

Privatbanka, a.s.

**2016
ANNUAL REPORT**

Privatbanka, a.s.

**Financial Statements
Prepared in accordance with International
Financial Reporting Standards,
as adopted by the European Union**

**Year Ended 31 December 2016
and Independent Auditor's Report**

Privatbanka, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board and Board of Directors of Privatbanka, a.s. and the Audit Committee:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Privatbanka, a.s. (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of 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.

<i>Description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud identified during the planning of, and/or in the course, of the audit</i>	<i>Summary of the Auditor's response to the risks</i>
Individual Provisions for Loans and Advances to Customers	
<p><i>Refer to Note No. 6 of the financial statements</i></p> <p>The assessment of required provisions for loan receivables requires management to apply a significant level of judgement. The level of individual loan loss provisions reflects assumptions made by management when evaluating the following critical areas:</p> <ul style="list-style-type: none"> a) Identification of loss events for individual loan customers; b) Collateral valuation; and c) Determination of expected future cash flows. 	<p>During our audit, we evaluated the effectiveness of key controls that Bank management has established over the provision, processing and monitoring of loans, identification of impaired loan receivables and provision creation. For provisions determined on an individual loan basis, this included controls over the client's review and loan approval, recording of the provided loan, documentation completeness of the loan payout to the client, monitoring of loan repayment, regular review of collateral valuation, calculation and authorisation of provisioning by Bank management.</p>

<p>Due to the significance of these judgements and the amount of loans and advances to customers, the audit of individual provisions for loans to customers is a key audit matter.</p>	<p>We examined the appropriateness of provisioning methods on a sample of loans selected using statistical methods. During our audit, we reviewed loan documentation focussing on the recoverable amount of assets pledged in favour of the Bank, and the financial position and performance of debtors, repayment discipline and overall recoverability of loan receivables. We formed an independent view on the levels of provisions recorded while considering internal and external information. This comprised of an assessment of the work performed by the Bank's financial analysts and internal experts on the monitoring of collateral value and the determination of expected future cash flows from individual loans. We assessed the adequacy of the calculation of the estimated discounted cash flows and where we determined that other assumptions or inputs for the calculation of estimated future cash flows existed, we recalculated the provision amount taking into consideration such assumptions and compared it with the recorded provision to identify any potential errors.</p>
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Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

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

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

We evaluated whether the Bank's annual report includes information whose disclosure is required by the Act on Accounting.

Based on procedures performed during the audit of the financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting.

Furthermore, based on our understanding of the Bank and its position, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issuance of this auditor's report. There are no findings that should be reported in this regard.

Appointment and Approval of the Auditor

We were appointed as the statutory auditor by the Bank's statutory body based on our approval by the Bank's General Meeting held on 24 March 2016. The length of our total uninterrupted engagement including previous renewals of the engagement (extensions of the period for which we were appointed) and our reappointments as the statutory auditors is 9 years.

Consistency with the Additional Report to the Audit Committee

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

Non-Audit Services

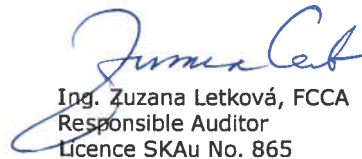
We did not provide the Bank with any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities and remained independent of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

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

Bratislava, 13 March 2017



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



Ing. Zuzana Letková, FCCA
Responsible Auditor
Licence SKAu No. 865

Statement of Financial Position as at 31 December 2016
Prepared in accordance with International Financial Reporting Standards,
as adopted by the European Union

	Note	2016 EUR '000	2015 EUR '000
Assets			
Cash and balances with central banks	4.	37 698	30 428
Loans and advances to banks	5.	11 036	9 733
Loans and advances to customers	6.	289 178	248 414
Available-for-sale securities	8.	198 457	176 186
Securities at fair value through profit or loss	9.	-	273
Held-to-maturity securities	10.	78 209	127 468
Investments in subsidiaries	11.	7	7
Tangible and intangible assets	12.	1 177	1 175
Tax prepayments	13.	118	90
Other assets	14.	2 800	1 492
Total assets		618 680	595 266
Liabilities and equity			
Due to banks	15.	96 212	96 198
Deposits from customers	16.	439 932	417 202
Debt securities issued	17.	6 782	16 832
Deferred tax liability	18.	682	622
Provisions for liabilities		331	331
Other liabilities	19.	6 215	5 041
Total liabilities		550 154	536 226
Equity			
Share capital	20.	25 121	25 121
Capital reserves and funds from profit	20.	5 024	4 692
Revaluation reserves on available-for-sale securities, including deferred tax	20.	2 618	2 300
Revaluation reserves on the translation of hedging derivative instruments, including deferred tax	20.	(93)	(150)
Retained earnings		35 856	27 077
Total equity		68 526	59 040
Total liabilities and equity		618 680	595 266

The notes on pages 12 to 76 form an integral part of these financial statements.

Income Statement for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards,
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	Note	2016 EUR '000	2015 EUR '000
Interest income and similar income	26.	18 987	21 636
Interest expense and similar expense	27.	(7 418)	(7 459)
Net interest income		11 569	14 177
Fee and commission income	28.	10 472	7 828
Fee and commission expense	29.	(637)	(643)
Net fee and commission income		9 835	7 185
Trading profit	30.	1 116	1 042
Other income		1	18
Operating income		22 521	22 422
General operating expenses	31.	(11 492)	(11 207)
Depreciation and amortisation of TA and IA	12.	(374)	(513)
Operating expense		(11 866)	(11 720)
Operating profit		10 655	10 702
(Creation)/release of impairment losses, write-off and assignment of receivables	32.	973	(2 865)
Net profit/(loss) on the sale of tangible assets		5	-
(Creation)/release of provisions for liabilities		-	6
Profit before taxes		11 633	7 843
Current tax	22.	(2 527)	(2 646)
Deferred tax	22.	5	37
Net profit		9 111	5 234

The notes on pages 12 to 76 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards,
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	Note	2016 EUR '000	2015 EUR '000
Profit after tax from the Income Statement		9 111	5 234
Remeasurement of available-for-sale securities		365	(973)
Deferred tax on available-for-sale securities		(47)	214
Remeasurement of cash flow hedging derivative instruments		75	35
Deferred tax on cash flow hedging derivative instruments		(18)	(8)
Comprehensive income		9 486	4 502

The notes on pages 12 to 76 form an integral part of these financial statements.

Statement of Changes in Shareholder's Equity
for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards,
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	Share capital	Retained earnings	Capital reserves and funds from profit	Revaluation reserves on available-for-sale securities (including deferred tax)	Revaluation reserves on the translation of hedging derivative instruments, (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 1 January 2016	25 121	27 077	4 692	2 300	(150)	59 040
Additions to statutory reserve fund	-	(332)	332	-	-	-
2016 comprehensive income	-	9 111	-	318	57	9 486
At 31 December 2016	25 121	35 856	5 024	2 618	(93)	68 526

	Share capital	Retained earnings	Capital reserves and funds from profit	Revaluation reserves on available-for-sale securities (including deferred tax)	Revaluation reserves on the translation of hedging derivative instruments, (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 1 January 2015	25 121	22 320	4 215	3 059	(177)	54 538
Additions to statutory reserve fund	-	(477)	477	-	-	-
2015 comprehensive income	-	5 234	-	(759)	27	4 502
At 31 December 2015	25 121	27 077	4 692	2 300	(150)	59 040

The notes on pages 12 to 76 form an integral part of these financial statements.

Cash Flow Statement for the year ended 31 December 2016
Prepared in accordance with International Financial Reporting Standards,
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	Note	2016 EUR '000	2015 EUR '000
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	33.	12 989	8 214
(Increase)/decrease in minimum reserve deposits with the NBS		(7 901)	11 195
(Increase)/decrease in loans and advances to customers		(39 918)	(34 164)
(Increase)/decrease in securities at fair value through profit or loss		255	3 541
(Increase)/decrease in available-for-sale securities		(22 457)	28 492
(Increase)/decrease in other assets		(1 308)	(375)
Increase/(decrease) in amounts due to banks		22	(66 562)
Increase/(decrease) in deposits from customers		22 602	14 032
Increase/(decrease) in debt securities issued – promissory notes		-	(1 055)
Income tax paid		(2 556)	(3 653)
Increase/(decrease) in other liabilities		1 256	832
Net cash flows from operating activities		(37 016)	(39 503)
Cash flows from investing activities			
(Increase)/decrease in held-to-maturity securities		48 074	45 976
Purchase of tangible and intangible assets		(376)	(232)
Sale of tangible and intangible assets		5	1
Net cash flows from investment activities		47 703	45 745
Cash flow from financing activities			
Increase upon issue of long-term debt securities - bonds		334	4 662
Decrease upon maturity and redemption of long-term debt securities - bonds		(10 349)	(3 000)
Net cash flows from financing activities		(10 015)	1 662
Net increase in cash and cash equivalents		672	7 904
Cash and cash equivalents at the beginning of the year	34.	11 764	3 860
Cash and cash equivalents at the end of the year	34.	12 436	11 764

The Cash Flow Statement has been prepared using an indirect method.

The notes on pages 12 to 76 form an integral part of these financial statements.