from sale of real estate and other assets | 94 | 1 |
| Lease revenues | 1 | 2 |
| Revenues from sale of commemorative coins | 12 | 15 |
| Other operating revenues | 178 | 208 |
| **Other operating revenues/(expense), net** | **259** | **(606)** |

## 30. Items of Other Comprehensive Income

The items of other comprehensive income:

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| **Available-for-sale financial assets** | | |
| Gain/(loss) on revaluation of available-for-sale financial assets | 755 | (1 348) |
| Reclassification adjustment of the gain on the sale of shares included in profit/(loss)* | - | (2 896) |
| Deferred tax liability/(deferred tax asset) on revaluation reserves on available-for-sale financial assets | (158) | 290 |
| Reclassification adjustment of deferred tax on the sale of shares * | - | 637 |
| **Other comprehensive income** | **597** | **(3 317)** |

**Purchase of shares of Visa Europe Ltd. by Visa INC. (see Notes 7 and 27).*

## 31. Segment Reporting

The separate statement of comprehensive income and other indicators by segment as at 31 December 2017:

| 31 Dec 2017 (EUR '000) | Retail | Corporate | Treasury | Not specified | Total |
|---|---|---|---|---|---|
| Interest income | 30 380 | 14 352 | 2 640 | - | 47 372 |
| Interest expense | (2 264) | (460) | (772) | - | (3 496) |
| **Net interest income** | **28 116** | **13 892** | **1 868** | **-** | **43 876** |
| **Provisions for impairment losses on loans and off-balance sheet, net** | (15 228) | (9 616) | - | - | **(24 844)** |
| **Net interest income net of provisions for impairment losses on loans and off-balance sheet** | **12 888** | **4 276** | **1 868** | **-** | **19 032** |
| Fee and commission income | 10 517 | 4 326 | 25 | 1 084 | 15 952 |
| Fee and commission expense | (3 254) | - | (71) | (891) | (4 216) |
| **Net fee and commission income** | **7 263** | **4 326** | **(46)** | **193** | **11 736** |
| Gains/(losses) on financial transactions, net | - | - | 695 | - | 695 |
| Gains/(losses) on financial assets, net | - | - | - | - | - |
| General administrative expenses | - | - | - | (37 511) | (37 511) |
| Other operating revenues/(expenses), net | (31) | 4 | - | 286 | 259 |
| **Profit/(loss) before income tax** | **20 120** | **8 606** | **2 517** | **(37 032)** | **(5 789)** |
| Income tax | - | - | - | (141) | (141) |
| **Net profit/(loss) after tax** | **20 120** | **8 606** | **2 517** | **(37 173)** | **(5 930)** |
| **Items of other comprehensive income that will subsequently be reclassified to profit or loss, net of tax** | | | | | |
| Reclassification adjustment from sale of available-for-sale financial assets, net | - | - | - | - | - |
| Gain/(loss) on revaluation of available-for-sale financial assets, net | - | - | 597 | - | 597 |
| **Total comprehensive income for the year** | **20 120** | **8 606** | **3 114** | **(37 173)** | **(5 333)** |
| **Assets by segment** | **694 435** | **440 674** | **237 440** | **85 018** | **1 457 567** |
| **Liabilities by segment** | **671 762** | **428 602** | **180 273** | **51 391** | **1 332 028** |

The separate statement of comprehensive income and other indicators by segment as at 31 December 2016:

| 31 Dec 2016 (EUR '000) | Retail | Corporate | Treasury | Not specified | Total |
|---|---|---|---|---|---|
| Interest income | 35 122 | 15 842 | 4 701 | - | 55 665 |
| Interest expense | (6 149) | (871) | (1 138) | - | (8 158) |
| **Net interest income** | **28 973** | **14 971** | **3 563** | **-** | **47 507** |
| **Provisions for impairment losses on loans and off-balance sheet, net** | (15 990) | (10 234) | - | - | **(26 224)** |
| **Net interest income net of provisions for impairment losses on loans and off-balance sheet** | **12 983** | **4 737** | **3 563** | **-** | **21 283** |
| Fee and commission income | 9 146 | 4 428 | 21 | 1 139 | 14 734 |
| Fee and commission expense | (3 574) | (22) | (83) | (535) | (4 214) |
| **Net fee and commission income** | **5 572** | **4 406** | **(62)** | **604** | **10 520** |
| Gains/(losses) on financial transactions, net | - | - | (422) | - | (422) |
| Gains/(losses) on financial assets, net | - | - | 4 104 | - | 4 104 |
| General administrative expenses | - | - | - | (38 465) | (38 465) |
| Other operating revenues/(expenses), net | 24 | 5 | - | (635) | (606) |
| **Profit/(loss) before income tax** | **18 579** | **9 148** | **7 183** | **(38 496)** | **(3 586)** |
| Income tax | - | - | - | 565 | 565 |
| **Net profit/(loss) after tax** | **18 579** | **9 148** | **7 183** | **(37 931)** | **(3 021)** |
| **Items of other comprehensive income that will subsequently be reclassified to profit or loss, net of tax** | | | | | |
| Reclassification adjustment from sale of available-for-sale financial assets, net | - | - | (2 259) | - | (2 259) |
| Gain/(loss) on revaluation of available-for-sale financial assets, net | - | - | (1 058) | - | (1 058) |
| **Total comprehensive income for the year** | **18 579** | **9 148** | **3 866** | **(37 931)** | **(6 338)** |
| **Assets by segment** | **669 831** | **468 871** | **241 688** | **75 189** | **1 455 579** |
| **Liabilities by segment** | **733 051** | **436 831** | **117 444** | **60 581** | **1 347 907** |

**Foreign Assets and Liabilities**

The Bank provides banking services primarily in the territory of the Slovak Republic. Some assets and liabilities were placed outside of the Slovak Republic.

The structure of assets and liabilities related to counterparties outside the Slovak Republic:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Assets | 47 251 | 40 251 |
| *Of which: Hungary* | *17 240* | *9 404* |
| *Of which: Other EU countries* | *26 973* | *28 364* |
| Liabilities | 265 865 | 223 752 |
| *Of which: Hungary* | *219 093* | *166 634* |
| *Of which: Other EU countries* | *39 743* | *46 178* |

As at 31 December 2017 and 31 December 2016, the Bank's non-current tangible and intangible assets were localised only in the territory of the Slovak Republic.

**Revenues from Foreign Entities**

| (EUR '000) | Year Ended 31 Dec 2017 | Year Ended 31 Dec 2016 |
|---|---|---|
| Interest income on: | | |
| Term deposits provided to OTP Bank Nyrt (Hungary) | 152 | 198 |
| Subordinated bonds issued by OTP Bank Nyrt (Hungary) | 244 | 1 348 |
| Reverse REPO transactions with OTP Bank Nyrt (Hungary) | 183 | 1 118 |
| Foreign government bonds (Bulgaria) | 295 | 148 |
| Issued mortgage bonds and bonds with negative interest (Hungary) | 113 | - |
| Dividends from VISA Inc. shares | 9 | - |
| Gain on sale of Visa Europe Ltd. shares (Notes 7 and 27) | - | 4 237 |
| *of which* | | |
| *Remeasurement via statement of comprehensive income in 2015* | - | - |
| *Reclassification of remeasurement to 2016 profit/loss* | - | *2 896* |
| *Recognition of other components of received consideration* | - | *1 341* |

The amount of income from other foreign entities is not significant for the Bank.

## 32. Related Party Transactions

Under "IAS 24 – Related Party Disclosures" (IAS 24), a related party is defined as:

a) A person or a close family member of that person if that person:
   1) *has control or joint control over the reporting entity,* whereas control means authority to control financial and operating policy of the reporting entity in order to gain benefits from its activities and joint control means contractually agreed participation in control of operating activities;
   2) *has significant influence over the reporting entity*, whereas significant influence means authority to participate in decisions on financial and operating policies of the reporting entity, but not control over such policies; significant influence can be gained by holding shares, through articles of association or an agreement; or
   3) *is a member of the key management personnel of the reporting entity or of a parent of the reporting entity*, whereas the key management personnel include individuals who have authority and responsibility for planning, governance and control of the reporting entity's activities, directly or indirectly, including each director (whether executive or other) of this reporting entity;

b) The entity and the reporting entity are members of the same group;

c) An associate or joint venture of the reporting entity (or an associate or joint venture of a member of the group of which the reporting entity is a member);

d) The entity, if this entity and the reporting entity are joint ventures of the same third party;

e) The entity, if this entity is a joint venture of the third party and the reporting entity is an associate of the third party and/or if the entity is an associate of the third party and the reporting entity is a joint venture of the third party;

f) The entity is controlled or jointly controlled by a person identified in a);

g) A person identified in a1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

In ordinary business, the Bank enters into transactions with related parties made on an arm's length basis.

The following tables present an overview of assets and liabilities, and expenses and revenues in relation to the Bank's related parties.

Overview of balances in the statement of financial position as at 31 December 2017:

| 31 Dec 2017 (EUR '000) | OTP Bank Nyrt. | Subsidiaries | Other Companies OTP Group | Transactions with Key Management Personnel of the Bank | Transactions with Key Management Personnel of OTP Bank Nyrt. | Other Related Parties | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 8 081 | - | 249 | - | - | - | **8 330** |
| Placements with other banks, net of provisions for possible placement losses | - | - | - | - | - | - | **-** |
| Financial assets at fair value through profit or loss | 1 | - | - | - | - | - | **1** |
| Available-for-sale financial assets | 8 721 | - | 1 249 | - | - | - | **9 970** |
| Loans and receivables, net of provisions for possible losses | - | - | 696 | 287 | - | - | **983** |
| Held-to-maturity financial investments | - | - | - | - | - | - | **-** |
| Investments in subsidiaries and associates | - | - | - | - | - | - | **-** |
| Non-current tangible assets* | - | - | 4 814 | - | - | - | **4 814** |
| Non-current intangible assets* | 869 | - | - | - | - | - | **869** |
| Other assets | 2 | - | 519 | - | - | - | **521** |
| **Total** | **17 674** | **-** | **7 527** | **287** | **-** | **-** | **25 488** |
| **Liabilities** | | | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 214 | - | - | - | - | - | **214** |
| Amounts due to customers | - | - | 1 905 | 3 268 | - | 33 | **5 206** |
| Liabilities from issued debt securities | 167 092 | - | - | - | - | - | **167 092** |
| Other liabilities | 140 | - | 234 | - | - | - | **374** |
| Subordinated debt | - | - | 20 008 | - | - | - | **20 008** |
| **Total** | **167 446** | **-** | **22 147** | **3 268** | **-** | **33** | **192 894** |

**Non-current tangible and non-current intangible assets are presented at net value.*

Overview of balances in the statement of financial position as at 31 December 2016:

| **31 Dec 2016 (EUR '000)** | **OTP Bank Nyrt.** | **Subsidiaries** | **Other Companies OTP Group** | **Transactions with Key Management Personnel of the Bank** | **Transactions with Key Management Personnel of OTP Bank Nyrt.** | **Other Related Parties** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 611 | - | 302 | - | - | - | **913** |
| Placements with other banks, net of provisions for possible placement losses | - | - | - | - | - | - | **-** |
| Financial assets at fair value through profit or loss | 6 | - | - | - | - | - | **6** |
| Available-for-sale financial assets | 8 353 | - | 978 | - | - | - | **9 331** |
| Loans and receivables, net of provisions for possible losses | - | - | 8 619 | 217 | - | - | **8 836** |
| Held-to-maturity financial investments | - | - | - | - | - | - | **-** |
| Investments in subsidiaries and associates | - | - | - | - | - | - | **-** |
| Non-current tangible assets* | - | - | 4 927 | - | - | - | **4 927** |
| Non-current intangible assets* | 866 | - | - | - | - | - | **866** |
| Other assets | - | - | 477 | - | - | - | **477** |
| **Total** | **9 836** | **-** | **15 303** | **217** | **-** | **-** | **25 356** |
| **Liabilities** | | | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 215 | - | - | - | - | - | **215** |
| Amounts due to customers | - | - | 2 784 | 3 224 | - | 3 270 | **9 278** |
| Liabilities from issued debt securities | 115 149 | - | - | - | - | - | **115 149** |
| Other liabilities | 292 | - | 299 | - | - | - | **591** |
| Subordinated debt | - | - | 20 008 | - | - | - | **20 008** |
| **Total** | **115 656** | **-** | **23 091** | **3 224** | **-** | **3 270** | **145 241** |

**Non-current tangible and non-current intangible assets are presented at net value.*

Overview of transactions in the statement of comprehensive income:

| 31 Dec 2017 (EUR '000) | OTP Bank Nyrt. | Subsidiaries | Other Companies OTP Group | Transactions with Key Management Personnel of the Bank | Transactions with Key Management Personnel of OTP Bank Nyrt. | Other Related Parties | Total |
|---|---|---|---|---|---|---|---|
| Interest income | 578 | - | 134 | 5 | - | - | **717** |
| Interest expense | (117) | - | (605) | (15) | - | - | **(737)** |
| Provisions for impairment losses on loans and off-balance sheet, net | - | - | 21 | - | - | - | **21** |
| Fee and commission income | 19 | - | 19 | - | - | - | **38** |
| Fee and commission expense | (509) | - | (343) | - | - | - | **(852)** |
| Gains/(losses) on financial transactions (FX), net | (488) | - | - | - | - | - | **(488)** |
| Gains/(losses) on financial assets, net | - | - | - | - | - | - | **-** |
| Other operating revenues/(expenses), net | - | - | 9 | - | - | - | **9** |
| General administrative expenses | (421) | - | (1 185) | * | - | - | **(1 606)** |
| **Total** | **(938)** | **-** | **(1 950)** | **(10)** | **-** | - | **(2 898)** |

| 31 Dec 2016 (EUR '000) | OTP Bank Nyrt. | Subsidiaries | Other Companies OTP Group | Transactions with Key Management Personnel of the Bank | Transactions with Key Management Personnel of OTP Bank Nyrt. | Other Related Parties | Total |
|---|---|---|---|---|---|---|---|
| Interest income | 2 639 | - | 253 | 5 | - | - | **2 897** |
| Interest expense | (264) | - | (628) | (28) | - | (5) | **(925)** |
| Provisions for impairment losses on loans and off-balance sheet, net | - | - | (16) | - | - | - | **(16)** |
| Fee and commission income | 13 | - | 24 | - | - | - | **37** |
| Fee and commission expense | (324) | - | (364) | - | - | - | **(688)** |
| Gains/(losses) on financial transactions (FX), net | (1 299) | - | - | - | - | - | **(1 299)** |
| Gains/(losses) on financial assets, net | - | - | (133) | - | - | - | **(133)** |
| Other operating revenues/(expenses), net | - | - | - | - | - | - | **-** |
| General administrative expenses | (461) | - | (1 262) | * | - | - | **(1 723)** |
| **Total** | **304** | **-** | **(2 126)** | **(23)** | **-** | **(5)** | **(1 850)** |

**see "Key Management Personnel Compensation"*

**In 2017, the Bank performed the following transactions within the OTP Group:**

- Spot and forward transactions with the parent company, OTP Bank Nyrt. – provided and received term deposits, currency spots and currency swaps;
- Provided short-term loans on a recurring basis to the parent company, OTP Bank Nyrt., secured by securities within reverse REPO transactions;
- Sold Mortgage Bond Issues XXXI and XXXII to the parent company, OTP Bank Nyrt; and
- Sold short-term bonds to the parent company, OTP Bank Nyrt.

All the above transactions were made on an arm's length basis.

**In 2016, the Bank performed the following transactions within the OTP Group:**

- Spot and forward transactions with the parent company, OTP Bank Nyrt. – provided and received term deposits, currency spots and currency swaps;
- Provided on a recurring basis short-term loans to the parent company, OTP Bank Nyrt., secured by securities within reverse REPO transactions;
- Sold Mortgage Bonds, Issues XXVIII, XXIX and XXX to the parent company, OTP Bank Nyrt., and
- Sold short-term and long-term bonds to the parent company, OTP Bank Nyrt.

All of the aforementioned transactions were made on an arm's length basis.

**Key Management Personnel Compensation**

Compensation includes all short-term employee benefits, including all forms of countervalues paid, payable or provided by or on behalf of the reporting entity in exchange for services provided to the reporting entity. In 2017, compensation in the amount of EUR 748 thousand (2016: EUR 696 thousand) was paid to the members of the Board of Directors and the Supervisory Board; they are short-term employee benefits.

The remuneration policy for members of the Board of Directors is compliant with the CRD III Directive.

As at 31 December 2017, the Bank recognised loan receivables from the members of the Board of Directors and Supervisory Board in the amount of EUR 287 thousand (31 December 2016: EUR 217 thousand).

In 2017, received loan instalments totalled EUR 193 thousand (2016: EUR 12 thousand). Loans provided as at 31 December 2017 bore interest ranging between 1.50 and 4.55% (31 December 2016: 1.79 - 4.00%).

In 2017 and 2016, in respect of the members of the Board of Directors and Supervisory Board:
- The Bank did not waive or write off any loan or other receivables.
- The Bank does not record any other loans, advances, guarantees or other collateral.
- The Bank does not record any significant transactions.

Interest rates and other conditions of related party transactions do not differ from the Bank's standard interest rates and contractual terms and conditions.

## 33. Regulatory Capital

As of 1 January 2014, Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms entered into effect stipulating among others the method for the calculation of the Bank's regulatory capital as well as the calculation of requirements for the Bank's regulatory capital.

Pursuant to the aforementioned Regulation (EU) No. 575/2013 of the European Parliament and of the Council, the Bank's regulatory capital comprises Tier 1 Capital and Tier 2 Capital.

Tier 1 Capital consists of:
- Tier 1 own capital: (share capital, the legal reserve fund, and retained earnings from previous years. Items decreasing the amount of original own funds comprise the net book value of intangible assets).
- Tier 1 supplementary capital – not recorded by the Bank at the end of the period under review.

Tier 2 capital comprises a subordinated debt (Note 17).

Pursuant to Regulation (EU) No. 575/2013 of the European Parliament and of the Council the banks are required to meet the following requirements for regulatory capital:
a) Share of Tier 1 own capital in the amount of 4.5%;
b) Share of Tier 1 capital in the amount of 6%; and
c) Total share of capital in the amount of 8%,
Increased by the amounts of the relevant capital cushions.

Under Act No. 483/2001 as amended, the National Bank of Slovakia set a cushion to maintain capital as Tier 1 own capital in the amount of 2.5% of the total risk exposure as of 1 October 2014 and determined the level of the countercyclical capital cushion for Slovak exposures at 0.5%. In 2018, the countercyclical capital cushion will be increased to 1.25% with effect from 1 January 2018.

In the period under review and as at the reporting date, the ratio of the Bank's total own funds exceeded the minimum level required by the EU and Slovak legislation. As at 31 December 2017, the Bank achieved the following shares: the share of Tier 1 own capital at 13.25%, the share of Tier 1 capital at 13.25% and the total share of capital at 15.02%.

The structure of the Bank's regulatory capital is as follows:

| **(EUR '000)** | **31 Dec 2017** | **31 Dec 2016** |
|---|---|---|
| Tier 1 capital | 115 557 | 99 897 |
| Tier 1 own capital | 115 557 | 99 897 |
| Capital instruments allowable as Tier 1 own capital | 111 580 | 88 539 |
| *Repaid capital instruments* | *111 580* | *88 539* |
| Retained earnings | 7 557 | 13 487 |
| *Retained earnings from previous years* | *13 487* | *16 508* |
| *Allowable gain or (-) loss* | *(5 930)* | *(3 021)* |
| Other provisions | 5 034 | 5 034 |
| (-) Intangible assets | (8 299) | (6 479) |
| (-) Other items decreasing the amount of Tier 1 own capital | (315) | (684) |
| Tier 1 supplementary capital | - | - |
| Tier 2 capital | 15 375 | 18 974 |
| *Repaid capital instruments and subordinated debt* | *15 375* | *18 974* |
| *Positive revaluation reserves* | - | - |
| (-) Other items decreasing the amount of Tier 2 capital | - | - |
| **Regulatory capital** | **130 932** | **118 871** |
| **Proportion of own capital (CET1) to risk-weighted assets** | **13.25%** | **10.85%** |
| **Proportion of Tier 1 capital to risk-weighted assets** | **13.25%** | **10.85%** |
| **Total proportion of capital to risk-weighted assets** | **15.02%** | **12.92%** |

## 34. Supplementary Data to Statements of Cash Flows

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Cash, due from banks and balances with NBS except for mandatory minimum reserve | 168 601 | 172 391 |
| Deposits with other banks, falling due within three months | 9 | 2 |
| Due to banks, falling due within three months | (361) | (1 144) |
| **Total cash and cash equivalents** | **168 249** | **171 249** |

Mandatory minimum reserve in the amount of EUR 12 732 thousand (31 December 2016: EUR 7 272 thousand) is excluded from cash and cash equivalents as its withdrawal is restricted (see Note 4).

Significant non-cash movements excluded from cash flows are as follows:

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Write-off and assignments of loans (Note 8) | (18 121) | (262) |

## 35. Financial Instruments and Risk Management

A financial instrument means any arrangement that entitles the entity to obtain cash or other financial assets from a counterparty (financial asset), or which binds the entity to pay cash or to provide other financial assets to a counterparty (financial liability).

Financial instruments are recorded by the Bank in the trading or banking book. The trading book includes those positions in financial instruments that are held by the Bank for trading purposes – short-term sale, and to achieve income from actual or expected differences between purchase and selling prices or from other changes in prices or interest rates.

The Bank's exposure to risks results from the use of financial instruments. The most significant risks include:

- Credit risk
- Market risk
  - Currency risk
  - Interest rate risk
  - Other price risk
- Liquidity risk
- Operational risk

***Risk Management Framework***

The Risk Division is responsible for risk management at the Bank and comprises the Credit Risk Operation Department, Risk Analysis and Regulation Department, Workout and Monitoring Department, and Market & Operational Risk Department.

The Board of Directors represents a statutory body, including the Bank's executive management, which oversees risk-related issues. The authorities to manage risk are also delegated to the following individual steering committees, which oversee the risks:

- Asset/Liability Management Committee (ALCO)
  Based on monitoring key information on assets and liabilities the ALCO makes decisions and proposes measures in order to optimise the structure of assets and liabilities to achieve maximum profitability of the Bank's own capital within the limits of acceptable risk;
- Risk management committee;
- Monitoring committee;
- Workout committee; and
- Operational risk management committee (ORC).
  ORC has a control, coordination, advisory and decision-making function in the area of operational risk management. It approves the Bank's approach to various areas of operational risk and has an advisory as well as a decision-making function in the management of continuous operations (the so-called business continuity management) and acts as an emergency team in emergency situations.

The Board of Directors delegates its control over risks to the aforementioned committees in the form of statutes where the members of the steering committees, including their competencies and responsibilities, are designated.

The competencies of the advisory and working bodies are specified in the Board of Directors' instruction: "Signature and Competency Order in OTP Banka Slovensko, a.s.". An internal regulation is prepared for each type of risk and defines in detail the competencies and responsibilities of individual bodies of the Bank.

## 36. Credit Risk

Credit risk is the risk that a client or a counterparty of a financial instrument will fail to meet its contractual obligations, which would expose the Bank to the risk of a financial loss. This risk is predominantly driven by loans advanced to clients, receivables from banks and financial investments. The Bank classifies the level of accepted credit risk using limits for the risks accepted with respect to a single debtor or a group of debtors and with respect to industries.

The credit exposure limit is set based on an analysis of the borrower's ability to repay the granted loan. When analysing credit risks, the Bank takes into consideration the mitigation of risks with collateral instruments and guarantees from individuals and legal entities. The analysis is performed by specialists – loan analysts – who are not involved in the Bank's business activities.

The Bank also evaluates debtors using scoring/rating models developed for individual products and client segments.

Regular monitoring of the quality of the existing loan portfolio and monitoring of trends in the Bank's portfolio form a significant part of risk management that helps maintain the quality of the entire portfolio and the required level of the Bank's risk expenses.

When recovering debts, the Bank applies a wide range of recovery instruments and strategies depending on the type and amount of the relevant debt. For recovery, the Bank applies both internal and external forms of recovery. In the event of the unsuccessful recovery of debts from clients or a failure to conclude an agreement with the client, the Bank performs the hard collection of receivables depending on the collateral type of the receivable and financial conditions of the client, or the assignment or write-off of a receivable (if conditions for writing-off of a receivable are met). Default and specific receivables are addressed by the Bank's specialised internal team in cooperation with the legal department and other specialised Bank units.

When monitoring and managing credit risks, the Bank pays attention to concentration and residual risks.

A concentration risk is a risk arising from the concentration of the Bank's transactions with an individual, a group of economically-related entities, the state, a geographic area, an industry, or a risk arising from credit risk mitigation procedures. Bearing in mind concentration risk management efficiency, the Bank focuses on the quality aspect of portfolio management and appropriate portfolio diversification in compliance with the specified concentration limits (large asset exposure, industry or other limits).

Residual risk means a risk arising from the fact that the recognised procedures for credit risk mitigation used by the Bank are less effective than expected.

***Credit Risk Management Organisation***

The Risk Division is a business unit managed by the Bank's Deputy CEO, who is a member of the Board of Directors. The division is responsible for reviewing credit risk, including:

- Preparation of the strategies, principles, processes and procedures applied to risk management, which cover the rules for loan assessment, collateral requirements for relevant risk levels and relating reporting;
- Setting limits for concentrating exposure to counterparties, related parties, and countries, and monitoring compliance with the limits;
- Assessment of credit risk in line with the defined principles;
- Monitoring of meeting portfolio quality requirements and compliance with limits, and taking relevant corrective measures;
- Preparation and validation of scoring and rating models;
- Preparation, maintenance and back testing of a provisioning model; and
- Preparation of reports on credit, market and operational risks to be submitted to the Board of Directors and the Supervisory Board.

***Provisions***

As at the date of the financial statements, the Bank assesses and reassesses provisions for provided loans. The Bank creates provisions based on the calculation of the incurred loss that is calculated as a difference between the carrying amount of a loan receivable and the present value of estimated future cash flows including the flows from realisation of collaterals discounted using the loan interest rate.

The Bank creates provisions representing the best estimate to cover the existing losses in the loan portfolio. Provisions cover estimated loan impairment losses if there are one or more objective proofs of impairment. Objective proof of impairment may include information about major financial difficulties of the debtor, which lead to a loss event and which were identified after the initial recognition of the loan receivable.

The Bank evaluates credit risk on an individual and portfolio basis and records specific and portfolio provisions. The Bank creates specific provisions for individually-significant loan receivables. For a group of loan receivables that are not individually significant or for loan receivables in which impairment has not been identified on an individual basis, provisions are created on a portfolio basis.

Loans assessed on an individual basis comprise corporate receivables without any identified impairment with exposure to a customer exceeding EUR 850 thousand, for which the Bank first assesses, on an individual basis, whether individually-significant objective proof of impairment of financial assets exists. If the Banks decides that there is no objective proof of impairment with respect to the financial assets assessed on an individual basis, such assets are included in a portfolio of financial assets with similar credit risk characteristics and their impairment is assessed on a portfolio basis.

The Bank also assesses, on an individual basis, corporate receivables with identified impairment with exposure to a customer exceeding EUR 200 thousand, corporate receivables in bankruptcy proceeding and in restructuring proceeding under the law and retail receivables with identified fraud, retail receivables secured by immovable assets in bankruptcy and in default for more than 1550 days. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans as at the processing date.

Provisions for loan losses are assessed with reference to the credit and economic standing of the debtor and take into account the value of all collateral or third party guarantees. Specific provisions are recognised if objective proof confirming impairment of the loan receivable exists, with the impairment occurring after the initial recognition of the loan. Loan receivables for which impairment is assessed on an individual basis and for which the impairment loss continues to be recognised are not included in a portfolio assessment of impairment of assets.

If the Bank identifies that there is no objective proof of impairment of a loan receivable on an individual basis, such loan receivable is included in a portfolio of loan receivables with similar characteristics and assessed for impairment.

The Bank creates portfolio receivables on a portfolio basis using risk parameters for the given portfolio. Portfolio provisions cover losses that have not been individually identified but based on historical experience are inherent in individual portfolios at the reporting date. In the calculation of provisions for portfolio-measured receivables the Bank applies statistical modelling based on the historical portfolio behaviour trends. The calculation of portfolio provisions is based on the probability of default (PD), loss given default (LGD), rate of return (RI) and receivable value. The calculation of provisions is sensitive to a change in input parameters.

Receivables assessed on a portfolio basis include other retail receivables, corporate receivables from mass products (all types of Quick Loans, Solvent Business Card), and corporate receivables with exposure to a customer up to EUR 850 thousand and corporate receivables with identified impairment with exposure to a customer up to EUR 200 thousand.

Individually-significant receivables for which no objective proof of their impairment exists are subject to the measurement on a portfolio basis. In this manner, the Bank measures corporate receivables without identified impairment with exposure to a customer exceeding EUR 850 thousand, ie receivables for which no impairment has been identified on an individual basis. The Bank creates the so-called IBNR provisions for such loan receivables.

Loan receivables which are not individually significant and are assessed on a portfolio basis are classified by the Bank according to the number of days they are overdue and signs of default. Relevant portfolio provisions are created by the Bank.

The Bank adjusts the measurement of loan receivables on a monthly basis as at the reporting date and in the event of an extraordinary or unforeseeable event requiring more attention in terms of risk. In the calculation of provisions, the Bank considers estimated future cash flows to be generated from impaired loans and their timing. These estimates are subject to a number of uncertainties and risks due to the high volatility of external factors affecting the portfolio quality.

The Bank believes that estimates used in the process of quantifying provisions for loan losses, including off-balance sheet exposures (in particular estimates regarding future cash-flows from impaired loans and probabilities of loan default), represent the most reasonable projection of the future development of relevant exposures available under current circumstances. The management considers the recognised amount of provisions to be adequate to cover incurred losses from impaired credit exposures.

The Bank continues to monitor current economic conditions and their impact on estimates used in the loan impairment calculation. All estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to estimates of loan impairment are recognised in the period in which the estimate is revised if the adjustment affects only that period, or in the period of the revision and future periods if the adjustment affects both current and future periods.

***Policy for Writing-Off of Receivables***

The Bank writes off its loans and placements once the Bank receives a document on the client's insolvency, the court's decision on discharge of a receivable, after the end of bankruptcy proceedings, if the debtor died and the receivable cannot be recovered from the heirs, or based on a decision of the Bank's management to drop the collection, should the collection expenses exceed the amount receivable, or based on the decision of the Bank's management to write off such receivable if only a minimum or zero amount of proceeds is expected to be recovered over a long period of time and the customer is overdue with the loan repayment by more than 1080 days. The Bank also performs a partial write-off of receivables in the events when a portion of the receivable is not acknowledged in court proceedings on the payment of the receivable (in particular, the current interest recognised as repaid after the loan is declared due); or where bankruptcy has been declared on the client's assets in the form of liquidation of debts, if the interest and charges on receivables charged during the year exceed 5% p.a. of the outstanding principal.

***Loan Collaterals***

The estimated value of collateral is subject to numerous uncertainties and risks. Amounts that may ultimately be realised on liquidation of collateral for defaulted loans could differ from estimated amounts and the difference may be material. Collateral represents an estimated amount that the Bank would receive upon enforcement of the collateral as a result of a failure to repay the loan.

Collateral fair value is estimated based on the value of collateral when the relevant loan is advanced. Collateral is monitored to review the current value and quality of the collateral in the entire loan period. Individual forms of collateral are subject to revaluation whose frequency depends on the collateral used and the client's segment.

In respect of collateral treatment, the Bank pays special attention to the valuation and revaluation of individual collateral instruments, calculation of accepted collateral value, specification of collateral permissibility for credit risk mitigation and realisation of collateral in case of default of a collateralised loan.

The Bank predominantly accepts the following types of collateral:
- Financial collateral (cash, securities etc.);
- Immovable assets;
- Movable assets; and
- Receivables and inventory.

The Bank uses the following legal instruments:
- Pledge;
- Collateralising transfer of receivables;
- Blocking of cash.

The collateral valuation methodology and collateral revaluation frequency are dependent upon the type of collateral and minimum criteria pursuant to the valid legislative regulations implemented in the Bank's integral regulations. The monitoring of the value of collateral instruments is specific for each type of collateral and the Bank applies an appropriate measure of prudence and conservatism.

The Bank's decision-making in realising collateral is individual and depends on factors such as the current condition and value of collateral, the current value of the receivable, receivable collection speed, costs of recovery etc.

The Bank principally uses the following forms of collateral realisation:

- Voluntary auction;
- Foreclosure proceedings;
- Cash realisation of collateral held in support of the Bank's receivable in bankruptcy or restructuring proceedings;
- Call to subdebtors to pay from pledged trade receivables;
- Enforcement of a bill of exchange in court;
- Assignment of a receivable; and
- Collection through external collection agencies based on a mandate agreement.

***Defaulted Loans Portfolio***

Defaulted loans represent a portfolio of loan receivables that meet the definition of default. The definition of default is set forth in Article 178 of Regulation No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

Description of default events (loss events) is included in paragraph "Loans and receivables and provisions for expected losses".

**Classification of Risks from Loans and Receivables**

| 31 Dec 2017 (EUR '000) | Exposure | Provisions | Coverage by Provisions | Collateral | Coverage by Provisions and Collaterals |
|---|---|---|---|---|---|
| **Loans measured on an individual basis, total** | **86 529** | **39 518** | **45.70%** | **31 416** | **82.00%** |
| **Retail loans** | **7 943** | **5 459** | **68.70%** | **4 810** | **129.30%** |
| *Of which with identified impairment* | *7 943* | *5 459* | *68.70%* | *4 810* | *129.30%* |
| **Non-retail loans** | **78 586** | **34 059** | **43.30%** | **26 606** | **77.20%** |
| *Of which with identified impairment* | *62 547* | *34 059* | *54.50%* | *24 864* | *94.20%* |
| **Loans measured on a portfolio basis, total** | **1 141 730** | **46 510** | **4.10%** | **715 227** | **66.70%** |
| **Non-retail loans** | **411 344** | **4 591** | **1.10%** | **212 791** | **52.80%** |
| *Of which with identified impairment* | *4 037* | *2 913* | *72.20%* | *654* | *88.40%* |
| **Retail loans** | **730 386** | **41 919** | **5.70%** | **502 436** | **74.50%** |
| *Of which with identified impairment* | *58 792* | *38 510* | *65.50%* | *21 176* | *101.50%* |
| **Other** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **1 228 259** | **86 028** | **7.00%** | **746 643** | **67.80%** |
| **Of which assessed on an individual basis** | 372 755 | 40 092 | 10.80% | 194 702 | 63.00% |
| **Of which assessed on a portfolio basis** | 855 504 | 45 936 | 5.40% | 551 941 | 69.90% |

| 31 Dec 2016 (EUR '000) | Exposure | Provisions | Coverage by Provisions | Collateral | Coverage by Provisions and Collaterals |
|---|---|---|---|---|---|
| **Loans measured on an individual basis, total** | **122 562** | **39 421** | **32.20%** | **46 019** | **69.70%** |
| **Retail loans** | **5 830** | **3 984** | **68.30%** | **3 500** | **128.40%** |
| *Of which with identified impairment* | *5 830* | *3 984* | *68.30%* | *3 500* | *128.40%* |
| **Non-retail loans** | **116 732** | **35 437** | **30.40%** | **42 519** | **66.80%** |
| *Of which with identified impairment* | *74 825* | *35 437* | *47.40%* | *30 692* | *88.40%* |
| **Loans measured on a portfolio basis, total** | **1 102 906** | **39 912** | **3.60%** | **700 912** | **67.20%** |
| **Non-retail loans** | **401 836** | **4 352** | **1.10%** | **226 578** | **57.50%** |
| *Of which with identified impairment* | *4 310* | *2 891* | *67.10%* | *297* | *74.00%* |
| **Retail loans** | **701 070** | **35 560** | **5.10%** | **474 334** | **72.70%** |
| *Of which with identified impairment* | *60 942* | *31 854* | *52.30%* | *28 472* | *99.00%* |
| **Other** | - | - | - | - | - |
| **Total** | **1 225 468** | **79 333** | **6.50%** | **746 931** | **67.40%** |
| **Of which assessed on an individual basis** | 404 066 | 39 984 | 9.90% | 225 214 | 65.60% |
| **Of which assessed on a portfolio basis** | 821 402 | 39 349 | 4.80% | 521 717 | 68.30% |

As for the credit exposure as at 31 December 2017, 10 major credit exposures amounted to 5% of the total gross amount of loans (31 December 2016: 5% of the total gross amount of loans).

**Exposure to Credit Risk from Loans and Receivables by Business Industries**

| 31 Dec 2017 (EUR '000) | Carrying Amount Before Provisions | Specific Provision | Portfolio Provision | Carrying Amount After Provisions |
|---|---|---|---|---|
| Electricity generation | 31 369 | 2 299 | 75 | **28 995** |
| Households | 734 986 | 5 582 | 41 710 | **687 694** |
| Agriculture and food-processing industry | 59 283 | 5 719 | 374 | **53 190** |
| Trade and services | 73 590 | 6 637 | 1 173 | **65 780** |
| Metallurgy and machinery | 22 854 | 270 | 398 | **22 186** |
| Chemical industry | 6 401 | 271 | 4 | **6 126** |
| Transport and infrastructure | 7 993 | 230 | 268 | **7 495** |
| Timber and paper production | 5 105 | 16 | 147 | **4 942** |
| Construction industry | 22 091 | 3 911 | 514 | **17 666** |
| Real estate | 102 426 | 7 946 | 284 | **94 196** |
| Public administration and defence | 20 038 | - | 90 | **19 948** |
| Financial services except insurance | 2 660 | 860 | 68 | **1 732** |
| Other industries | 139 463 | 5 777 | 1 405 | **132 281** |
| **Total** | **1 228 259** | **39 518** | **46 510** | **1 142 231** |

| 31 Dec 2016 (EUR '000) | Carrying Amount Before Provisions | Specific Provision | Portfolio Provision | Carrying Amount After Provisions |
|---|---|---|---|---|
| Electricity generation | 34 280 | 1 167 | 80 | **33 033** |
| Households | 702 352 | 3 971 | 35 418 | **662 963** |
| Agriculture and food-processing industry | 46 704 | 5 277 | 371 | **41 056** |
| Trade and services | 85 999 | 10 205 | 1 071 | **74 723** |
| Metallurgy and machinery | 27 168 | 1 586 | 138 | **25 444** |
| Chemical industry | 9 119 | 1 343 | 4 | **7 772** |
| Transport and infrastructure | 8 282 | 237 | 318 | **7 727** |
| Timber and paper production | 3 742 | 20 | 99 | **3 623** |
| Construction industry | 25 038 | 5 669 | 352 | **19 017** |
| Real estate | 110 002 | 5 262 | 364 | **104 376** |
| Public administration and defence | 22 220 | - | 126 | **22 094** |
| Financial services except insurance | 3 333 | 18 | 6 | **3 309** |
| Other industries | 147 229 | 4 666 | 1 565 | **140 998** |
| **Total** | **1 225 468** | **39 421** | **39 912** | **1 146 135** |

As at 31 December 2017, the Bank reported a developer project portfolio in the amount of EUR 17 734 thousand (31 December 2016: EUR 20 673 thousand) and created provisions both on a portfolio basis and on an individual basis in the amount of EUR 33 thousand (31 December 2016: EUR 9 thousand) and EUR 8 964 thousand (31 December 2016: EUR 8 264 thousand), respectively.

### Analysis of Defaulted Loans and Receivables with Identified Impairment, Gross

| 31 Dec 2017 (EUR '000) | Measured on an Individual Basis with Identified Impairment | | | Measured on a Portfolio Basis with Identified Impairment | | |
|---|---|---|---|---|---|---|
| | Carrying Amount Before Provisions | Provisions | Carrying Amount After Provisions | Carrying Amount Before Provisions | Provision | Carrying Amount After Provisions |
| **Non-retail loans** | **62 547** | **34 059** | **28 488** | **4 037** | **2 913** | **1 124** |
| Overdrafts and revolving loans | 6 727 | 5 031 | 1 696 | 415 | 262 | 153 |
| Investment and operation loans | 55 819 | 29 028 | 26 791 | 1 610 | 889 | 721 |
| Overdrafts on term deposit accounts | - | - | - | 1 995 | 1 750 | 245 |
| Factoring loans | 1 | - | 1 | 17 | 12 | 5 |
| Other | - | - | - | - | - | - |
| **Retail loans** | **7 943** | **5 459** | **2 484** | **58 792** | **38 510** | **20 282** |
| Mortgages | 1 309 | 961 | 348 | 3 310 | 989 | 2 321 |
| Consumer loans | 6 634 | 4 498 | 2 136 | 54 091 | 36 301 | 17 790 |
| Overdrafts on term deposit accounts | - | - | - | 1 276 | 1 113 | 163 |
| Other | - | - | - | 115 | 107 | 8 |
| **Total** | **70 490** | **39 518** | **30 972** | **62 829** | **41 423** | **21 406** |

| 31 Dec 2016 (EUR '000) | Measured on an Individual Basis with Identified Impairment | | | Measured on a Portfolio Basis with Identified Impairment | | |
|---|---|---|---|---|---|---|
| | Carrying Amount Before Provisions | Provisions | Carrying Amount After Provisions | Carrying Amount Before Provisions | Provision | Carrying Amount After Provisions |
| **Non-retail loans** | **74 825** | **35 437** | **39 388** | **4 310** | **2 891** | **1 419** |
| Overdrafts and revolving loans | 10 302 | 7 537 | 2 765 | 952 | 505 | 447 |
| Investment and operation loans | 63 195 | 27 873 | 35 322 | 1 402 | 673 | 729 |
| Overdrafts on term deposit accounts | - | - | - | 1 943 | 1 706 | 237 |
| Factoring loans | 1 328 | 27 | 1 301 | 13 | 7 | 6 |
| Other | - | - | - | - | - | - |
| **Retail loans** | **5 830** | **3 984** | **1 846** | **60 942** | **31 854** | **29 088** |
| Mortgages | 1 135 | 919 | 216 | 5 549 | 1 398 | 4 151 |
| Consumer loans | 4 695 | 3 065 | 1 630 | 54 132 | 29 355 | 24 777 |
| Overdrafts on term deposit accounts | - | - | - | 1 165 | 1 019 | 146 |
| Other | - | - | - | 96 | 82 | 14 |
| **Total** | **80 655** | **39 421** | **41 234** | **65 252** | **34 745** | **30 507** |

### Analysis of Restructured Loans and Receivables, Gross

Restructuring of a credit liability exists where it will probably result in a decrease of a financial liability for clients with identified financial difficulties due to a waiver or deferral of the settlement of the principal, interest or relevant fees and charges. The Bank may, therefore, modify contractual terms of repayment with their debtors in cases when the debtor's financial position has deteriorated and the debtor is not able to duly repay its obligations.

The following table shows the quantitative analysis of all loan receivables where the Bank performed internal debt restructuring at the end of the reporting period.

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| **Retail loans** | **10 642** | **9 056** |
| Overdue up to 30 days | 7 050 | 5 138 |
| Overdue from 31 to 90 days | 512 | 1 081 |
| Overdue more than 90 days | 3 080 | 2 837 |
| **Corporate loans** | **34 941** | **28 849** |
| Overdue up to 30 days | 16 361 | 7 869 |
| Overdue from 31 to 90 days | 599 | 4 310 |
| Overdue more than 90 days | 17 981 | 16 670 |
| **Total** | **45 583** | **37 905** |

**Information on Credit Quality of Selected Categories of the Bank's Financial Assets**

The table below summarises the quantitative distribution of corporate loans assessed on an individual and portfolio basis that are neither overdue nor impaired by rating class:

| Rating Class (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Corporate loans | | |
| I (the lowest risk of primary loan recoverability) | 11 366 | 17 629 |
| II | 19 499 | 32 911 |
| III | 51 290 | 73 749 |
| IV | 93 449 | 85 603 |
| V | 87 977 | 103 706 |
| VI | 89 306 | 70 532 |
| VII | 40 978 | 28 540 |
| VIII (the highest risk of primary loan recoverability) | 7 018 | 1 735 |
| **Total – corporate loans** | **400 883** | **414 405** |
| | | |
| Loans granted to local governments | | |
| I (the lowest risk of primary loan recoverability) | 3 528 | 2 994 |
| II | 4 038 | 6 960 |
| III | 7 148 | 4 861 |
| IV | 3 002 | 3 664 |
| V | 791 | 8 |
| VI | 1 201 | 2 161 |
| VII | 330 | 1 390 |
| VIII (the highest risk of primary loan recoverability) | - | 21 |
| **Total - local governments** | **20 038** | **22 059** |
| | | |
| **Total** | **420 921** | **436 464** |

From the Bank's point of view, a loan can be generally granted to clients rated as I-V categories, and to clients rated as VI and VII categories under an exception considering other risk and business parameters. Clients rated as the VIII category cannot be granted a loan. A client with a default event occurrence during the loan relationship is rated as VIII+1, which is part of the VIII category.

The table below summarises the quantitative structure of placements with other banks by individual rating category:

| Rating Class (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| I-VIII | - | - |
| Non-classified | 9 | 2 |
| **Total** | **9** | **2** |

The table below summarises the quantitative structure of available-for-sale financial assets (excl. investments in commercial companies) by individual rating category:

| Rating Class (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| I-III | - | - |
| IV | 8 721 | - |
| V | - | 8 353 |
| VI-VIII | - | - |
| Non-classified | 1 243 | 972 |
| **Total** | **9 964** | **9 325** |

The table below summarises the quantitative structure of held-to-maturity investments by individual rating category:

| Rating Class (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| I | - | - |
| II | 73 314 | 84 107 |
| III | 10 560 | - |
| IV-VIII | - | - |
| **Total** | **83 874** | **84 107** |

Available-for-sale financial assets and held-to-maturity financial investments were classified into rating categories according to the ratings by Moody's, Standard & Poor's, and Fitch Ratings.

**Summary of Individual Forms of Collateral by Loan Portfolio Classification at a Claimable Value of Collateral**

| (EUR '000) | Recoverable Value of Received Collateral by Loan Portfolio Classification | | | | | |
|---|---|---|---|---|---|---|
| | Assessed on an Individual Basis | | Assessed on a Portfolio Basis | | TOTAL | |
| | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2017 | 31 Dec 2016 |
| a) **Pledge over** | **193 482** | **215 444** | **545 056** | **515 732** | **738 538** | **731 176** |
| *Real estate* | *156 133* | *157 063* | *540 826* | *511 698* | ***696 959*** | ***668 761*** |
| *Securities* | - | *1 995* | - | - | - | ***1 995*** |
| *Movable assets* | *28 807* | *45 450* | *4 230* | *4 034* | ***33 037*** | ***49 484*** |
| *Trade receivables* | *8 542* | *10 936* | - | - | ***8 542*** | ***10 936*** |
| b) **Other collateral** | **1 220** | **9 770** | **6 885** | **5 985** | **8 105** | **15 755** |
| *State guarantees* | - | - | - | - | - | - |
| *Bank guarantees* | *92* | *6 320* | *721* | *103* | ***813*** | ***6 423*** |
| *Guarantees from other parties* | *5* | *692* | *4 656* | *3 905* | ***4 661*** | ***4 597*** |
| *Cash* | *1 123* | *2 758* | *1 508* | *1 680* | ***2 631*** | ***4 438*** |
| *Other* | - | - | - | *297* | - | ***297*** |
| **Total value of received collateral for the loan portfolio** | **194 702** | **225 214** | **551 941** | **521 717** | **746 643** | **746 931** |

*Note: The total amount of secured loans and receivables is higher than the total fair value of received collateral, as in the case of some loans the fair value of received collateral does not cover the total amount of a loan receivable.*

As at 31 December 2017 and 31 December 2016, the Bank did not record any receivables in its loan portfolio over which a pledge would be established or receivables with a restricted right of handling.

**Breakdown of Loans and Receivables by Number of Days Overdue**

| 31 Dec 2017 (EUR '000) | Without Identified Impairment | With Identified Impairment | Defaulted | Provision | Total - Net |
|---|---|---|---|---|---|
| Within maturity | 1 062 381 | 21 717 | 21 717 | (5 903) | 1 078 195 |
| Up to 30 days overdue | 22 110 | 1 640 | 1 640 | (1 145) | 22 605 |
| From 31 to 90 days overdue | 10 007 | 1 376 | 1 376 | (2 547) | 8 836 |
| From 91 to 180 days overdue | 30 | 7 361 | 7 361 | (3 653) | 3 738 |
| From 181 to 360 days overdue | 34 | 12 794 | 12 794 | (7 613) | 5 215 |
| More than 360 days overdue | 378 | 88 431 | 88 431 | (65 167) | 23 642 |
| **Total – gross** | **1 094 940** | **133 319** | **133 319** | **(86 028)** | **1 142 231** |
| Provisions for loan losses | (5 087) | (80 941) | (80 941) | **(86 028)** | - |
| **Total – net** | **1 089 853** | **52 378** | **52 378** | **-** | **1 142 231** |
| Claimable value of collateral | 695 139 | 51 504 | 51 504 | - | **746 643** |

| 31 Dec 2016 (EUR '000) | Without Identified Impairment | With Identified Impairment | Defaulted | Provision | Total - Net |
|---|---|---|---|---|---|
| Within maturity | 1 044 206 | 23 445 | 23 445 | (5 172) | 1 062 479 |
| Up to 30 days overdue | 22 065 | 1 894 | 1 894 | (880) | 23 079 |
| From 31 to 90 days overdue | 12 864 | 8 522 | 8 522 | (3 811) | 17 575 |
| From 91 to 180 days overdue | 44 | 12 568 | 12 568 | (3 461) | 9 151 |
| From 181 to 360 days overdue | 42 | 14 490 | 14 490 | (9 123) | 5 409 |
| More than 360 days overdue | 340 | 84 988 | 84 988 | (56 886) | 28 442 |
| **Total – gross** | **1 079 561** | **145 907** | **145 907** | **(79 333)** | **1 146 135** |
| Provisions for loan losses | (5 167) | (74 166) | (74 166) | **(79 333)** | - |
| **Total – net** | **1 074 394** | **71 741** | **71 741** | **-** | **1 146 135** |
| Claimable value of collateral | 683 970 | 62 961 | 62 961 | - | **746 931** |

If any portion of a receivable (principal, interest, etc) is overdue or if the receivable was not settled in full by the maturity date or if the receivable is higher than the approved limit, the receivable is considered to be an overdue receivable.

**Ageing Structure of Loans and Receivables without Identified Impairments, Gross**

| 31 Dec 2017 (EUR '000) | Within Maturity | Overdue 1 to 30 Days | Overdue More Than 30 Days | Total | Provision |
|---|---|---|---|---|---|
| **Non-retail loans** | **421 527** | **472** | **1 347** | **423 346** | **1 678** |
| Overdrafts and revolving loans | 63 592 | - | 210 | **63 802** | 276 |
| Investment and operation loans | 348 691 | 468 | 771 | **349 930** | 1 350 |
| Overdrafts on term deposit accounts | 598 | 1 | 365 | **964** | 26 |
| Factoring loans | 8 644 | 3 | - | **8 647** | 26 |
| Other | 2 | - | 1 | **3** | - |
| **Retail loans** | **640 854** | **21 638** | **9 102** | **671 594** | **3 409** |
| Mortgages | 17 188 | 1 068 | 305 | **18 561** | 35 |
| Consumer loans | 621 510 | 20 520 | 8 673 | **650 703** | 3 314 |
| Overdrafts on term deposit accounts | 1 853 | 26 | 117 | **1 996** | 52 |
| Other | 303 | 24 | 7 | **334** | 8 |
| **Total** | **1 062 381** | **22 110** | **10 449** | **1 094 940** | **5 087** |

| 31 Dec 2016 (EUR '000) | Within Maturity | Overdue 1 to 30 Days | Overdue More Than 30 Days | Total | Provision |
|---|---|---|---|---|---|
| **Non-retail loans** | **437 299** | **816** | **1 318** | **439 433** | **1 461** |
| Overdrafts and revolving loans | 62 675 | 130 | 60 | **62 865** | 222 |
| Investment and operation loans | 367 579 | 682 | 893 | **369 154** | 1 179 |
| Overdrafts on term deposit accounts | 828 | 4 | 365 | **1 197** | 45 |
| Factoring loans | 6 217 | - | - | **6 217** | 15 |
| Other | - | - | - | **-** | - |
| **Retail loans** | **606 907** | **21 249** | **11 972** | **640 128** | **3 706** |
| Mortgages | 21 611 | 1 478 | 928 | **24 017** | 120 |
| Consumer loans | 583 157 | 19 726 | 10 919 | **613 802** | 3 501 |
| Overdrafts on term deposit accounts | 1 879 | 24 | 117 | **2 020** | 75 |
| Other | 260 | 21 | 8 | **289** | 10 |
| **Total** | **1 044 206** | **22 065** | **13 290** | **1 079 561** | **5 167** |

Loans without identified impairments include portfolio- and individually-assessed loans.

### Ageing Structure of Loans and Receivables with Identified Impairments, Gross

| 31 Dec 2017 (EUR '000) | Within Maturity | Overdue 1 to 30 Days | Overdue More Than 30 Days | Total | Provision |
|---|---|---|---|---|---|
| **Non-retail loans** | **20 507** | **-** | **46 077** | **66 584** | **36 972** |
| Overdrafts and revolving loans | 897 | - | 6 245 | **7 142** | 5 293 |
| Investment and operation loans | 19 610 | - | 37 819 | **57 429** | 29 917 |
| Overdrafts on term deposit accounts | - | - | 1 995 | **1 995** | 1 750 |
| Factoring loans | - | - | 18 | **18** | 12 |
| Other | - | - | - | **-** | - |
| **Retail loans** | **1 210** | **1 640** | **63 885** | **66 735** | **43 969** |
| Mortgages | 144 | 81 | 4 394 | **4 619** | 1 950 |
| Consumer loans | 1 055 | 1 559 | 58 111 | **60 725** | 40 799 |
| Overdrafts on term deposit accounts | - | - | 1 276 | **1 276** | 1 113 |
| Other | 11 | - | 104 | **115** | 107 |
| **Total** | **21 717** | **1 640** | **109 962** | **133 319** | **80 941** |

| 31 Dec 2016 (EUR '000) | Within Maturity | Overdue 1 to 30 Days | Overdue More Than 30 Days | Total | Provision |
|---|---|---|---|---|---|
| **Non-retail loans** | **19 082** | **992** | **59 061** | **79 135** | **38 328** |
| Overdrafts and revolving loans | 1 899 | - | 9 355 | **11 254** | 8 042 |
| Investment and operation loans | 17 170 | 992 | 46 435 | **64 597** | 28 546 |
| Overdrafts on term deposit accounts | - | - | 1 943 | **1 943** | 1 706 |
| Factoring loans | 13 | - | 1 328 | **1 341** | 34 |
| Other | - | - | - | **-** | - |
| **Retail loans** | **4 363** | **902** | **61 507** | **66 772** | **35 838** |
| Mortgages | 1 512 | 166 | 5 006 | **6 684** | 2 317 |
| Consumer loans | 2 839 | 730 | 55 258 | **58 827** | 32 420 |
| Overdrafts on term deposit accounts | - | - | 1 165 | **1 165** | 1 019 |
| Other | 12 | 6 | 78 | **96** | 82 |
| **Total** | **23 445** | **1 894** | **120 568** | **145 907** | **74 166** |

### Concentration of Credit Risk to the Slovak Republic

The following table presents the Bank's credit risk to the Slovak Republic, companies controlled by the Slovak government, municipalities, and similar exposures:

| (EUR '000) | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | Amount | Portion of Total Assets | Amount | Portion of Total Assets |
| Cash, due from banks and balances with the National Bank of Slovakia | 134 732 | 9.24% | 147 272 | 10.12% |
| Loans and receivables, net of provisions for possible losses | 19 948 | 1.37% | 22 094 | 1.52% |
| Held-to-maturity financial investments | 73 314 | 5.03% | 73 482 | 5.05% |
| **Total** | **227 994** | **15.64%** | **242 848** | **16.69%** |

### Concentration of Credit Risk to other EU Member States

The following table presents the Bank's credit risk to other member states of the European Union:

| (EUR '000) | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | Amount | Portion of Total Assets | Amount | Portion of Total Assets |
| Held-to-maturity financial investments | 10 560 | 0.72% | 10 625 | 0.73% |
| **Total** | **10 560** | **0.72%** | **10 625** | **0.73%** |

### Maximum Exposure to Credit Risk

The following table provides an overview of the Bank's maximum exposure to credit risk, regardless of any held collateral or other mitigation of credit risk resulting from financial instruments (assets):

| (EUR '000) | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Due from banks and balances with the National Bank of Slovakia | 146 099 | 150 331 |
| Financial assets at fair value through profit or loss | 1 | 6 |
| Available-for-sale financial assets, gross | 9 970 | 9 331 |
| Loans and receivables, gross | 1 228 259 | 1 225 468 |
| Held-to-maturity financial investments | 83 874 | 84 107 |
| **Subtotal of balance sheet risks** | **1 468 203** | **1 469 243** |
| Guarantees issued | 23 600 | 15 838 |
| Issued letters of credit | 150 | - |
| Loan commitments to clients | 51 959 | 51 110 |
| **Subtotal of off-balance sheet risks** | **75 709** | **66 948** |
| **Total** | **1 543 912** | **1 536 191** |

## 37. Market Risk

The Bank is exposed to market risks. Market risks arise from open positions in transactions with interest rate, foreign exchange, and equity instruments, all of which are exposed to general and specific market changes. The Bank does not undertake any transactions with gold, precious metals or other commodities.

### *Market Risk Management*

The Bank´s principal risks include currency (foreign exchange) risks and interest rate risk.

The Bank categorises its financial instruments into the trading portfolio (trading book) or the non-trading portfolio (banking book) reflecting the purpose for which the financial instruments have been acquired.

The trading book also includes positions arising from selected banking instruments acquired by the Bank with a view to generating short-term profits from the difference between the purchase and sale price. All other positions in financial instruments are carried in the banking book.

The Bank has established maximum exposure limits to selected counterparties (banks). The counterparty limit is split into the credit limit, settlement limit and pre-settlement limit depending on the type of undertaken transactions.

### *Currency Risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

To analyse foreign currency risk sensitivity, the Bank uses the historical simulation method of Value- at-Risk (VaR) methodology. To calculate VaR, the Bank opted for a 99% confidence level, a one-year historical database of daily EUR/foreign currency movements, and a 1-day time limit. The VaR reflects the potential loss that will not be exceeded in 99% of overnight movements in foreign exchange rates.

The set of currency risk limits consists of the following restrictions in respect of the Bank's open positions:
- Overnight limits
- Intraday limits
- VaR limit
- Daily stop-loss limit
- Stress test limit and extraordinary stress test limit

### *Net Foreign Exchange Position*

The table below provides an analysis of the Bank's foreign currency exposures in primary currencies for selected categories of asset and liability:

| 31 Dec 2017 (EUR '000) | EUR | USD | HUF | Other Currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 166 777 | 770 | 9 616 | 4 170 | **181 333** |
| Placements with other banks, net of provisions for possible placement losses | 9 | - | - | - | **9** |
| Financial assets at fair value through profit or loss | 1 | - | - | - | **1** |
| Available-for-sale financial assets | 8 727 | 1 243 | - | - | **9 970** |
| Loans and receivables net of provisions for possible losses | 1 141 972 | 55 | 203 | 1 | **1 142 231** |
| Held-to-maturity financial investments | 83 874 | - | - | - | **83 874** |
| **Liabilities** | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 10 106 | - | - | 262 | **10 368** |
| Amounts due to customers | 1 085 577 | 11 226 | 9 039 | 3 837 | **1 109 679** |
| Liabilities from issued debt securities | 167 745 | - | - | - | **167 745** |
| Subordinated debt | 20 008 | - | - | - | **20 008** |
| **Net currency exposure at 31 Dec 2017** | **117 924** | **(9 158)** | **780** | **72** | **109 618** |

As at 31 December 2017, the "Value at Risk" calculated from open foreign currency positions of the Bank was EUR 1 thousand.

| 31 Dec 2016 (EUR '000) | EUR | USD | HUF | Other Currencies | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 174 821 | 1 205 | 985 | 2 652 | **179 663** |
| Placements with other banks, net of provisions for possible placement losses | 2 | - | - | - | **2** |
| Financial assets at fair value through profit or loss | 6 | - | - | - | **6** |
| Available-for-sale financial assets | 8 359 | 972 | - | - | **9 331** |
| Loans and receivables net of provisions for possible losses | 1 145 811 | 7 | 316 | 1 | **1 146 135** |
| Held-to-maturity financial investments | 84 107 | - | - | - | **84 107** |
| **Liabilities** | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 2 929 | 1 | - | 214 | **3 144** |
| Amounts due to customers | 1 154 333 | 18 071 | 6 879 | 2 208 | **1 181 491** |
| Liabilities from issued debt securities | 116 309 | - | - | - | **116 309** |
| Subordinated debt | 20 008 | - | - | - | **20 008** |
| **Net currency exposure at 31 Dec 2016** | **119 527** | **(15 888)** | **(5 578)** | **231** | **98 292** |

As at 31 December 2016, the "Value at Risk" calculated from open foreign currency positions of the Bank was EUR 3 thousand.

***Interest Rate Risk***

Interest rate risk is the risk that the net current value of financial instruments will change due to changes in market interest rates. An interest rate risk is a risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates and the risk that the maturity of interest-accruing assets will differ from the maturity of interest-bearing liabilities used to finance these assets. Hence, the period for which the interest rate is attached to the financial instrument shows the extent to which this instrument is exposed to the interest rate risk.

In the classification of interest-rate sensitive assets and liabilities by time bands, the Bank uses a statistical model for the classification of deposits without contractual maturity and loans with an administrative (floating) interest rate. The model is based on the calculation of a minimal margin from correlations between market interest rates and the interest rates of individual deposit and loan products.

In monitoring interest rate risk the Bank uses the following limits for the interest rate risk inherent in the trading book and for the interest rate risk inherent in the banking book:

***Limits for the Interest Rate Risk Inherent in the Trading Book:***

- Trading book position limit
- Duration-position limit

***Limits for the Interest Rate Risk Inherent in the Banking Book:***

- Interest rate risk limit (interest rate shock scenarios)
- The interest rate risk limit upon a change in the shape of the yield curve for the whole portfolio (jointly the banking book and the trading book)

### *Classification of Interest Rate Sensitive Assets and Liabilities by Time Band*

The tables below provide an analysis of the selected categories of assets and liabilities by time bands according to interest rate sensitivity. Assets and liabilities that are not sensitive to interest rates are classified as "not specified".

| **31 Dec 2017 (EUR '000)** | **On Call** | **Up to 3 Months** | **From 3 to 12 Months** | **From 1 Year to 5 Years** | **From 5 Years and Over** | **Not Specified** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 24 090 | 122 000 | - | - | - | 35 243 | **181 333** |
| Placements with other banks, net of provisions for possible placement losses | - | - | - | - | - | 9 | **9** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 1 | **1** |
| Available-for-sale financial assets | - | 8 721 | - | - | - | 1 249 | **9 970** |
| Loans and receivables, net of provisions for possible losses | - | 370 870 | 179 107 | 496 777 | 44 185 | 51 292 | **1 142 231** |
| Held-to-maturity financial investments | - | 1 776 | 96 | - | 82 002 | - | **83 874** |
| **Liabilities** | | | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 4 | 266 | 10 007 | - | - | 91 | **10 368** |
| Amounts due to customers | 300 008 | 139 729 | 239 872 | 262 973 | 150 955 | 16 142 | **1 109 679** |
| Liabilities from issued debt securities | - | 122 165 | 580 | 45 000 | - | - | **167 745** |
| Subordinated debt | - | 20 008 | - | - | - | - | **20 008** |
| **Interest rate risk at 31 Dec 2017** | **(275 922)** | **221 199** | **(71 256)** | **188 804** | **(24 768)** | **71 561** | **109 618** |

| **31 Dec 2016 (EUR '000)** | **On Call** | **Up to 3 Months** | **From 3 to 12 Months** | **From 1 Year to 5 Years** | **From 5 Years and Over** | **Not Specified** | **Total** |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 10 329 | 140 000 | - | - | - | 29 334 | **179 663** |
| Placements with other banks, net of provisions for possible placement losses | - | - | - | - | - | 2 | **2** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 6 | **6** |
| Available-for-sale financial assets | - | 8 353 | - | - | - | 978 | **9 331** |
| Loans and receivables, net of provisions for possible losses | - | 377 016 | 170 251 | 453 704 | 58 377 | 86 787 | **1 146 135** |
| Held-to-maturity financial investments | - | 1 777 | 96 | - | 82 234 | - | **84 107** |
| **Liabilities** | | | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 206 | 218 | 2 000 | - | - | 720 | **3 144** |
| Amounts due to customers | 230 393 | 192 106 | 315 540 | 301 057 | 124 632 | 17 763 | **1 181 491** |
| Liabilities from issued debt securities | - | 70 568 | 741 | 45 000 | - | - | **116 309** |
| Subordinated debt | - | 20 008 | - | - | - | - | **20 008** |
| **Interest rate risk at 31 Dec 2016** | **(220 270)** | **244 246** | **(147 934)** | **107 647** | **15 979** | **98 624** | **98 292** |

***Interest Rate Risk Sensitivity Analysis***

An analysis of interest rate risk sensitivity is based on the assumption of a shift of the yield curve by 100 base points during the following 2.5 years (straight-line). Therefore, assets and liabilities with residual maturities over 2.5 years will not have an impact on the Bank's economic value. For a potential decrease in the economic value in the event of a change in the yield curve shape (shift of the yield curve by 100 bp, which will have a linear effect on the yield curve shape within 2.5 years; there is no change in the yield curve shape over 2.5 years) the Bank set a limit of 5% of Tier 1 capital.

| Portfolio EUR | Up to 1 Month | Up to 3 Month | Up to 6 Month | Up to 12 Month | Up to 2 Years | Up to 3 Years | Up to 4 Years | Up to 5 Years | Up to 7 Years | Up to 10 Years | Up to 15 Years | Over 15 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net balance sheet position of Banking Book | (77 474) | 31 638 | (46 765) | (19 624) | 119 197 | 20 210 | (32 070) | 81 503 | 44 166 | (69 085) | 142 | 8 |
| Net off-balance sheet position of Banking Book | (9 434) | - | - | - | - | - | - | - | - | - | - | - |
| Banking Book GAP, total | (86 908) | 31 638 | (46 765) | (19 624) | 119 197 | 20 210 | (32 070) | 81 503 | 44 166 | (69 085) | 142 | 8 |
| Weight factor | 0.04% | 0.15% | 0.31% | 0.50% | 0.55% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Weighted positions (total GAP x weight factor) | (35) | 47 | (145) | (98) | 656 | - | - | - | - | - | - | - |

In the EUR portfolio, unfavourable movements in interest rates would have a negative impact on the Bank's economic value in the amount of EUR 425 thousand (31 December 2016: EUR 488 thousand).

In the USD portfolio, unfavourable movements in interest rates would have a negative impact on the Bank's economic value in the amount of EUR 22 thousand (31 December 2016: EUR 35 thousand).

In the CZK portfolio, unfavourable interest rate movements would have a negative impact on the Bank's economic value in the amount of EUR 1 thousand (31 December 2016: EUR 0).

The overall impact on the Bank's economic value in all portfolios (USD, EUR, CZK, and other foreign currencies) represents a decrease by EUR 451 thousand (31 December 2016: decrease by EUR 526 thousand) due to unfavourable movements in all interest rates. When using the same scenario for the trading portfolio, there is no impact on the Bank's profit/loss as at 31 December 2017 (31 December 2016: nil effect).

***Other Price Risks***

Under the IFRS definition, other price risks represent the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (other than changes arising from the interest rate risk or currency risks) irrespective of whether these changes are attributable to the factors that are specific for the individual financial instrument or factors affecting all similar financial instruments traded on the market.

Other price risks within the Bank primarily include equity and commodity risks. The Bank is not an active player on the equity or commodity markets and hence other price risks are immaterial.

## 38. Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Bank monitors its liquidity based on expected cash inflows and cash outflows and manages the liquidity risk by building highly-liquid assets portfolios.

The net on-balance sheet liquidity position represents the extent to which the Bank may be required to provide funding to settle its liabilities associated with financial instruments. The Bank maintains its liquidity profile in accordance with the requirements of the National Bank of Slovakia. The following tables show an analysis of the assets, liabilities and equity according to their maturities, reflecting the remaining period between the reporting date and the contractual maturity date.

This analysis was prepared on the basis of the most prudent consideration of maturity dates in cases where the repayment schedules facilitate earlier repayment. The assets and liabilities that could not be included into the relevant time buckets according the residual maturity are reported in the 'from 5 years and over' category. Liabilities to clients due within one month principally include current accounts from which the clients are authorised to make withdrawals at call. The Bank's historical experience suggests, however, that these accounts represent a stable source of funding.

***Classification of Balance Sheet Assets and Liabilities into Time Bands per Residual Maturity as at 31 December 2017***

| (EUR '000) | Within 1 Month | From 1 Month to 3 Months | From 3 to 12 Months | From 1 Year to 5 Years | From 5 Years and Over | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 181 333 | - | - | - | - | **181 333** |
| Placements with other banks, net of provisions for possible placement losses | 9 | - | - | - | - | **9** |
| Financial assets at fair value through profit or loss | 1 | - | - | - | - | **1** |
| Available-for-sale financial assets | - | 36 | 8 685 | - | 1 249 | **9 970** |
| Loans and receivables, net of provisions for possible losses | 22 335 | 29 506 | 147 226 | 382 446 | 560 718 | **1 142 231** |
| Held-to-maturity financial investments | - | 1 776 | 96 | - | 82 002 | **83 874** |
| Investments in subsidiaries | - | - | - | - | - | **-** |
| Non-current tangible assets | - | - | - | - | 20 761 | **20 761** |
| Non-current intangible assets | - | - | - | - | 8 299 | **8 299** |
| Current tax asset | - | - | 1 904 | - | - | **1 904** |
| Deferred tax asset | - | - | - | 5 033 | - | **5 033** |
| Other assets | 2 146 | 372 | 286 | 8 | 1 340 | **4 152** |
| **Total assets** | **205 824** | **31 690** | **158 197** | **387 487** | **674 369** | **1 457 567** |
| **Liabilities** | | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 361 | - | 1 436 | 8 571 | - | **10 368** |
| Amounts due to customers | 806 697 | 57 654 | 181 257 | 57 987 | 6 084 | **1 109 679** |
| Liabilities from issued debt securities | 173 | 72 992 | 49 580 | 45 000 | - | **167 745** |
| Current tax liability | - | - | - | - | - | **-** |
| Provisions for liabilities | - | 140 | 145 | 2 946 | - | **3 231** |
| Other liabilities | 16 957 | 8 | 4 032 | - | - | **20 997** |
| Subordinated debts | - | 8 | - | 20 000 | - | **20 008** |
| Equity | - | - | - | - | 125 539 | **125 539** |
| **Total liabilities and equity** | **824 188** | **130 802** | **236 450** | **134 504** | **131 623** | **1 457 567** |
| **Net balance sheet liquidity position at 31 Dec 2017** | **(618 364)** | **(99 112)** | **(78 253)** | **252 983** | **542 746** | **-** |
| **Cumulative net balance sheet liquidity position at 31 Dec 2017** | **(618 364)** | **(717 476)** | **(795 729)** | **(542 746)** | **-** | **-** |

The classification of balance sheet assets and liabilities into time bands per residual maturity as at 31 December 2017 represents a GAP of EUR -618 million in the within-one-month time band (31 December 2016: EUR -594 mil.). The difference in the residual maturity between assets and liabilities due within 1 month is mainly caused by the classification of all non-term deposits and current accounts of clients into this time band. In line with the estimated maturity based on the standard behaviour of the Bank's clients, the net balance-sheet position of liquidity within one month is positive in the amount of EUR 117 million (31 December 2016: EUR 95 million). The Bank continuously complied with all NBS measures regulating this area during the entire period under review in 2017.

***Classification of Balance Sheet Assets and Liabilities into Time Bands per Residual Maturity as at 31 December 2016***

| (EUR '000) | Within 1 Month | From 1 Month to 3 Months | From 3 to 12 Months | From 1 Year to 5 Years | From 5 Years and Over | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash, due from banks and balances with the National Bank of Slovakia | 179 663 | - | - | - | - | **179 663** |
| Placements with other banks, net of provisions for possible placement losses | 2 | - | - | - | - | **2** |
| Financial assets at fair value through profit or loss | 6 | - | - | - | - | **6** |
| Available-for-sale financial assets | - | 36 | 8 317 | - | 978 | **9 331** |
| Loans and receivables, net of provisions for possible losses | 16 109 | 25 062 | 151 153 | 468 660 | 485 151 | **1 146 135** |
| Held-to-maturity financial investments | - | 1 777 | 96 | - | 82 234 | **84 107** |
| Investments in subsidiaries | - | - | - | - | - | **-** |
| Non-current tangible assets | - | - | - | - | 21 780 | **21 780** |
| Non-current intangible assets | - | - | - | - | 6 479 | **6 479** |
| Deferred tax asset | - | - | - | 4 933 | - | **4 933** |
| Other assets | 1 625 | 422 | 802 | 294 | - | **3 143** |
| **Total assets** | **197 405** | **27 297** | **160 368** | **473 887** | **596 622** | **1 455 579** |
| **Liabilities** | | | | | | |
| Due to banks and deposits from the National Bank of Slovakia and other banks | 1 144 | - | - | 2 000 | - | **3 144** |
| Amounts due to customers | 771 596 | 82 869 | 244 398 | 75 665 | 6 963 | **1 181 491** |
| Liabilities from issued debt securities | 427 | 55 141 | 15 741 | 45 000 | - | **116 309** |
| Current tax liability | - | 596 | - | - | - | **596** |
| Provisions for liabilities | 110 | 138 | 1 071 | 2 495 | - | **3 814** |
| Other liabilities | 18 085 | 3 376 | 1 084 | - | - | **22 545** |
| Subordinated debts | - | 8 | - | 18 000 | 2 000 | **20 008** |
| Equity | - | - | - | - | 107 672 | **107 672** |
| **Total liabilities and equity** | **791 362** | **142 128** | **262 294** | **143 160** | **116 635** | **1 455 579** |
| **Net balance sheet liquidity position at 31 Dec 2016** | **(593 957)** | **(114 831)** | **(101 926)** | **330 727** | **479 987** | **-** |
| **Cumulative net balance sheet liquidity position at 31 Dec 2016** | **(593 957)** | **(708 788)** | **(810 714)** | **(479 987)** | **-** | **-** |

***Classification of Selected Off-balance Sheet Liabilities into Time Bands per Residual Maturity***

| 31 December 2017 (EUR '000) | Within 1 Month | From 1 Month to 3 Months | From 3 to 12 Months | From 1 Year to 5 Years | From 5 Years and Over | Total |
|---|---|---|---|---|---|---|
| Future loans granted | 51 959 | - | - | - | - | **51 959** |
| Guarantees issued (excluding commitments for guarantees) | 2 267 | 1 576 | 7 942 | 4 392 | 1 640 | **17 817** |
| Issued letters of credit | - | - | 150 | - | - | **150** |
| Liabilities from spot transactions | 769 | - | - | - | - | **769** |
| Liabilities from forward transactions with a financial transfer | 9 504 | - | - | - | - | **9 504** |
| Provided guarantees from pledges | 80 008 | - | - | - | - | **80 008** |
| **Total as at 31 Dec 2017** | **144 507** | **1 576** | **8 092** | **4 392** | **1 640** | **160 207** |

| 31 December 2016 (EUR '000) | Within 1 Month | From 1 Month to 3 Months | From 3 to 12 Months | From 1 Year to 5 Years | From 5 Years and Over | Total |
|---|---|---|---|---|---|---|
| Future loans granted | 51 110 | - | - | - | - | **51 110** |
| Guarantees issued (excluding commitments for guarantees) | 35 | 2 346 | 2 809 | 3 210 | 1 927 | **10 327** |
| Liabilities from spot transactions | 74 | - | - | - | - | **74** |
| Liabilities from forward transactions with a financial transfer | 22 068 | - | - | - | - | **22 068** |
| Provided guarantees from pledges | 82 219 | - | - | - | - | **82 219** |
| **Total as at 31 Dec 2016** | **155 506** | **2 346** | **2 809** | **3 210** | **1 927** | **165 798** |

***Classification of Non-discounted Future Cash Flows from Financial Liabilities into Time Bands per Residual Maturity***

| **31 December 2017 (EUR '000)** | **Within 1 Year** | **From 1 Year to 5 Years** | **From 5 Years and Over** | **Adjustment** | **Total** |
|---|---|---|---|---|---|
| Due to banks and deposits from the National Bank of Slovakia and other banks | 1 797 | 8 571 | - | - | **10 368** |
| Amounts due to customers | 1 045 659 | 58 379 | 6 379 | (738) | **1 109 679** |
| Liabilities from issued debt securities | 123 446 | 45 656 | - | (1 357) | **167 745** |
| Subordinated debts | 601 | 21 714 | - | (2 307) | **20 008** |
| **Total as at 31 Dec 2017** | **1 171 503** | **134 320** | **6 379** | **(4 402)** | **1 307 800** |

| **31 December 2016 (EUR '000)** | **Within 1 Year** | **From 1 Year to 5 Years** | **From 5 Years and Over** | **Adjustment** | **Total** |
|---|---|---|---|---|---|
| Due to banks and deposits from the National Bank of Slovakia and other banks | 1 144 | 2 000 | - | - | **3 144** |
| Amounts due to customers | 1 099 962 | 76 657 | 6 963 | (2 091) | **1 181 491** |
| Liabilities from issued debt securities | 72 577 | 45 875 | - | (2 143) | **116 309** |
| Subordinated debts | 603 | 20 286 | 2 042 | (2 923) | **20 008** |
| **Total as at 31 Dec 2016** | **1 174 286** | **144 818** | **9 005** | **(7 157)** | **1 320 952** |

*Note: Non-discounted future cash flows arising from interest are included in individual categories of financial liabilities. A difference between the carrying amount of financial liabilities and their contractual non-discounted cash flows is disclosed in the Adjustment Column.*

## 39. Operational Risk

The Bank defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes in the Bank, human error, the failure of systems used by the Bank or the risk of loss arising from external events. Operational risk also includes legal risk, ie the risk of loss primarily due to a failure to enforce contracts, the threat of unsuccessful legal disputes or court rulings with adverse impacts.

Operational risk management is addressed in the Instructions of the Board of Directors entitled "Procedures for Operational Risk Management", which provide guidance on identifying, estimating, monitoring and mitigating operational risks. The Bank's principal objectives and principles in managing operational risks and the method of calculating capital requirements for operational risks are outlined in the "Risk Management Strategy" document. Market & Operational Risks department ensures compliance with the operational risk management requirements, processes and techniques and coordinates the development of basic principles and the development and maintenance of consistent methodology for identifying, monitoring, assessing and mitigating operational risks.

The Bank's objective is to map operational risks in all processes and business activities and, based on an understanding and analysis thereof, to adopt effective measures to mitigate the impacts of operational risks and to improve process quality while sustaining the Bank's competitiveness. The key aspect of the operational risks management system is an active cooperation between process owners and all organisational units of the Bank, wide awareness, communication of information and understanding of the tasks assigned. The Bank has strictly-defined competencies and responsibilities for the respective work procedures in the operational risks area.

The Operational Risk Management Committee is responsible for coordinating the operational risk management system. Operational risks reports are regularly submitted to the ALCO, the Bank's and parent company's managements and the regulator. Undesired disruptions of the Bank's activities and protection of critical processes from the consequences of serious errors and unforeseen events are covered by the Bank's business continuity plans.

In the regular self-assessment process, the Bank analyses significant sources of risk that the Bank is facing, identifies new risks and estimates the impact and likelihood of the origin thereof. The Bank adopts measures to mitigate and eliminate operational risks while considering efficiency and cost effectiveness of proposed measures in respect of the respective process efficiency. In addition to the self-assessment of risks, the Bank uses also other instruments for the operational risk management, such as the system of Key Indicators of Risk and Scenario Analysis.

Based on prior approval granted by the NBS to use the Advanced Measurement Approach and Operational Risk Management (AMA), the Bank as a member of the OTP Group has been calculating the capital requirement to cover operational risk using an advanced approach and the Group model since September 2015. All internal and external data, business environment factors and scenario analysis results are entered in the model.

## 40. Earnings/(Loss) Per Share

The earnings/(loss) per share attributable to ordinary shares of the Bank are computed as net profit for the relevant year attributable to the ordinary share-holders divided by weighted average number of ordinary shares outstanding during the year as follows:

| | Note | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|
| Profit/(loss) (in EUR '000) | | (5 930) | (3 021) |
| Profit/(loss) for the reporting period attributable to ordinary share-holder (in EUR '000) | | (5 930) | (3 021) |
| **Profit/(loss) per share** | | | |
| **At face value of EUR 3.98 (in EUR)** | | **(0.264)** | **(0.136)** |
| Weighted average number of ordinary shares | 18 | 11 503 458 | 11 503 458 |
| **At face value of EUR 39 832.70 (in EUR)** | | **(2 637.70)** | **(1 359.05)** |
| Weighted average number of ordinary shares | 18 | 570 | 570 |
| **At face value of EUR 1.00 (in EUR)** | | **(0.066)** | **(0.034)** |
| Weighted average number of ordinary shares | 18 | 21 060 739 | 20 050 705 |

## 41. Settlement of a Loss for the Previous Reporting Period

The General Meeting of OTP Banka Slovensko, a.s. was held on 4 April 2017. The General Meeting approved the separate financial statements for 2016 and the settlement of loss for 2016 as follows:

| **Settlement of the loss for 2016 (EUR '000)** | |
|---|---|
| Profit/(loss) for 2016 – loss | (3 021) |
| *Settlement:* | |
| *- Retained earnings from previous years* | *(3 021)* |

## 42. Proposed Settlement of a Loss for the Current Reporting Period

| **Proposed settlement of the loss for 2017 (EUR '000)** | |
|---|---|
| Profit/(loss) for 2017 – loss | (5 930) |
| *Settlement:* | |
| *- Retained earnings from previous years* | *(5 930)* |

The proposed settlement of a loss for 2017 is subject to approval by the General Meeting of OTP Banka Slovensko, a.s.

## 43. Events After the Reporting Date

No other significant events occurred between the balance sheet date and the authorisation date of the financial statements for publication that would require an adjustment or additional disclosure.