KDB Bank Europe Ltd.,
pobočka zahraničnej banky

Financial statements

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

for the 31 December 2016

Contents

KPMG

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<u>Translation of the Auditors' Report originally prepared in Slovak language</u>

Independent Auditors' Report

To the Founder and Heads of Branch of KDB Bank Europe Ltd., pobočka zahraničnej banky:

Opinion

We have audited the financial statements of KDB Bank Europe Ltd., pobočka zahraničnej banky ("the Branch"), which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income and cash flows for the year then ended, and notes to 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 Branch as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Branch in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor 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.

Responsibilities of the Heads of the Branch for the Financial Statements

The Heads of the branch are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Heads of the branch 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, the Heads of the branch are responsible for assessing the Branch'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 the statutory body either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Heads of the branch.

- Conclude on the appropriateness of the Heads of the branch'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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Branch 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.

29 March 2017
Bratislava, Slovak Republic

Slovenská komora audítorov
SKAU
Č. licencie 96
KPMG
Slovensko spol. s r.o.

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ing. Mgr. Peter Špeťko, PhD., ACCA
License UDVA No. 994

KDB Bank Europe Ltd., pobočka zahraničnej banky

Statement of financial position as at 31 December 2016

	Notes	31 December 2016 € '000	31 December 2015 € '000
Assets			
Cash and cash equivalents	6	16,592	27,645
Loans and advances to banks	7	5	5
Loans and advances to customers	8	23,992	23,366
Property and equipment	9	-	-
Deferred tax asset	16	-	-
Income tax receivable	11	82	-
Other assets	10	12	250
		40,683	51,266
Liabilities			
Customer accounts	12	20,207	13,826
Corporate income tax	11	-	99
Other liabilities	13	179	169
		20,386	14,094
Head Office accounts			
Head Office funding	14	20,529	36,786
Accumulated losses/Profit for the period	14	(232)	386
		20,297	37,172
		40,683	51,266

The financial statements, which include the notes on pages 8 to 35, were approved on 29 March 2017 by:

Ladislav Šimko
Statutory representative

Seokjoon Lee
Statutory representative

KDB Bank Europe Ltd., pobočka zahraničnej banky

Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	Notes	31 December 2016 € '000	31 December 2015 € '000
Interest income	17	392	1,027
Interest expense	18	(125)	(416)
Net interest income		267	611
Net fee and commission income	19	81	299
Net trading income	20	-	-
Other income		60	7
Operating income		141	306
Administrative expenses	21	(588)	(374)
Depreciation	9	-	-
Other expense		(49)	(55)
Operating expenses		(637)	(429)
Operating (loss)/profit before impairment losses and provisions		(229)	488
Creation of allowances of impairment losses on loans	8	-	-
(Loss)/profit before income taxes		(229)	488
Income taxes	22	(3)	(102)
(Loss)/profit after taxation		(232)	386
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(232)	386

The notes on pages 8 to 35 form part of these financial statements.

Statement of cash flows
for the year ended 31 December 2016

	Notes	31 December 2016 € '000	31 December 2015 € '000
Cash flows from operating activities			
(Loss)/profit before changes in operating assets and liabilities	23	(229)	488
Income tax paid		(184)	(3)
(Increase)/decrease in loans and advances to customers		(626)	13,256
Decrease/(increase) in other assets		238	(25)
Increase in customer accounts		6,381	3,274
Increase/(decrease) in other liabilities		10	(29)
Net cash from operating activities		5,590	16,961
Cash flows from investing activities			
Proceeds from sale of property and equipment		-	-
Purchase of property and equipment		-	-
Net cash used in investing activities		-	-
Cash flows from financing activities			
Increase in funding received from Head Office		(16,643)	(9,073)
Net cash from financing activities		(16,643)	(9,073)
Net (decrease)/increase in cash and cash equivalents		(11,053)	7,888
Cash and cash equivalents at beginning of the period		27,645	19,757
Cash and cash equivalents at end of year	6	16,592	27,645

The notes on pages 8 to 35 form part of these financial statements.

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2016

1. General information

KDB Bank Europe Ltd., pobočka zahraničnej banky ("the Branch") was established on 23 May 2013 as a branch of KDB Bank Europe Ltd. ("Head Office" or "Bank") and commenced its activities on 5 August 2013. The Branch provides banking services in the Slovak Republic under the single European passport principle.

The principal activities of the Branch are the provision of bank products and services to commercial and private customers not only resident in the Slovak Republic.

The Branch's registered office is at Obchodná 2, 811 06 Bratislava 1. The Branch's income tax ('IČO') and value added tax ('DIČ') identification numbers are as follows: IČO: 47 248 572, DIČ: 4020406775.

Statutory body:
Ing. Ladislav Šimko
Tae Hee Kim
Seokjoon Lee from 15 June 2016

Establisher:
KDB Bank Europe Ltd.

Financial statements for branch's headquarter are prepared by KDB Bank Europe Ltd. Financial statements for KDB Bank Europe Ltd. are available at Bajcsy Zsilinszky út 42 – 46, 1054 Budapest, Hungary.

Consolidated financial statements including the statements of the Bank are prepared by the Korea Development Bank, the ultimate parent company, and are available at 16 - 3 Yeouido-Dong Yeongdeungpo-gu, Seoul, 150-973 South Korea.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

These financial statements are prepared as required by the Section 17(a) of the Slovak Act on Accounting 431/2002, as amended.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in euro, which is the Branch's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in note 4 and 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in both periods presented in these financial statements.

(a) Transactions in foreign currency

Transactions denominated in foreign currencies are translated to euro at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling at the end of reporting period. All resulting gains and losses are recorded in *Net trading income* in profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Branch’s trading operations and are presented, together with all other changes in the fair value of trading assets and liabilities, in *Net trading income*.

(c) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawn-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and foreign exchange transactions.

(e) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3. Significant accounting policies continued

(f) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Financial assets and liabilities

(i) Recognition
Loans and advances, deposits by banks and customer accounts are initially recognised on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value though profit or loss) are initially recognised on the trade date at which the Branch becomes a party to the contractual provisions of the instrument.

(ii) Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or rights to receive the contractual cash flows on the financial asset are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Branch is recognised as a separate asset or liability.

A financial liability is derecognised when the contractual obligations are discharged, cancelled or expire.

The Branch also derecognises certain assets when it writes off balances pertaining to assets deemed to be uncollectible.

(iii) Offsetting
Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions.

(iv) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation, using the effective interest method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement
The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable-prices exist.

3. Significant accounting policies continued

(g) Financial assets and liabilities continued

Fair value hierarchy is followed in relation to the valuation of quoted market prices, the valuation of models with input data directly from the market and input data, which cannot be seen on the market.

(vi) Identification and measurement of impairment
At each end of reporting period, the Branch assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

The Branch considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment.

Objective evidence that financial assets (including investment securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Branch on terms that the Branch would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as a deterioration in economic conditions or adverse changes in the payment status of borrowers or issuers in that group.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash, unrestricted balances held with the National Bank of Slovakia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Branch in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position**.**

(i) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Branch acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to the statement of profit or loss and other comprehensive income. All changes in fair value are recognised as part of *Net trading income*. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

3. Significant accounting policies continued

(j) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branch does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

When the Branch purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo or stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Branch's financial statements.

(k) Property and equipment

(i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the cost of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs
The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. All bank premises and equipment are stated at historical cost less depreciation and amortization. Land is not depreciated. The depreciation and amortization rates used are as follows:

Land and buildings	16 years – 50 years
Furniture, fittings and equipment	3 years – 7 years
Other	3 years – 6 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(l) Intangible assets

Software
Software is stated at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight line basis over the 3-year till 6-year estimated useful life of the software.

3. Significant accounting policies continued

(m) Impairment of non-financial assets

The carrying amounts of the Branch's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Deposits, customer accounts and Head Office funds

Deposits, customer accounts and Head Office funds are the Branch's main sources of financing.

Deposits, customer accounts and Head Office funds are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Branch sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Branch's financial statements.

(o) Provisions

A provision is recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Branch from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Branch recognises any impairment loss on the assets associated with that contract.

(p) Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

3. Significant accounting policies continued

(p) Employee benefits continued

(ii) Termination benefits
Termination benefits are recognised as an expense when the Branch is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iii) Short-term benefits
Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

(q) New standards and interpretations not yet adopted

Standards issued but not yet effective or not yet adopted by the EU up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments
Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

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

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

3. Significant accounting policies continued

(q) New standards and interpretations not yet adopted continued

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have an impact on the financial statements mainly due to the new expected losses model. Based on preliminary assessment The Branch expects the whole financial assets classified as the loans and receivables under IFRS 39 to be measured at amortised costs also under IFRS 9. Further it is expected that the deposits from customers will be continuously measured at amortised costs under IFRS 9.

IFRS 15 Revenue from contracts with customers
Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. Clarifications to IFRS 15 Revenue from Contracts with Customers is not yet endorsed by the EU but IFRS 15 Revenue from Contracts with Customers including Effective Date of IFRS 15 have been endorsed by the EU.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Branch's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Branch's financial statements. The timing and measurement of the Branch's revenues are not expected to change under IFRS 15 because of the nature of the Branch's operations and the types of revenues it earns.

IFRS 16 Leases
Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. Although, this pronouncement is not yet endorsed by the EU, it is deemed to be highly probable, that EU will endorse this pronouncement.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability.

3. Significant accounting policies continued

(q) New standards and interpretations not yet adopted continued

The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:
- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value (‘small-ticket’ leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

It is expected that the new Standard, when initially applied, will have a non-significant impact on the financial statements. It will require the Branch to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Branch acts as a lessee, but the amount of such leases is not material.

Amendments to IAS 7
The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Branch expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Branch.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Branch expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Branch because the Branch already measures future taxable profit in a manner consistent with the Amendments.

Amendments to IAS 40 Transfers of Investment Property
The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Branch does not expect that the amendments will have a material impact on the financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Branch does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Branch uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

3. Significant accounting policies continued

(q) New standards and interpretations not yet adopted continued

Annual Improvements to IFRSs relevant to Company's operations issued but not yet effective

The improvements introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. These amendments are applicable to annual periods beginning on or after either 1 January 2017 or 1 January 2018; to be applied retrospectively.

4. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for impairment

Assets accounted for at amortised cost are assessed for impairment as described in accounting policy.

The specific counterparty component of the total allowances for impairment applies to claims assessed individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the management responsible for credit risk management.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation of financial instruments

The Branch's accounting policies and methods for fair value measurements is discussed under note 3(g)(*v*) and note 26.

The Branch measures fair values using the following hierarchy of methods:

- Quoted market price in an active market for an identical instrument (Level 1).
- Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data (Level 2). Loans and advances to customers are included in the Level 2 hierarchy category.
- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments (Level 3).

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Branch determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

5. Financial risk management

(a) Introduction

The Branch has exposure to the following risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Information on the exposure to each of the above risks; the objectives, policies and processes for measuring and managing risk is set out below.

Risk management framework

Management have overall responsibility for the establishment and oversight of the Branch's risk management framework. In exercising this responsibility they have established the Risk Management Committee (RMC), which are responsible for developing and monitoring risk management policies in their respective areas.

The Branch's risk management policies are established to identify and analyse the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Branch, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Branch uses a wide range of financial instruments. A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Examples include loans and deposits.

Derivatives are also financial instruments which are so called because their value is derived from the value of an underlying instrument, index or reference rate. The principal categories of derivatives are forwards, including futures, options and swaps.

(b) Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Branch's loans and advances to customers, the provision of guarantees, the issuance of documentary credits, loans and advances to other banks and the purchase of investment securities. For risk management reporting purposes, the Branch considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk is strictly controlled through a structure involving Management, the credit risk department and credit risk management of the Branch's Head Office.

The Branch's procedures for managing credit risk include the establishment of concentration limits by borrower, counterparty, industrial sector and product. Credit appraisal procedures are performed before individual borrower and counterparty limits are approved, and collateral is obtained to reduce credit risk. The Branch also continually monitors performance of the portfolio to ensure that prompt action can be taken to minimise potential losses.

5. Financial risk management continued

(b) Credit risk continued

The Branch is required to implement credit policies and procedures, with credit approval authorities delegated by the Head Office Credit Committee. The Branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks, including those subject to central approval.

Regular audits on credit processes are undertaken by Internal Audit.

Classification of receivables

Receivables are classified by Asset Quality Classification (“AQC ”) into 5 grades.

Problem free receivables (1): Based upon a reliable documentation it can be assumed that a claim will be reimbursed totally without any incurred loss, and delinquency in principal or interest payment is not more than 15 days.

Monitoring receivables (2): If there is no sign of a possible future loss at the time of evaluation but the Branch obtains such information that supports the special treatment. Those claims, that require extraordinary handling as a consequence of a debtor, credit type or other factor, may also belong to this category.

Below average receivables (3): If uncertain amount of loss at the time of evaluation can be foreseen or a claim bears a higher risk than an average one.

Doubtful receivables (4): If overdue exceeds 90 days, or at the time of evaluation certain amount of loss seems to be unavoidable but the amount of loss is not known.

Bad (impaired) receivables (5): If the incurred loss exceeds 70 % of its total outstanding amount, and the debtor does not settle its obligation in spite of several warnings, or liquidation procedure has been started against the debtor.

Past due but not impaired receivables

Loans and securities where contractual interest or principal payments are past due but the Branch believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Branch.

Receivables with renegotiated terms

Receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower’s financial position and where the Branch has made concessions that it would not otherwise consider. After the restructuring these receivables are graded 2 the Branch’s internal credit risk grading system. The restructured receivable remains in this category in case of satisfactory performance after restructuring, in case of non-satisfactory performance it would be classified in lower grade (from 3 to 5) accordingly.

Allowances for impairment

The Branch establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures.

5. Financial risk management continued

(b) Credit risk continued

The gross amounts of individually impaired loans and advances to customers and by risk grade:

	Loans and advances to customers	
	31 December 2016	31 December 2015
	€ '000	€ '000
Neither past due nor impaired		
Grade 1:	23,992	23,366
Grade 2:	-	-
Grade 3:	-	-
Grade 4:	-	-
Past due or impaired		
Grade 5	-	-
Allowance for impairment	-	-
Total carrying amount	23,992	23,366

At 31 December 2016, the Branch did not have clients with default loans (grade 5).

	Loans and advances to customers	
	31 December 2016	31 December 2015
	€ '000	€ '000
Loans with renegotiated terms	2,978	3,426
Total carrying amount	2,978	3,426

Loans with renegotiated terms and the forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Branch has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Branch has provided initially. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. The Branch implements forbearance policy in order to maximize collection opportunities and minimize the risk of default. Under the Branch's forbearance policy, an exposure is identified as forborne if both of these two conditions are satisfied:

- The Branch must determine the financial difficulties that the debtor is facing or is about to face;
- The exposure must be subject to renegotiation or refinancing, granted in relation to the borrower's current financial difficulties or financial difficulties that would have occurred in the absence of the renegotiation or refinancing measures.

5. Financial risk management continued

(b) Credit risk continued

Non-performing loans
Non-performing loans are the loans for which the Branch determines that it is probable that the Branch will be unable to collect all principal and interest due in accordance with the contractual terms of the loan agreement.

Write-off policy
The Branch writes off a loan/security balance (and any related allowances for impairment losses) graded 5, when Work Out Department determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral

The Branch holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Carrying amount of the collateral as at 31 December 2016 was in the amount of € 5,437 thousand (2015: € 3,108 thousand). Fair value of the collateral as at 31 December 2016 was in amount of € 19,691 thousand (2015: € 5,616 thousand). Estimates of fair values are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Generally, collateral is not held for loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Similarly, collateral is not usually held in respect of investment securities, and no such collateral was held at 31 December 2016 or 31 December 2015.

The Branch monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk is shown below:

	Loans and advances to customers	
	31 December 2016	**31 December 2015**
	€ '000	**€ '000**
Concentration by sector		
Corporate	23,992	23,366
Bank	-	-
State	-	-
Retail	-	-
	23,992	23,366

	Loans and advances to customers	
	31 December 2016	**31 December 2015**
	€ '000	**€ '000**
Concentration by location		
Netherlands	-	17,422
Czech Republic	13,409	2,510
Slovak Republic	10,580	3,431
Romania	3	3
Hungary	-	-
South Korea	-	-
	23,992	23,366

5. Financial risk management continued

(b) Credit risk continued

Concentration by location for loans and advances is measured based on the location of the entity holding the assets, which has a high correlation with the location of the borrower. Concentration by location of any investment securities is measured based on the location of the issuer of the security. The Branch provided a financing also to a Romanian client. This credit line unused amount of 9,000 thousand EUR as at 31 December 2016 .

Settlement risk

The Branch's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Branch mitigates this risk by conducting settlements through a settlement/ clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual obligations. Settlement limits form part of the credit approval/limit and monitoring process.

(c) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Branch's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch's reputation.

The Treasury department is in KDB Bank Europe Ltd., the Branch receives information regarding the liquidity profile of the Branch's financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branch. The liquidity requirements are met through short-term loans from inter-bank market to cover any short-term fluctuations, and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored. All liquidity policies and procedures are subject to review and approval of the RMC (Risk Management Committee). Daily reports cover the liquidity position.

Liquidity risk management system

A summary report, including any exceptions and remedial actions taken, is submitted regularly to the RMC.

Liquidity risk rate

All procedures and activities in the area of the Branch's liquidity management are provided by KDB Bank Europe Ltd. The purpose is to ensure the maximum matching of asset and liability maturities, in individual currencies and to ensure the necessary structure of assets.

By consistent implementation of the liquidity management strategy, an almost perfect matching of asset and liability maturities should be obtained. RMC of KDB Bank Europe Ltd. is kept informed of the liquidity position of the Branch.

An important element in the liquidity management system is the regular provision of information to top management on liquidity status, and in particular, if liquidity significantly differs from the expected status.

5. Financial risk management continued

(c) Liquidity risk continued

Information for top management has to be regular, timely and in sufficient detail to allow the evaluation of the Branch’s liquidity risk as a whole or in individual portfolios.

The Branch uses maturity GAP calculations for monitoring liquidity risk. GAP calculations are prepared for the main currencies (EUR, HUF, USD, and CHF) and aggregated level. The assets and liabilities are classified regarding their remaining maturity according to the original date shown in the contract.

The remaining period to maturity of monetary assets and liabilities at 31 December 2016 and 31 December 2015 is in the following table.

Cash flows expected by the branch can differ significantly from this analysis. For example, it is expected, that client´s accounts of liabilities will stay stable or with rising balance:

5. Financial risk management continued

(c) Liquidity risk continued

2016	Less than 3 months € '000	3 months - 1 year € '000	1 - 5 years € '000	More than 5 years € '000	Not specified € '000	Total € '000
Monetary assets						
Cash and cash equivalents	16,592	-	-	-	-	16,592
Loans and advances to banks	-	-	-	-	5	5
Loans and advances to customers	3	10,920	13,069	-	-	23,992
Income tax receivable	82	-	-	-	-	82
Other assets	12	-	-	-	-	12
	16,689	10,920	13,069	-	5	40,683
Monetary liabilities						
Customers accounts	19,365	779	63	-	-	20,207
Other liabilities	179	-	-	-	-	179
Head Office accounts	-	-	20,002	-	295	20,297
	19,544	779	20,065	-	295	40,683

2015	Less than 3 months € '000	3 months - 1 year € '000	1 - 5 years € '000	More than 5 years € '000	Not specified € '000	Total € '000
Monetary assets						
Cash and cash equivalents	27,645	-	-	-	-	27,645
Loans and advances to banks	-	-	-	-	5	5
Loans and advances to customers	5	5,936	17,425	-	-	23,366
Other assets	3	-	-	-	247	250
	27,653	5,936	17,425	-	252	51,266
Monetary liabilities						
Customers accounts	13,122	704	-	-	-	13,826
Other liabilities	91	-	-	-	78	169
Corporate income tax	99	-	-	-	-	99
Head Office accounts	-	36,645	-	-	527	37,172
	13,312	37,349	-	-	605	51,266

In year 2016 and 2015 undiscounted cash flows from monetary liabilities do not significantly differ from the remaining maturities.

5. Financial risk management continued

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The RMC is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

In general, untradeable positions of interest rates risk is managed by Treasury division, which use investment securities, loans and advances to banks and derivative instruments to manage the overall position of the branch of non-tradable activities.

Sensitivity of expected net interest income:

	100 bp Parallel movement - increase	100 bp Parallel movement - decrease	50 bp Parallel movement - increase	50 bp Parallel movement - decrease
	€ '000	€ '000	€ '000	€ '000
31 December 2016				
31 December	10	(10)	5	(5)
Average for the period	21	(21)	11	(11)
Maximum for the period	33	(33)	17	(17)
Minimum for the period	10	(10)	5	(5)

	100 bp Parallel movement - increase	100 bp Parallel movement - decrease	50 bp Parallel movement - increase	50 bp Parallel movement - decrease
	€ '000	€ '000	€ '000	€ '000
31 December 2015				
31 December	33	(33)	17	(17)
Average for the period	21	(21)	11	(11)
Maximum for the period	33	(33)	17	(17)
Minimum for the period	9	(9)	5	(5)

The data are calculated from the portfolio consisting of loans and advances to banks, loans and advances to customers, deposits by banks and customer accounts.

5. Financial risk management continued

(d) Market risk continued

Branch showed the following currency structure of assets and liabilities in as at 31 December 2016:

Assets	USD € '000	HUF € '000	EUR € '000	Total € '000
Cash and cash equivalents	488	4,495	11,609	16,592
Loans and advances to banks	-	-	5	5
Loans and advances to customers	-	-	23,992	23,992
Income tax receivable	-	-	82	82
Other assets	-	-	12	12
	488	4,495	35,700	40,683
Liabilities				
Deposits by banks	-	-	-	-
Customer accounts	743	2,821	16,643	20,207
Other liabilities	-	-	179	179
Head Office funding	-	-	20,297	20,297
	743	2,821	37,119	40, 683

Branch showed the following currency structure of assets and liabilities in as at 31 December 2015:

Assets	USD € '000	HUF € '000	EUR € '000	Total € '000
Cash and cash equivalents	320	2,415	24,910	27,645
Loans and advances to banks	-	-	5	5
Loans and advances to customers	-	-	23,366	23,366
Other assets	-	-	250	250
	320	2,415	48,531	51,266
Liabilities				
Customer accounts	722	2,112	10,992	13,826
Corporate income tax	-	-	99	99
Other liabilities	-	-	169	169
Head Office funding	-	-	37,172	37,172
	722	2,112	48,432	51,266

5. Financial risk management continued

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branch's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Branch's operations and are faced by all business entities.

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Branch's standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the relevant managers, with summaries submitted to senior management of the Branch.

(f) Capital management

KDB Bank Europe Ltd.'s lead regulator is National Bank of Hungary, which sets and monitors capital requirements for the Group as a whole. As a branch of KDB Bank Europe Ltd., the Branch is not subject to the capital requirements set by the National Bank of Slovakia ("NBS").

6. Cash and cash equivalents

	31 December 2016 € '000	31 December 2015 € '000
Cash and balances at the central bank	157	195
Loans and advances to banks with original contractual maturity up to 3 months (note 7)	16,440	27,455
Less compulsory minimum reserve (note 7)	(5)	(5)
	16,592	27,645

7. Loans and advances to banks

	31 December 2016 € '000	31 December 2015 € '000
Loans and advances by original maturity:		
- 3 months or less	16,440	27,455
Compulsory minimum reserve (note 6)	5	5
	16,445	27,460
Less amounts with original maturity up to 3 months (note 6)	(16,440)	(27,455)
Total Loans and advances to banks	5	5

The Branch did not have current account at central bank as at 31 December 2016 or 31 December 2015. The compulsory minimum reserve requirement in amount of € 5 thousand (2015: € 5 thousand) was fulfilled through the cooperation of a partner bank in accordance with the requirements of the National Bank of Slovakia.

8. Loans and advances to customers

	31 December 2016 € '000	31 December 2015 € '000
Repayable on demand	-	-
Other loans and advances to customers by remaining maturity:		
- up to 3 months or less	3	5
- 3 months to 1 year	10,920	5,936
- 1 to 5 years	13,069	17,425
- over 5 years	-	-
	23,992	23,366
Allowance for impairment	-	-
	23,992	23,366

9. Property and equipment

The Branch did not have property (land and buildings) and equipment as at 31 December 2016 (2015: € nil).

10. Other assets

	31 December 2016 € ‘000	31 December 2015 € ‘000
Other receivables	12	250
	12	250

11. Income tax receivable

	2016 tis. eur	2015 tis. eur
Income tax expense for the current year (note 22)	(3)	(102)
Tax prepayments	85	3
Income tax receivable/(payable)	82	(99)

12. Customer accounts

	31 December 2016 € ‘000	31 December 2015 € ‘000
Repayable on demand	-	-
Other deposits with agreed maturity dates or periods of notice, by remaining maturity:		
- up to 3 months	19,365	13,122
- from 3 months up to 1 year	779	704
- from 1 year up to 5 years	63	-
	20,207	13,826

13. Other liabilities

	31 December 2016 € ‘000	31 December 2015 € ‘000
Accrued general expenses	141	89
Salaries and social and health insurance liability	32	-
Other	6	2
Deferred income of syndicated loan	-	78
	179	169

14. Head Office accounts

	Head Office funding € '000	Accumulated profit/ loss € '000	Total € '000
At 31 December 2014	45,953	(95)	45,858
Funds received	(9,072)	-	(9,072)
Transfers	(95)	95	-
Profit for 2015	-	386	386
At 31 December 2015	36,786	386	37,172
Funds received	(16,643)	-	(16,643)
Transfers	386	(386)	-
Loss for 2016	-	(232)	(232)
At 31 December 2016	20,529	(232)	20,297

Head Office provides funds to the Branch with the intention of long-term project financing as required and in the required currencies. Interest rates reflect the current market price at which resources for the Branch are obtained by Head Office.

15. Commitments and contingencies

	31 December 2016 € '000	31 December 2015 € '000
Contingent liabilities:	-	-
Commitments:		
Confirmed credit lines	9,000	9,000
Unused overdraft limits	2	-
	9,002	9,000

16. Deferred tax asset

If certain conditions are met, Slovak tax legislation permits the carry forward of tax losses for offset against future taxable profits. Losses may be carried forward and utilized on the straight line basis against future taxable profits over a maximum period of four years.
The deferred tax asset was not recognised as at 31 December 2016 (2015: € nil).

17. Interest income

	31 December 2016 € '000	31 December 2015 € '000
Loans and advances to banks	-	-
Loans and advances to customers	392	1,027
	392	1,027

In 2016 no interest income from loans and advances to customers is recognized as income from impaired loans (2015: € nil).

18. Interest expense

	31 December 2016 € '000	31 December 2015 € '000
Head Office funds	118	404
Customer accounts	7	12
	125	416

19. Net fee and commission income

	31 December 2016 € '000	31 December 2015 € '000
Fee and commission income		
Corporate banking fees	323	377
Banks	-	-
	323	377
Fee and commission expense		
Banks	(242)	(78)
Net fee and commission income	81	299

20. Net trading income

The Branch had no income from foreign exchange operations nor the other trading income (2015: € nil).

21. Administrative expenses

	31 December 2016 € '000	31 December 2015 € '000
Employee costs:		
Wages and salaries	(353)	(183)
Social insurance	(74)	(61)
Other personnel expenses	(12)	-
Total employee costs	(439)	(244)
Other administrative expenses		
Service fee	(69)	(64)
Rent	(59)	(40)
Financial statement audit	(12)	(12)
Telecommunication	(9)	(10)
Other services	-	(4)
Total administrative expenses	(588)	(374)

At 31 December 2016, the average number of employees (equivalent to full-time staff) was 7 (2015: 6).

22. Income tax

	2016 %	31 December 2016 € '000	2015 %	31 December 2015 € '000
(Loss)/profit before taxation		(229)		488
Income tax using the domestic tax rate	(22)	-	22	107
Non-deductible expenses	-	-	0.18	1
Other items	-	-	0.67	3
Tax losses carried forward	-	-	(1.93)	(9)
Tax loss	22	229		
Tax licence	1.31	3	-	-
Total income tax expense	1.31	3	20.92	102

23. Profit/loss before changes in operating assets and liabilities

	31 December 2016 € '000	31 December 2015 € '000
Profit before income/loss before taxation	(229)	488
Adjustments for non-cash items:		
Depreciation	-	-
Loss on disposal of property and equipment	-	-
Impairment losses on loans	-	-
Provisions	-	-
	(229)	488
Net cash used in operating activities includes the following cash flows:		
Interest received	392	1,027
Interest paid	(125)	(416)
	267	611

24. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The Branch is controlled by KDB Bank Europe Ltd., which is incorporated in Hungary.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

24. Related party transactions continued

(a) Head Office

Amounts due from and to the Head Office were as follows:

	31 December 2016 € '000	31 December 2015 € '000
Assets		
Cash and cash equivalents	16,440	27,455
Loans and advances to banks	-	-
Liabilities		
Deposits by banks	-	-
Head Office funds:		
Interbank borrowing	20,529	36,786
Profit/loss from the period	(232)	386
Transactions during the year were as follows:		
Interest income	-	-
Interest expense	118	404
Head Office charges	-	-

(b) Enterprises related to Head Office

There were no amounts due from and to companies related to Head Office as at 31 December 2016 (2015: € nil).

(c) Senior management

Salaries and remuneration for management personnel during the period

	2016 TEUR	2015 TEUR
Cash income	230	73
Other benefits	9	-
	239	73

25. Operating lease

The Branch has signed lease agreements as at 31 December 2016 with the following payments:

€ '000	Up to 3 months	3 months - 1 year	1 year- 5 years	More than 5 years
Leased property	10	29	62	-
Leased furniture	5	15	-	-
	15	44	62	-

25. Operating lease continued

The Branch has signed lease agreements as at 31 December 2015 with the following payments:

	Up to 3 months € '000	3 months - 1 year € '000	1 year- 5 years € '000	More than 5 years € '000
Leased property	10	29	100	-
Leased furniture	-	1	-	-
	10	30	100	-

26. Fair values

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of the Branch's financial assets and liabilities at year end were as follows:

	Carrying value 31 December 2016 € '000	Fair value 31 December 2016 € '000	Carrying value 31 December 2015 € '000	Fair value 31 December 2015 € '000
Financial assets				
Cash and cash equivalents	16,592	16,592	27,645	27,645
Loans and advances to banks	5	5	5	5
Loans and advances to customers	23,992	23,992	23,366	23,366
Financial liabilities				
Customer accounts	20,207	20,207	13,826	13,826

The following methods and assumptions were used in estimating the fair values of the Branch's financial assets and liabilities:

Loans and advances to banks
The fair value of current accounts with other banks approximates to book value. For amounts with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to banks are calculated by discounting the future cash flows using current interbank rates.

Loans and advances to customers
Loans and advances are stated net of any impairment losses. The fair values of other loans and advances to customers are calculated by discounting the future cash flows using current market rates. The fair value of the loans to customers approximates to book value.

Customer accounts
The fair values of current accounts and term deposits with a remaining maturity of less than three months approximate their carrying amounts. The fair values of other customer accounts are calculated by discounting the future cash flows using current deposit rates.