Annual Report 2017

VÚB Asset Management správ. spol., a.s.

VÚB Asset Management správ. spol., a. s., Mlynské Nivy 1, P. O. Box 6, 820 04 Bratislava 24
Obchodný register: Okresný súd Bratislava I, Oddiel: Sa, Vložka číslo 2416/B, IČ: 35786272, Kontakt: 0850 123 000, www.vubam.sk

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Translation of the Appendix to the independent Auditors' Report originally prepared in Slovak language

Appendix to the independent Auditors' Report issued on the Annual Report

pursuant to Article 27 (6) 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")

To the Shareholder, Supervisory Board and the Management Board of VÚB Asset Management, správ. spol. a.s.:

We have audited the separate financial statements of VÚB Asset Management, správ. spol. a.s. ("the Company") as of 31 December 2017 presented in the Appendix to the Annual Report. We have issued an independent auditors' report on the separate financial statements on 8 February 2018 with the following wording:

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of VÚB Asset Management, správ. spol. a.s. ("the Company"), which comprise the separate statement of financial position as at 31 December 2017, separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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 ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audits 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 separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following is a description of the individual key audit matter pursuant to Article (10) (2) (c) of the Regulation.

Fee and commission income

The amount of fee and commission income for the year ended 31 December 2017: EUR 17,419 thousand (31 December 2016: EUR 14,815 thousand).

Refer to Note 2.18 (Fees and Commissions) and Note 16 (Fee and commission income) of the separate financial statements.

Key audit matter	Our response
Fee and commission income accounts for the majority of the Company's revenues for the year ended 31 December 2017. Fee and commission income comprises administration fees, fees for distribution of mutual fund certificates, termination fees and other fees and commissions. The administration fees are earned from the funds under the Company's management and are accrued over the period to which they relate. Fees for distribution of mutual fund certificates and termination fees are earned from the investors in the funds and recognized on the respective distribution and termination of the mutual fund certificates. We focused on this area due to the high daily volume of underlying transactions with an effect on the amount of fee and commission income coupled with the magnitude of the amounts involved. The integrity, completeness and accuracy of the data underlying the fee calculations is also a key area of our audit focus.	Our audit procedures included, among others: • Assessing and testing the design, implementation and operating effectiveness of the key internal controls relating to the calculation and recognition of fee and commission income. • Assessing and testing the design, implementation and operating effectiveness of internal controls over daily revaluation of the net asset values of the funds under management; • Assisted by our own IT specialists, assessing and testing the design, implementation and operating effectiveness of the Company's controls over the integrity of the IT systems used for processing of fee and commission income, including controls over access rights, data and change management to these systems; • Tracing fee rates applied by the Company in its assessment of the fees and related fee calculation formulas to the statutes of the funds managed by the Company; • For the year ended 31 December 2017, developing an independent expectation of: o administration fees - based on daily net asset values of the funds under management for the year, fee rates and calculation formulas stated in the funds' statutes. As part of our work, assisted by our own valuation specialists, we independently assessed the net asset value of the funds' investment portfolios by comparing these amounts to publicly available quoted prices and obtaining confirmations of the investments from custodians;

- fees for distribution of mutual fund certificates - based on volume of mutual fund certificates sold derived from the system independent of the accounting function and fee rates stated in the funds' statutes,

- termination fees - based on volume of mutual fund certificates bought derived from the system independent of the accounting function and fee rates stated in the funds' statutes,

Comparing our expectation with the amounts recognized by the Company and investigating any significant differences;

- Inspecting a sample of manual journal entries related to fee and commission income recognized during and after the reporting period through the date of our audit report, and tracing the details of the entries with relevant underlying documentation. Investigating any unusual transactions or relationships;

- Assessing accuracy and completeness of the revenue recognition related disclosures against the requirements of the relevant financial reporting standards.

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

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

In preparing the separate financial statements, the Management Board is responsible for assessing the Company'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 Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 separate 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 separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of the Management Board'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 Company'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 separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

8 February 2018
Bratislava, Slovak Republic

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

Responsible auditor:
Ing. Petra Černáková
License UDVA No. 1120

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Annual Report

The Management Board is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the separate financial statements does not cover other information in the Annual Report.

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

With respect to the Annual Report of the Company, we consider whether it includes the disclosures required by the Act on Accounting.

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

- the information given in the Annual Report for the year 2017 is consistent with the separate financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the Company and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

27 February 2018
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. Petra Černáková
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CONTENT

1. Company Details

Business Name: **VÚB Asset Management, správ. spol., a.s.**
Legal Form: Joint-stock company
CRNo.: 35 786 272
Business Register: District Court Bratislava I, Section: Sa, File No.: 2416/B
Registered Office: Mlynské Nivy 1, 820 04 Bratislava 24
Date of Establishment: 17 April 2000

Scope of Business :

- Establishment and management of standard funds and European standard funds,
- Establishment and management of alternative investment funds and foreign alternative investment funds.

Mutual Funds under Management as of 31 December 2017:

- VÚB AM FOND BANKOVÝCH VKLADOV,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM KONZERVATÍVNE PORTFÓLIO,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM ACTIVE BOND FUND,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM FLEXIBILNÝ KONZERVATÍVNY FOND,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM MAGNIFICA EDÍCIA I,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM MAGNIFICA EDÍCIA II,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM MAGNIFICA EDÍCIA III,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM EDÍCIA SVET,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM ACTIVE MAGNIFICA,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM FLEXIBLE MAGNIFICA FUND,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.
- VÚB AM DLHOPISOVÝ KONVERGENTNÝ FOND,

open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.

- VÚB AM DYNAMICKÉ PORTFÓLIO,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.

- VÚB AM VYVÁŽENÝ RASTOVÝ FOND,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.

- VÚB AM PRIVÁTNY EUROVÝ FOND,
  open-ended mutual fund of VÚB Asset Management, správ. spol., a.s.

Depositary: Všeobecná úverová banka, a. s.
Registered Office: Mlynské Nivy 1, 829 90 Bratislava

Shareholders: 100% Eurizon Capital S.A.

VÚB Asset Management, správ. spol., a.s. (VÚB AM) is 100% shareholder in 2 subsidiaries, PBZ Invest in Croatia and CIB IFM in Hungary. VÚB AM does not have an organizational unit abroad.

Supervisory Board: Prof. Giorgio Di Giorgio - chairman
Alexander Resch - member
Massimo Mazzini - member
Bruno Alfieri - member
Doc. Ing. Tomáš Výrost, PhD. - member

Management Board: Marco Bus - chairman
RNDr. Ing. Marian Matušovič, PhD. - member and CEO
Emiliano Laruccia - member
Claudio Marco Malinverno - member
Marco Canton – member

2. Report of the Management Board of the Company's Activities and Equity in 2017

Market Environment in 2017

The overall situation on the world's financial markets can be characterised as very good in 2017. It has been characterised by inflation free global economic recovery. No significant event, which would have a negative impact on the development of market environment appeared on political scene or on the economic field. From apolitical point of view, the electoral calendar was monitored in the Netherlands, in France, as well as in Germany and the election results in the mentioned countries could generally be considered positive, i.e. positively accepted by the investors. In France a new president has been elected who has no long-term political experience. However, he won his voters in particular by planned important reforms in individual sectors of economy. In Germany Angela Merkel was re-elected as a chancellor which has been accepted by the markets as continuation of direction in the political as well as in the economic areas. An important even were also Negotiations between the Great Britain and the European Union regarding the departure of the country from that community. However, the markets did not take too much notice of these bilateral negotiations and thus they did not have a significant impact on the development of individual asset classes.

Positive developments in the financial market benefited from a very decent economic growth, whether in Europe or the US. This was the fastest growth of the world economy in the course of the last 7 years. Several economic parameters such as GDP growth, unemployment rate, financial indicators, etc. showed positive results and thus were the growth engine especially in the equity markets. Quarterly, earnings results of profitability of corporate sector ended on a very decent level.
Throughout the year the attention of the US has been focused on the President Donald Trump announced tax reform.. Its adoption was not easy. However, at the end of the year it succeeded in endorsing the biggest reform in the last 30 years. The most significant change is the reduction of corporate taxes from 35%to 21%.This rate should be applied permanently. It is generally expected that the tax reform will bring further economic growth through higher investments, wages as well as employment. The adoption of the indicated tax reform has been accepted by the financial market positively.
The economic situation in the developing countries can be characterised as stabilised. A contributing factor was the positive development of fuel prices, on which the mentioned countries depend to a high degree.

In the area of monetary policy the central banks and their activities have been under the magnifying glass of the whole spectrum of the financial market using certain measures, the central banks determined the direction of development of several financial tools. The European Central Bank (ECB) continued in its extraordinarily eased monetary policy. The interest rates remained on their unchanged level during the whole year. At the end of the year the interest rate for the main refinancing operations was 0% p.a., whereas the rate of one day sterilization operation represented -0.40% p.a. In the course of the last year ECB continued in implementation of the so-called quantitative easing (QE). This is the programme of purchase of bonds into their portfolio. The target of the expansionary monetary policy was the increase of long-term low inflation towards the target level of 2% as well as support of economic growth.
The American Central Bank (FED) implemented changes in its monetary policy. It made three increases of the interest rates, every time by 0.25%. In this way the interest rates rose from the level of 0.75% p.a. at the beginning of the year up to 1.5% p.a. at the end

of 2017. These increases were predicted by the market and thus did not cause any significant reactions on the financial market.

For majority of risk assets the last year brought above-average performance. These were mainly shares, bonds of emerging countries and commodities. However, in during the year volatility fluctuated on the historically lowest levels. Broad spectrum American index S&P 500 increased its value by almost 20% and got to its historical maximum. Eased monetary policy meant growth of majority of main world bond indexes, mainly bonds of the developing countries and corporate bonds. One of the few asset classes that did not bring any positive appreciation to the investors were the German bonds. The world economy growth meant also price increase of industrial metals, and crude oil Brent rose by approximately 14%. As far as foreign currency market is concerned, the American dollar weakened against the basket of major world currencies. The American dollar decreased against Euro by 14%.

All mentioned facts had impact on performance of the mutual funds managed by the asset management companyVÚB AM.

Market Scenario for 2018

In 2018, we shall witness further relative decent economic growth. The global economic scenario, which we have seen in the previous year, should still carry on. This would mean already the ninth year of continuous growth in the U.S.A. It will also be important to monitor the next steps of the president of the U.S.A., who has promised several measures to support economy at home, e.g. by fiscal expansion.

According to the OECD prognosis this will be the biggest global economy growth since 2011. This corresponds also to the present situationwith the lowest number of countries being in recession. Overall positive outlook in equity markets is supported by synchronised economic growth and increase of profitability of companies in most of the main investment regions. As a positive factor it is also necessary to consider a relatively good situation in emerging countries, which supports low valuations, very good macroeconomic situation and growth of commodity prices. On the other hand due to a long-term low volatility on the financial market it is necessary to consider also a scenario of healthy correction on the equity markets.

The attention will be focussed on central banks. Overall, the main central banks should continue in cautious approach to implementation of monetary policy. From the beginning of the year, ECB will probably gradually curb the program of quantitative easing. Its implementation has been for the time being planned in the volume of EUR 30 billion a month until September 2018. Several factors (inflation rate, state of economy, etc.) will influence its possible further extension. In February 2018, a change will take place in the leadership of FED, when Janet Yellen will be replaced by Jerome Powell. The continuity of monetary policy will be probably preserved, as Jerome Powell has similar opinions as the departing first woman to lead FED. It is generally expected that in 2018 interest rates increase will take place three times in the U.S.A., i.e. from the level of 2.00% to 2.25% towards the end of the year.

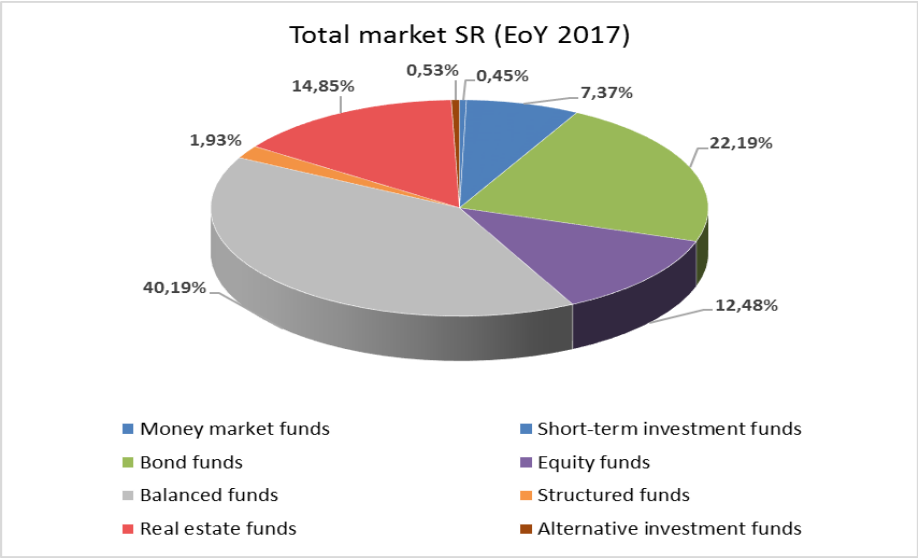
From the political point of view elections to be held in several countries such as Italy, Russia, Mexico and Brazil, will be closely monitored. It is also an important fact how the negotiations regarding the future government coalition in Germany will end. The possible

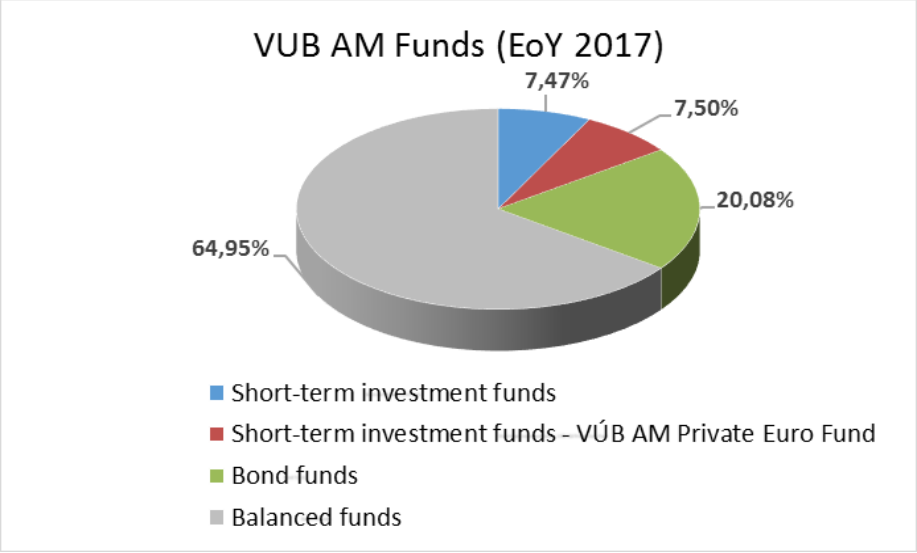
complications of negotiations regarding Brexit can be seen as risks for the European economy.

Market of Collective Investment in Slovakia

Based on the data published by the Slovak Association of Asset Management Companies (SASS) as of 29 December 2017 the net value of assets in mutual funds, funds of institutional investors and portfolios under management amounted to EUR 9 060.5 million, thus representing increase by 13.83% compared with the end of 2016. Out of the total volume under management the open-ended mutual funds amounted to EUR 8 310.2 million.

The balanced funds, favourite with the investors, have the largest market share (40.19%). They were followed by the bond funds (22.19%) and real estate funds (14.85%). Equity funds represented the fourth highest market share (12.48%). The short-term investments participated on the market in the amount of 7.37%.





Source : SASS; data as of 29 December 2017

Year 2017 can be characterized as successful from the point of view of client investments into mutual funds. The total volume of net sales represented EUR 703.5 million. The category of balanced funds recorded the highest volume (EUR +581.6

million.) This was followed by real estate funds (EUR 173.2 million) and equity funds (EUR 62.2 million). The categories of more conservative products recorded negative net sales as follows: short-term investment funds (EUR -88.8 million), bond funds (EUR -15.4 million) In the mentioned funds the negative net sales have been caused by their low performance potential.

Position of VÚB Asset Management, správ. spol., a.s., on the Slovak market of the collective investment.

Taking into account the market share and ranking of the top three asset management companies nothing has changed in 2017 in comparison with the previous year. With its market share of 20.9% the asset management company VÚB AM maintained its second position in managing the assets in the amount of EUR 1,737.81 million (at the end of 2017). This represents 10.6% increase of managed assets against the end of 2016.

Upon the prior approval granted by National Bank of Slovakia by its decision No. 100-000-012-263 and No. NBS1-000-002-920 dated on 13 December 2016, that became effective on 3 January 2017, mutual fund VÚB AM EUROVÝ FOND merged into VÚB AM KONZERVATÍVNE PORTOLIO on 16 March 2017.

Company	AUM 31/12/16 (EUR mln.)	AUM 31/12/17 (EUR mln.)	AUM change YTD	Market Share 31/12/16	Market Share 31/12/2017	Market Share change YTD	Duplications 31/12/17 (EUR mln.)
TAM (Reiffeisen)	1 934,36	2 031,44	5,0%	26,63%	24,45%	-2,18%	187,81
VÚB AM (ISP)	**1 571,57**	**1 737,81**	**10,6%**	**21,63%**	**20,91%**	**-0,72%**	**102,93**
AM SLSP (Erste)	1 130,60	1 254,89	11,0%	15,56%	15,10%	-0,46%	116,10
PP	905,49	1 117,66	23,4%	12,46%	13,45%	0,99%	27,68
KBC	368,86	360,61	-2,2%	5,08%	4,34%	-0,74%	0,18
Pioneer Investments	420,72	553,48	31,6%	5,79%	6,66%	0,87%	0,00
IAD Investments	292,84	354,62	21,1%	4,03%	4,27%	0,24%	11,36
ESPA (Erste)	207,97	283,71	36,4%	2,86%	3,41%	0,55%	186,93
AXA	167,82	198,08	18,0%	2,31%	2,38%	0,07%	0,00
Others	264,71	417,94	57,9%	3,64%	5,03%	1,39%	1,90
Total	**7 264,94**	**8 310,23**	**14,4%**	**100%**	**100%**		**637,3**

Source : SASS; data as of 29 December 2017

TOP 10 Funds in Slovakia 2017	Net Sales 2017 (EUR)
TAM - Private Growth	114 616 071
SPORO Aktívne portfólio, o.p.f.	99 721 990
VÚB AM - Edícia Svet	**76 375 503**
VÚB AM - Magnifica Edícia III	**76 216 121**
TAM - Private Growth 1	57 475 434
PP - Office real estate fund o.p.f.	55 618 711
VÚB AM - Dynamické portfólio	**54 323 341**
TAM - Dynamický dlhopisový fond	54 283 614
J&T BOND EUR zmiešaný o.p.f.	44 272 601
IAD - Prvý realitný fond	36 642 084

Source : SASS; data as of 29 December 2017

Open-Ended Mutual Funds of VUB AM and Sales Support

Our company managed 14 open-ended mutual funds during the year, one of which was designed for clients of VÚB, a.s. private banking department. The funds of short-term investments include VÚB AM Fond Bankových Vkladov (FBV) and VÚB AM Privátny Eurový Fond (PEF). The former is intended for retail clients and the latter is for private banking clients. The category of bond funds includes VÚB AM Active Bond fund (ABF) and VÚB AM Dlhopisový Konvergentný fond (DKG). Ten funds are from the category of mixed funds and they are designed for the retail segment. Such funds are VÚB AM Vyvážený Rastový fond (VRF), VÚB AM Konzervatívne Portfólio (KOP), VÚB AM Dynamické Portfólio (DOP), VÚB AM Flexible Magnifica fund (FMG), VÚB AM Active Magnifica (AMG), VÚB AM Flexibilný Konzervatívny fond (FLK), VÚB AM Magnifica Edícia I (ME1), VÚB AM Magnifica Edícia II (ME2), VÚB AM Magnifica Edícia III (ME3) and VÚB AM Edícia Svet (ESV).

For more details on the individual mutual funds, including all statutory documents, check: www.vubam.sk

In the course of 2017, VÚM AM extended its range of products by two above mentioned funds, i.e. VÚB AM Magnifica Edícia III and VÚB AM Edícia Svet. The sum of investments of the clients into VÚB AM Magnifica Edícia III represented the volume of EUR 75.2 million and into VÚB AM Edícia Svet represented the volume of EUR 76.4 million.

VÚB AM focused also on support of sale of savings in the funds. Towards the end of the year we have exceeded the border line of 100,000 saving schemes. The total number of clients in VÚB AM funds got close to the number of 150,000.

Towards the end of 2017, VÚB AM generated profits in the amount of EUR 5.49 million, and the cost-income ratio was 52%. The ratio operating costs to average assets under management represented 15.2 basis points.

Due to a planned internal reorganization within Intesa San Paolo, 100% of the company's holding held by Eurizon Capital S.A. will be purchased by Eurizon Capital SGR S.p.A. The reorganization should be completed by June 2018.

The number of employees in VÚB AM as of December 31, 2017 was 25.

CIB Investment Fund Management Ltd. (Hungary)

Year 2017 was successful in terms of growth for CIB Investment Fund Management Ltd. The company was able to strengthen its sixth position on the market and gained 27 bps market share. Assets managed by the CIB Investment Fund Management Ltd. (hereinafter "CIBIFMCo") in investment funds had increased from EUR 1 324,65 million as at 31 December 2016to EUR 1 457,95 million by 31 December 2017, a growth of over 10%.

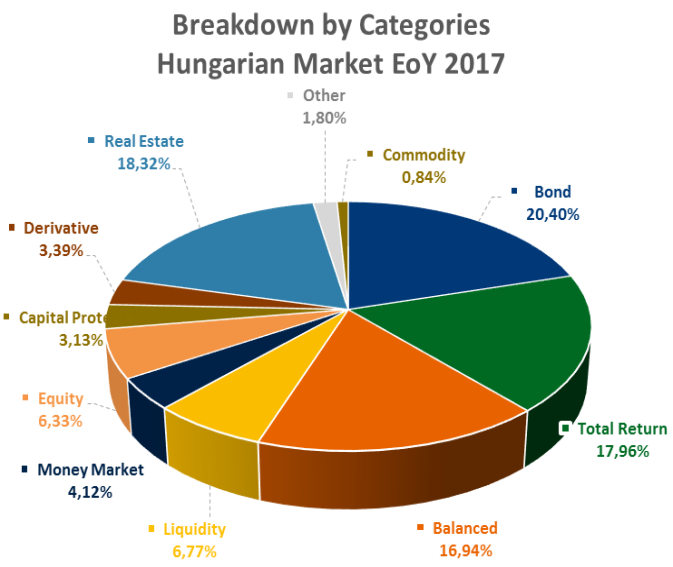
The overall Hungarian investment fund market showed weaker performance than what was observed at CIBIFMCo, with EUR 18 660,51 million in managed assets at the beginning of the year increasing to EUR 19 780,26 million by the end of December 2017, which represents a growth rate of 6%.

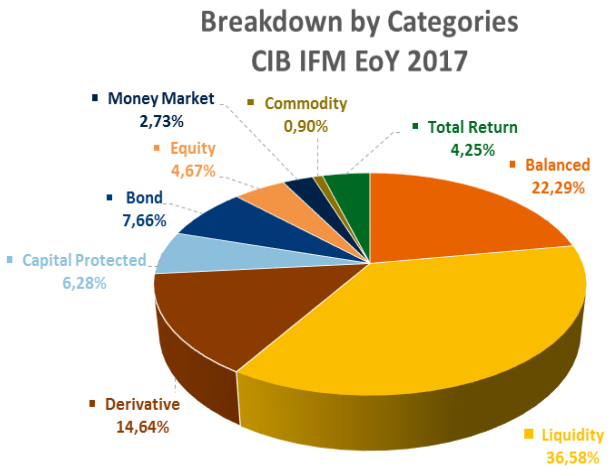
Company		AuM (EUR mln)		Δ AuM		Market share (%)		
31/12/2016	31/12/2017	31/12/2016	31/12/2017	EUR mln	%	31/12/2016	31/12/2017	Δ (%)
OTP	OTP	3 706,24	3 804,55	98,30	2,65%	19,86%	19,23%	-0,63%
ERSTE	ERSTE	2 993,40	3 080,87	87,47	2,92%	16,04%	15,58%	-0,47%
K&H	K&H	2 598,24	2 560,60	-37,65	-1,45%	13,92%	12,95%	-0,98%
CONCORDE	HOLD	1 584,22	1 616,00	31,79	2,01%	8,49%	8,17%	-0,32%
BB	BB	1 538,36	1 605,75	67,39	4,38%	8,24%	8,12%	-0,13%
CIB	**CIB**	**1 324,65**	**1 457,95**	**133,29**	**10,06%**	**7,10%**	**7,37%**	**0,27%**
AEGON	OTP Real Estate	870,03	1 161,18	382,47	49,12%	4,66%	5,87%	1,70%
MKB	AEGON	812,71	962,12	92,09	10,58%	4,36%	4,86%	0,20%
OTP Real Estate	MKB	778,71	953,87	141,16	17,37%	4,17%	4,82%	0,47%
Diófa	Diófa	639,77	819,97	180,20	28,17%	3,43%	4,15%	0,72%
Total market (EUR mln)		**18 660,51**	**19 780,26**					

Data source: Hungarian Funds Association; as of 31 December 2017

At the beginning of the year the range of investment fund products consisted of 39 public and 2 private investment funds, which grew by 10 newly launched funds and decreased by 4 expired public and closed 2 private investment funds by the end of the year.

In terms of asset mix, CIBIFMCo offers wide range of liquidity funds and also offers better than the market fixed term, and capital protected funds.





Data source: Hungarian Funds Association; as of 31 December, 2017

As a consequence of the processes described above, CIBIFMCo's generated net profit of EUR 2.4 million, 14% above budget. CIBIFMCo's efficiency position remained excellent with cost-income ratio of 38%, just 1% above the budget. Operating expenses to average AUM represented 11.5 basis points, almost the same as budgeted (+0,7 bps).

PBZ Invest (Croatia)

Croatian fund market grew in 2017 by EUR 22 million (+0,91%). PBZ Invest UCITS decreased by EUR 40 million as of year-end 2017 (-6,88%) and became the third biggest asset management company in Croatia in terms of assets under management in UCITS funds.

During 2017, PBZ Invest was second and third biggest company on the Croatian market, although assets under management decreased during year. Market share dropped by 1.85% on annual basis mainly due to a loss in the assets under management in the money market funds.

Company (UCITS data)	AUM 31/12/16 (EUR mln.)	AUM 31/12/17 (EUR mln.)	AUM change YTD	Market Share 31/12/16	Market Share 31/12/17	Market Share change YTD
ZB Invest	621,5	604,9	**-2,67%**	25,47%	24,57%	**-0,90%**
Erste Invest	539,2	580,1	**7,59%**	22,10%	23,56%	**1,46%**
PBZ INVEST	**584,2**	**544,0**	**-6,88%**	**23,94%**	**22,09%**	**-1,85%**
RBA Invest	221,2	194,3	**-12,18%**	9,07%	7,89%	**-1,18%**
Intercapital AM	88,5	175,1	**97,78%**	3,63%	7,11%	**3,48%**
OTP Invest	101,1	119,2	**17,87%**	4,14%	4,84%	**0,70%**
HPB Invest	102,3	108,5	**5,99%**	4,19%	4,41%	**0,21%**
Others	182,0	136,2	**-25,17%**	7,46%	5,53%	**-1,93%**
TOTAL	**2.440**	**2.462**	**0,91%**	**100,00%**	**100,00%**	

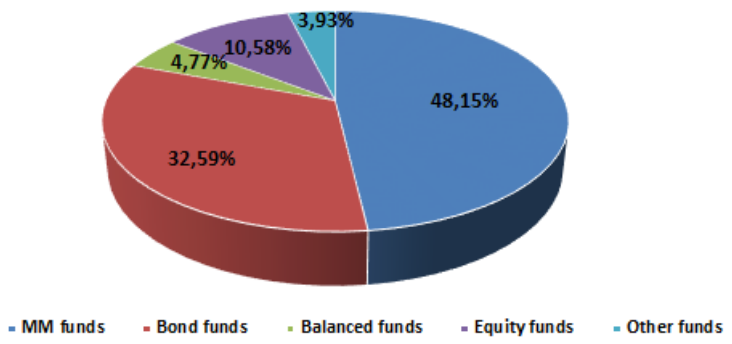
Data source: Croatian Financial Services Supervisory Agency (HANFA – CFSSA); as of 31 December 2017

The company manages 12 mutual funds and managed portfolios. In 2017, PBZ Invest launched one multi asset UCITS fund of funds, PBZ International Multi Asset fund, denominated in EUR. Managed portfolios had strong assets under management improvement by EUR 9.2 million.

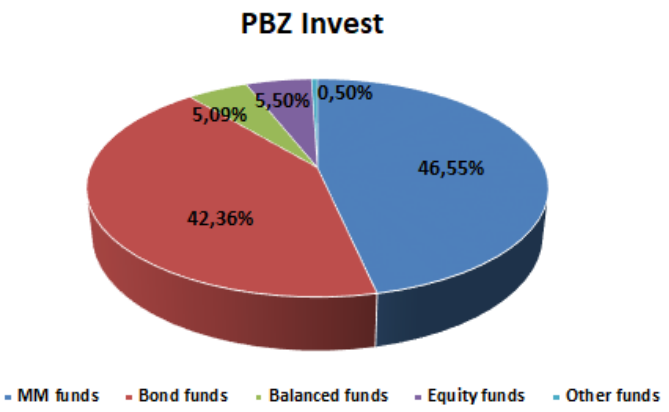
Bestselling funds in 2017 were PBZ Novcani fund (EUR 286 million or 55,96% of total gross sales), PBZ Bond fund (EUR 74 million or 14,57%) and PBZ Conservative 10 fund (EUR 60 million or 11,83%). Best positive net sales performance in 2017 had PBZ Conservative 10 fund (EUR +45 million). All non money market funds achieved positive net sales in 2017 (except 2 funds with maturity which had EUR-191 thousand). Total number of clients in the company's funds decreased by 296 (-0,41%) to 71 870. As of the year end 2017, retail clients represented 99,67% of the total number of clients.

In terms of asset mix on Croatian market at the end of November 2017, PBZ Invest managed 46,55% of assets under management in money market funds (-1,60% less than market), 42,36% in bond funds (9,77% above market), 5,50% in equity funds (-5,08% less than market), 5,09% in balanced fund and 0,50% in other – flexible fund.

Total market Croatia



Data source: Croatian Financial Services Supervisory Agency (HANFA – CFSSA); as of 30 November 2017



PBZ Flexible 30 fund is one of the "Other" funds in total market RH
Data source: Croatian Financial Services Supervisory Agency (HANFA – CFSSA); as of 30 November 2017

In 2017 the best performing PBZ Invest fundswere PBZ Conservative 10 fund (+4,87%), PBZ Bond fund (+3,87%) and PBZ Flexible 30 fund (+3,21%).

According to the International Financial Reporting Standards as adopted by the EU, PBZ Invest posted a net profit of EUR 0,36 million for the year ended 31 December 2017

The Main Objectives of HUB for 2018

- Continuation in the cooperation, coordination and sharing of know-how in joint projects among Eurizon Capital, Intesa Sanpaolo Bank and VUB Bank in the area of process optimisation and innovation in product portfolio and services for the clients.

- Focusing on the implementation of a new service model of investment advisory with concentration on affluent segment and Private banking.

- Support of savings in the funds using marketing activities and other activities focused on a sale support.

- Focusing on permanent increase of quality of sales, trought training sessions, instruction sessions and workshops for the branch network and also through the new concept of “VUB AM Academies”.

The Management Board will submit the following proposal for distribution of profit for 2017 to the General Meeting:

In thousands of EUR	2017
Dividends paid out to shareholders	
Allocation to Legal reserve fund	
Allocation to retained earnings	5 494
	5 494

Annexes

Separate Financial Statements and Independent Auditors' Report for the year ended 31 December 2017

VÚB ASSET MANAGEMENT

Separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent auditors' report for the year ended 31 December 2017

Contents

KPMG Slovensko spol. s r.o.
Dvořákovo nábrežie 10
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820 04 Bratislava 24
Slovakia

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Fax +421 (0)2 59 98 42 22
Internet www.kpmg.sk

Translation of the Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholder, Supervisory Board and the Management Board of VÚB Asset Management, správ. spol., a.s.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of VÚB Asset Management, správ. spol., a. s. ("the Company"), which comprise the separate statement of financial position as at 31 December 2017, separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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 ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audits 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 separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following is a description of the individual key audit matter pursuant to Article (10) (2) (c) of the Regulation.

Fee and commission income

The amount of fee and commission income for the year ended 31 December 2017: EUR 17,419 thousand (31 December 2016: EUR 14,815 thousand).

Refer to Note 2.18 (Fees and commissions) and Note 16 (Fee and commission income) of the separate financial statements.

Key audit matter	*Our response*

Fee and commission income accounts for the majority of the Company's revenues for the year ended 31 December 2017.
 	
Fee and commission income comprises administration fees, fees for distribution of mutual fund certificates, termination fees and other fees and commissions. The administration fees are earned from the funds under the Company's management and are accrued over the period to which they relate. Fees for distribution of mutual fund certificates and termination fees are earned from the investors in the funds and recognized on the respective distribution and termination of the mutual fund certificates.
 	
We focused on this area due to the high daily volume of underlying transactions with an effect on the amount of fee and commission income coupled with the magnitude of the amounts involved. The integrity, completeness and accuracy of the data underlying the fee calculations is also a key area of our audit focus.
	Our audit procedures included, among others:
	
	• Assessing and testing the design, implementation and operating effectiveness of the key internal controls relating to the calculation and recognition of fee and commission income.
	
	• Assessing and testing the design, implementation and operating effectiveness of internal controls over daily revaluation of the net asset values of the funds under management;
	
	• Assisted by our own IT specialists, assessing and testing the design, implementation and operating effectiveness of the Company's controls over the integrity of the IT systems used for processing of fee and commission income, including controls over access rights, data and change management to these systems;
	
	• Tracing fee rates applied by the Company in its assessment of the fees and related fee calculation formulas to the statutes of the funds managed by the Company;
	
	• For the year ended 31 December 2017, developing an independent expectation of:
	
	  o administration fees - based on daily net asset values of the funds under management for the year, fee rates and calculation formulas stated in the funds' statutes. As part of our work, assisted by our own valuation specialists, we independently assessed the net asset value of the funds' investment portfolios by comparing these amounts to publicly available quoted prices and obtaining confirmations of the investments from custodians;
	
	  o fees for distribution of mutual fund certificates - based on volume of mutual fund certificates sold derived from the system independent of the

accounting function and fee rates stated in the funds' statutes,

- termination fees - based on volume of mutual fund certificates bought derived from the system independent of the accounting function and fee rates stated in the funds' statutes,

Comparing our expectation with the amounts recognized by the Company and investigating any significant differences;

- Inspecting a sample of manual journal entries related to fee and commission income recognized during and after the reporting period through the date of our audit report, and tracing the details of the entries with relevant underlying documentation. Investigating any unusual transactions or relationships;

- Assessing accuracy and completeness of the revenue recognition related disclosures against the requirements of the relevant financial reporting standards.

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

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

In preparing the separate financial statements, the Management Board is responsible for assessing the Company'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 Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 separate 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 separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of the Management Board'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 Company'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 separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

Reporting on Information in the Annual Report

The Management Board is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the separate financial statements, mentioned above, does not cover other information in the Annual Report.

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

The Annual Report was not available to us as of the date of this auditors' report.
When we obtain the Annual Report, we will consider whether it includes the disclosures required by the Act on Accounting and, based on the work undertaken in the course of the audit of the separate financial statements, we will express an opinion as to whether:

- the information given in the Annual Report for the year 2017 is consistent with the separate financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition, we will report whether we have identified any material misstatement in the Annual Report in light of the knowledge and understanding of the accounting entity and its environment that we have acquired during the course of the audit of the separate financial statements.

Additional requirements on the content of the auditors' report according to Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities

Appointment and approval of an auditor

We have been appointed as statutory auditors by the Management Board of the Company on 20 April 2017 on the basis of approval by the General Meeting of the Company on 7 March 2017. The period of our total uninterrupted engagement, including previous renewals (extensions of the period for which we were originally appointed) and reappointments as statutory auditors, is six years.

Consistency with the additional report to the audit committee

Our audit opinion as expressed in this report is consistent with the additional report to the Supervisory Board, exercising the function of the Audit Committee, which was issued on the same date as the date of this report.

Non-audit services

No 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 statutory audit of public-interest entities were provided and we remained independent of the Company in conducting the audit.

In addition to the statutory audit services and services disclosed in the separate financial statements of the Company, we did not provide any other services to the Company or accounting entities controlled by the Company.

8 February 2018
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. Petra Černáková
License UDVA No. 1120

VÚB ASSET MANAGEMENT

Separate statement of financial position as at 31 December 2017

in thousands of euro	Note	2017	2016
Assets			
Due from banks	3	1,998	691
Financial assets at fair value through profit or loss	4	13,430	8,677
Subsidiaries	5	2,938	2,938
Receivables from funds	6	2,048	1,775
Current income tax receivable		-	483
Intangible assets	7	192	161
Property and equipment	8	32	30
Deferred income tax asset	9	419	360
Other assets	10	66	54
		21,123	15,169
Liabilities			
Current income tax liability		97	-
Accrued expenses	11	1,698	1,525
Other liabilities	12	598	408
		2,393	1,933
Equity			
Share capital	13	4,094	4,094
Share premium	13	38,438	38,438
Legal reserve fund	13	819	819
Other funds	13	(37,934)	(37,934)
Retained earnings		7,819	-
Net profit for the year		5,494	7,819
		18,730	13,236
		21,123	15,169

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.

These financial statements were authorised for issue by the Management Board on 8 February 2018.

RNDr. Ing. Marian Matušovič PhD.
Member of the Management Board

Marco Canton
Member of the Management Board

VÚB ASSET MANAGEMENT

Separate statement of profit or loss and other comprehensive income for the year ended 31 December 2017

in thousands of euro	Note	2017	2016
Interest and similar income	15	-	-
Fee and commission income	16	17,419	14,815
Fee and commission expense	17	(12,526)	(10,042)
Net fee and commission income		4,893	4,773
Dividend income	5	3,713	6,099
Net loss from trading	18	(2)	(10)
Other income		25	23
Personnel expenses	19	(1,368)	(1,222)
Other operating expenses	20	(1,220)	(1,266)
Amortisation of intangible assets	7	(33)	(26)
Depreciation of property and equipment	8	(17)	(21)
Operating expenses		(2,638)	(2,535)
Profit before tax		5,991	8,350
Income tax expense	9	(497)	(531)
Net profit for the year		5,494	7,819
Basic and diluted earnings per share	13	4.46	6.36

Net profit for the year equals comprehensive income.

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.

Separate statement of changes in equity for the year ended 31 December 2017

in thousands of euro	**Share capital**	**Share premium**	**Legal reserve fund**	**Other funds**	**Retained earnings**	**Total**
1 January 2016	4,094	38,438	819	(37,934)	10,742	16,159
Transactions with shareholders						
Dividends	-	-	-	-	(10,742)	(10,742)
Net profit for the year (comprehensive income)	-	-	-	-	7,819	7,819
31 December 2016	4,094	38,438	819	(37,934)	7,819	13,236
1 January 2017	4,094	38,438	819	(37,934)	7,819	13,236
Transactions with shareholders						
Dividends	-	-	-	-	-	-
Net profit for the year (comprehensive income)	-	-	-	-	5,494	5,494
31 December 2017	4,094	38,438	819	(37,934)	13,313	18,730

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December 2017

in thousands of euro	**Note**	**2017**	**2016**
Cash flows from operating activities			
Profit before tax		5,991	8,350
Adjustments for:			
Depreciation of property and equipment		17	21
Amortisation of intangible assets		33	26
Interest and similar income		-	-
Dividend income		(3,713)	(6,099)
Unrealised loss from trading		2	10
Operating profit before changes in working capital		2,330	2,308
Changes in receivables from funds		(273)	(468)
Changes in other assets		(12)	(1)
Changes in other liabilities and accrued expenses		363	(586)
Tax paid		24	(1,323)
Net cash from / (used in) operating activities		2,432	(70)
Cash flows from investing activities			
Interest received		-	-
Dividend received		3,713	6,099
Changes in financial assets at fair value through profit or loss		(4,755)	3,045
Purchase of intangible assets and property and equipment		(83)	(74)
Net cash (used in) / from investing activities		(1,125)	9,070
Cash flows from financing activities			
Dividends paid		-	(10,742)
Net cash used in financing activities		-	(10,742)
Net change in cash and cash equivalents		1,307	(1,742)
Cash and cash equivalents at beginning of the year	3	691	2,433
Cash and cash equivalents at end of the year	3	1,998	691

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.

1. General information

VÚB Asset Management, správ. spol., a.s. ('the Company'), IČO 35786272, DIČ 2021522690, with its registered seat at Mlynské Nivy 1, 820 04 Bratislava, was established on 17 April 2000 in compliance with the provisions of Act No. 385/1999 Coll. on Collective Investments ('the Act'). The Company was registered in the Commercial Register Bratislava 1 on 17 April 2000, insertion 2416/b.

The core activities of the Company are the creation and administration of mutual funds.

Date of approval of the Financial Statements for the preceding accounting period

The Financial Statements of the Company as at 31 December 2016, i.e. for the preceding accounting period, were approved by the shareholder at the Company's general meeting on 7 February 2017.

Funds under administration

The Company has established and administers the following fourteen open-ended mutual funds as at 31 December 2017:

Name of mutual fund	Audited by
VÚB AM VYVÁŽENÝ RASTOVÝ FOND, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM DLHOPISOVÝ KONVERGENTNÝ FOND, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM KONZERVATÍVNE PORTFÓLIO, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM DYNAMICKÉ PORTFÓLIO, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM PRIVÁTNY EUROVÝ FOND, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM FOND BANKOVÝCH VKLADOV, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM ACTIVE MAGNIFICA, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM ACTIVE BOND FUND, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM FLEXIBLE MAGNIFICA FUND, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM FLEXIBILNÝ KONZERVATÍVNY FOND, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM MAGNIFICA EDÍCIA I, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM MAGNIFICA EDÍCIA II, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM MAGNIFICA EDÍCIA III, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.
VÚB AM EDÍCIA SVET, o.p.f. VÚB Asset Management, správ. spol., a.s.	KPMG Slovensko spol. s r.o.

The accounting records, financial reporting and assets of the funds are maintained separately from the accounting records, financial reporting and assets of the administration Company.

1. General information (continued)

VÚB AM VYVÁŽENÝ RASTOVÝ FOND, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 29 October 2001, and started issuing mutual fund certificates on 5 November 2001. The Fund focuses on investing accumulated assets mainly in publicly traded securities, especially debt securities and shares of new markets (using approximately 50:50 ratio), regions, industries, and companies operating in the markets of Middle and East Europe. The Fund invests into liquid securities, which offer an above-average yield or show great growth potential.

VÚB AM DLHOPISOVÝ KONVERGENTNÝ FOND, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 22 August 2003, and started issuing mutual fund certificates on 1 September 2003. The Fund focuses on investing accumulated assets, as determined by the Act, mainly in bonds denominated in EUR, CZK, HUF, PLN, LTL, LVL, HRK, BGN, RON, TRY and other national currencies, particularly of countries converging to European Monetary Union and in derivative instruments.

VÚB AM KONZERVATÍVNE PORTFÓLIO, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 17 January 2006, and started issuing mutual fund certificates on 9 February 2006. The Fund focuses on investing accumulated assets particularly into transferrable securities, money market instruments, bonds issued in the Slovak Republic, foreign bonds, shares issued by Slovak or foreign entities in the Slovak Republic or abroad, mutual fund certificates of other open-ended mutual funds, other securities issued by the European funds and securities issued by other collective investment entities including mutual fund certificates of open-ended mutual funds administered by the Company and in derivative instruments.

On 3 January 2017, based on the decision no. 100-000-012-263 and no. NBS 1-00-002-920 from 13 December 2016, that became effective on 3 January 2017, the National Bank of Slovakia effectively granted permission to merge VÚB AM EUROVÝ FOND, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s. into VÚB AM KONZERVATÍVNE PORTFÓLIO on 16 March 2017.

VÚB AM DYNAMICKÉ PORTFÓLIO, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 17 January 2006, and started issuing mutual fund certificates on 9 February 2006. The Fund focuses on investing accumulated assets particularly into the mutual fund certificates of other open-end mutual funds, other securities issued by European funds and securities issued by other collective investment entities, including mutual fund certificates of open-ended mutual funds administered by the Company and European funds administered by administration companies from the Intesa Sanpaolo group, financial derivative instruments, shares, bonds issued in Slovak Republic or abroad, transferrable securities and money market instruments.

VÚB AM PRIVÁTNY EUROVÝ FOND, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 12 September 2008. The issuance of mutual fund certificates started on 23 September 2008. This Fund focuses on investment, especially in transferable securities and in those money market instruments denominated in EUR, and in derivative instruments.

VÚB AM FOND BANKOVÝCH VKLADOV, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 19 March 2012, and started issuing mutual fund certificates on 2 April 2012. Since November 2014, the Fund became special fund of securities, which focuses on investing into current accounts and term deposits in Všeobecná úverová banka, a.s. ('the VÚB Bank') and other Slovak banks as well as investing into mutual fund certificates of other money-market mutual funds administered by VÚB Asset Management, správ. spol., a.s., money market instruments, bonds issued particularly by VÚB Bank and bonds issued by other credible Slovak banks.

VÚB AM ACTIVE MAGNIFICA, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 5 January 2013. This fund was created as a result of redesigning the VÚB AM PRIVÁTNE PORTFÓLIO – MIX30, which was renamed. The Fund focuses on three main asset classes: fixed income (EMU government debt), equities (European, US, Emerging markets) and commodities. Exposure to these asset classes is built up by investments in ETFs, mutual funds and foreign exchange hedging contracts. The aim is to maximise performance in the medium risk within an investment horizon of at least four years.

VÚB AM ACTIVE BOND FUND, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 7 October 2013, and started issuing mutual fund certificates on 31 October 2013. Fund mainly focuses on investments into bond mutual funds managed by well-known foreign asset management companies. Within its investment strategy, it aims to invest into bonds with above-average performance within their asset class. In the investment selection process, the stress is put on choosing the best mutual funds in a given category based on the assessment of independent rating agencies.

1. General information (continued)

VÚB AM FLEXIBLE MAGNIFICA, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 8 July 2014 and started issuing mutual fund certificates on 1 August 2014. The fund is mainly oriented to investments in debt securities of EMU countries, shares in mutual funds, equity, commodity or mixed type and money market instruments. Approximately 90% of the assets in the fund is actively managed, which means that asset structure changes dynamically based on the current developments in the financial markets. The share of investments aimed at equity markets may not exceed 50% of the value of the fund and in case of commodity investments the share may not exceed 20% of the fund assets. The objective is to maximize performance at intermediate risk category, with an investment horizon of at least five years.

VÚB AM FLEXIBILNÝ KONZERVATÍVNY FOND, an open-ended mutual fund of VÚB Asset Management, správ. spol., a.s., was established on 23 September 2015 and started issuing mutual fund certificates on 1 November 2015. The fund focuses mainly on investments into fund share certificates in equity, debt or mixed markets and money market instruments. Most assets of the fund are actively managed, i.e. the fund's asset structure changes dynamically, following the actual and expected development on financial markets. Exposure of the fund to equity markets may not exceed 22% of the fund's assets.

VÚB AM MAGNIFICA EDÍCIA I, an open-ended mutual fund, was established on 12 April 2016 and started issuing mutual fund certificates on 16 April 2016 with the Subscription period lasting until 30 June 2016. The reference period starts on 1 July 2016 and ends on 30 April 2021. The fund focuses mainly on investments into fund share certificates in equity and debt and money market instruments. Most assets of the fund are actively managed, i.e. the fund asset structure changes dynamically, following the actual and expected development on financial markets.

VÚB AM MAGNIFICA EDÍCIA II, an open-ended mutual fund, was established on 5 September 2016 and started issuing mutual fund certificates on 10 September 2016 with the Subscription period lasting until 15 December 2016. The reference period starts on 16 December 2016 and ends on 15 May 2020. The fund focuses mainly on investments into fund share certificates in equity and debt and money market instruments. Most assets of the fund are actively managed, i.e. the fund asset structure changes dynamically, following the actual and expected development on financial markets.

VÚB AM MAGNIFICA EDÍCIA III, an open-ended mutual fund, was established on 7 April 2017 and started issuing mutual fund certificates on 13 April 2017 with the Subscription period lasting until 30 June 2017. The reference period starts on 1 July 2017 and ends on 30 April 2021. The fund focuses mainly on investments into fund share certificates in equity and debt and money market instruments. Most assets of the fund are actively managed, i.e. the fund asset structure changes dynamically, following the actual and expected development on financial markets.

VÚB AM EDÍCIA SVET, an open-ended mutual fund, was established on 22 September 2017 and started issuing mutual fund certificates on 28 September 2017. The fund focuses mainly on investments into fund share certificates in equity and debt and money market instruments. Most assets of the fund are actively managed, i.e. the fund asset structure changes dynamically, following the actual and expected development on financial markets.

Depositary

The Company's depository is Všeobecná úverová banka, a.s., a member of the Intesa Sanpaolo S.p.A Group, Mlynské Nivy 1, 829 90 Bratislava.

Management Board

The members of the Management Board of the Company as at 31 December 2017 and 2016 are:

	31 December 2017	**31 December 2016**
Chairman:	Marco Bus	Marco Bus (since 11 October 2016) Massimo Torchiana (until 11 October 2016)
Members:	RNDr. Ing. Marian Matušovič, PhD. Emiliano Laruccia Claudio Marco Malinverno Marco Canton	RNDr. Ing. Marian Matušovič, PhD. Emiliano Laruccia Claudio Marco Malinverno Marco Canton

1. General information (continued)

The Management Board of the Company may propose to change the financial statements before the approval by the General meeting. Based on the Article 16 (9-11) of the Act on Accounting the accounting books may not be reopened after the approval of the financial statements. However, if it is established that the data related to the preceding accounting period is not comparable, the Company shall correct this data in the accounting period in which these facts were established.

Supervisory Board

The members of the Supervisory Board of the Company as at 31 December 2017 and 2016 are:

	31 December 2017	**31 December 2016**
Chairman:	Prof. Giorgio di Giorgio	Prof. Giorgio di Giorgio (since 14 November 2016) Prof. Daniel Gros (until 11 October 2016)
Members:	Doc. Ing. Tomáš Výrost , PhD.	Doc. Ing. Tomáš Výrost , PhD. (since 14 November 2016)
	Massimo Mazzini	Prof. Giorgio di Giorgio (until 13 November 2016)
	Alexander Resch	Massimo Mazzini
	Bruno Alfieri	Alexander Resch
		Bruno Alfieri (since 14 November 2016)
		Dinko Lučić (until 11 October 2016)

Structure of the group

In 2013, the Company became the new centre of the rationalisation project of the existing operations of the financial group of Intesa Sanpaolo S.p.A (the 'ISP Group') for asset management in Eastern Europe. The creation of this centre was the result of a strategic cooperation between Eurizon Capital and the International Subsidiary Banks Division of ISP. The Company assumed the role of the parent of a subgroup, which covers the Hungarian company CIB Befektetési Alapkezelö Zrt. and the Croatian company PBZ Invest d.o.o.

The direct parent company of VÚB Asset Management, správ. spol., a.s. is Eurizon Capital S.A., seated at 8 Avenue de la Liberté, L-1930 Luxembourg, a member of the ISP Group.

The Company is a member of the following group:

	Direct Parent Company	**Ultimate Parent Company**
Name:	Eurizon Capital S.A.	Intesa Sanpaolo S.p.A
Consolidated financial statements archived with:	8 Avenue de la Liberté, L-1930 Luxembourg	Piazza San Carlo 156, 10 121 Torino, Italy

The Company has applied the exemption from the obligation to prepare consolidated financial statements and consolidated annual report in accordance with the Article 22 (8) of the Act on Accounting: its ultimate parent company Intesa Sanpaolo S.p.A owns more than a 90 % share in the Company and prepares its consolidated financial statements in accordance with IFRS as adopted by the European Union. The Company and all its subsidiaries are included in these consolidated financial statements.

2. Accounting methods and policies

2.1 Basis of preparation

The separate financial statements of the Company ('the financial statements') as at 31 December 2017 have been prepared as ordinary financial statements in accordance with section 17 (6) of the Act No. 431/2002 Coll. on Accounting for the accounting period from 1 January 2017 until 31 December 2017 and have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ('IFRIC') as approved by the Commission of European Union in accordance with the Regulation of European Parliament and Council of European Union.

2. Accounting methods and policies (continued)

The separate financial statements for the year ended 31 December 2016 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and were authorised for issue by the Management Board on 7 February 2017.

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the financial instruments at fair value through profit or loss, which are measured at fair value.

The financial statements are presented in thousands of euro ('€'), which is the Company's functional currency and rounded to the nearest thousand, unless indicated otherwise.

Negative balances are presented in brackets.

2.2 Significant accounting judgements and estimates

In the process of preparation of financial statements, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates is determining the fair value of financial instruments. Where the fair values of financial instruments recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques, which include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

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 notes 21 and 23.

Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 2.11 indicate that the Company controls a mutual fund. The Company acts as fund manager to 14 open-ended mutual funds. Determining whether the Company controls such fund usually focuses on the assessment of the aggregate economic interest of the Company in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager.

The Company has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. For further disclosure in respect of the asset value of the mutual funds under management see Note 25.

2.3 Changes in accounting policies

Accounting policies and methods were applied consistently in both accounting periods presented in these financial statements.

Standards and interpretations relevant to the Company's operations issued but not yet effective

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 until the standard resulting from the IASB's project in macro hedge accounting is effective.

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.

2. Accounting methods and policies (continued)

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 a forward-looking 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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.

The new Standard does not have a significant impact on the financial statements, since the classification and the measurement of the Company's financial instruments will not change. The new credit loss model under IFRS 9 does not result in the recognition of significant impairment losses since the Company carries investments in funds already at fair value through profit or loss and has only short term receivables from its funds.

IFRS 15 Revenue from contracts with customers

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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.

The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

2. Accounting methods and policies (continued)

The amendments clarify how to:

- identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

- An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that are using the full retrospective method only);
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

Management completed its assessment with no impact on the Company's financial statements. The timing and measurement of the Company's revenues result in no change under IFRS 15 due to the nature of the Company's operations and the types of revenues it earns.

Management specifically assessed entry fees that cover administrative expenses at the time of purchase of the fund certificates by the clients and therefore no further performance obligation is attached to this type of fees. As a result of this assessment, these fees continue to be recognised in full amount when obtained.

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. 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 not have a significant impact on the financial statements. It will require the Company to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Company acts as a lessee, but the amount of such leases is not significant.

2.4 Foreign currency transactions and translation

Transactions in foreign currency are translated into the functional currency using the reference exchange rates determined and declared by the European Central Bank or National Bank of Slovakia as at the date preceding the date of the accounting transaction or at any other day if required by special regulation.

At the reporting date, the assets and liabilities denominated in foreign currency (except for advance payments made and advance payments received) are translated into the functional currency using the reference exchange rates determined and declared by the European Central Bank or National Bank of Slovakia as at the reporting date. The transaction in foreign currency is retranslated into the functional currency using the exchange rate valid at the date of the accounting transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as 'Net income from trading' in the statement of profit or loss and other comprehensive income.

2. Accounting methods and policies (continued)

2.5 Financial instruments – date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the settlement date. Derivatives are recognised on a trade date basis.

2.6 Initial recognition of financial instruments

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. At initial recognition, the financial assets and liabilities are measured at fair value.

2.7 Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

If the Company owns more than one piece of the same security, the weighted average method is used at the disposal of the investment.

2.8 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, if, and only if, there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

2.9 Due from banks

Due from banks represent current account balances and term deposits with commercial banks.

Due from banks are initially recorded at their fair value. Subsequently, they are carried at amortised cost using the effective interest rate method – i.e. the amount used for the initial recognition adjusted by the interest accrued.

An impairment loss is established if there is objective evidence that the Company will not be able to collect all amounts due.

2. Accounting methods and policies (continued)

2.10 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise securities held for trading.

Securities held by the Company for trading represent financial assets held by the Company for the purpose of trading and generating profit from short-term fluctuations in prices.

After their initial recognition, financial assets at fair value through profit or loss are measured at their fair value. The fair value of financial assets owned, for which an active market exists, and where a market value can be reliably estimated, is measured at the quoted market prices. If the value of financial assets cannot be assessed using this method, the value is assessed by the Company upon agreement with the depositary, using different generally accepted valuation methods. Such methods reflect the latest interest rates of financial instruments having either the same or comparable characteristics, the credibility of the issuer of securities, the residual maturity and the currency in which payments flowing from the ownership title to these financial assets are denominated.

Changes in fair values are recorded to expense or revenue accounts and are reported as 'Net income from trading' in the statement of profit or loss and other comprehensive income and debited or credited to appropriate securities accounts.

2.11 Subsidiaries

Subsidiaries are entities controlled by the Company. The Company 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company reassesses whether it has control if there are changes to one or more elements of control. This includes circumstances in which protective rights held become substantive and lead to the Company having power over an entity.

Subsidiaries are recorded at cost as per the books of Intesa SanPaolo Group less impairment losses. The impairment loss is measured using the Dividend discount model.

Dividend discount model

The Management of the companies subject to the impairment test provide a projection of dividends expected to be paid out by their companies in a period of five years. The model calculates the present value of these cash flows, discounting them at the interest rate resulting from the CAPM (Capital Asset Pricing Model). Cash flows after the period of five years are determined by the present value of the perpetuity with a particular estimated growth rate, determined at Intesa Sanpaolo Group level specifically for the Slovak market.

2.12 Receivables

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

Receivables are initially recorded at their fair value. Subsequently, receivables are carried at amortised cost. An impairment loss is created for uncollectible amounts.

2.13 Intangible assets

Intangible assets are recorded at historical cost less accumulated depreciation and impairment losses.

Amortisation plan

Amortisation is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life as follows:

	Number of years
Software	7

Amortisation methods, useful lives and net book values are reassessed at each balance sheet date.

2. Accounting methods and policies (continued)

2.14 Property and equipment

Property and equipment are recorded at their acquisition cost less accumulated depreciation and impairment losses.

Acquisition cost includes the purchase price plus other costs related to the acquisition, such as freight, duties and commissions. Irrecoverable value added tax is also part of the acquisition cost.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency are capitalised. Upkeep, maintenance and repair costs are expensed as incurred.

Depreciation plan

Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives are as follows:

	Number of years
Property and equipment	4
Furniture and office equipment	4 – 6
Other items of property and equipment	4 – 6

Depreciation methods, useful lives and net book values are reassessed at each balance sheet date.

2.15 Liabilities

Liabilities are initially recorded at their fair value. Subsequently, they are carried at amortised cost.

2.16 Provisions

A provision represents a liability of uncertain timing or amount. Provisions are made if the following criteria are met:

- an obligation (legal or constructive) to perform exists, resulting from past events,
- it is probable that the event will occur and that it will require a cash outflow representing economic benefits,
- the amount of the obligation can be reliably estimated.

2.17 Recognition of revenue and expense

Revenues and expenses are accounted for on an accruals basis, i.e. regardless of their actual financial settlement.

Interest income and expense are recognised in the statement of profit or loss and other comprehensive income using the effective yield of the interest-earning asset or interest-bearing liability. Interest income and expense include interest on coupons earned on securities and the gradually earned difference between the nominal value and the net acquisition cost of securities, i.e. discounts and premiums.

2.18 Fees and commissions

The Company receives fees for the management of the open-ended mutual funds that are derived from the average annual net asset value in each mutual fund. These are accrued over the period to which they relate. Administration fees are reported as ‘Fee and commission income’ in the accompanying statement of profit or loss and other comprehensive income.

The Company pays fees mainly for the distribution of the open-ended mutual funds based on specific contracts with VÚB Bank. These are accrued over the period to which they relate. Administration fees paid are reported as ‘Fee and commission expense’.

2. Accounting methods and policies (continued)

2.19 Dividend income

Dividend income is recognized in the statement of profit or loss and other comprehensive income on the date the dividend is declared.

2.20 Net income from trading

Net income from trading includes gains and losses arising from purchases, disposals and changes in the fair value of financial assets and liabilities including securities. It also includes the result of all foreign currency transactions.

2.21 Personnel expenses

Contributions are made to the state's medical, retirement benefit, health and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of social security payments is charged to the statement of profit or loss and other comprehensive income in the same period as the related salary cost. The Company takes part in the voluntary additional old-age pension savings program for its employees. Based on this program, the Company does not have to recognise any additional liabilities to its employees.

2.22 Income tax

Income tax comprises current income tax and deferred income tax.

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

Deferred income tax is recognised on temporary differences between the tax base of assets or liabilities and their carrying amount using the balance sheet method. 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 at 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.

The Company also pays other indirect operating taxes which are included in 'Other operating expense'.

2.23 Regulatory requirements

In compliance with the provisions of Act No. 203/2011 on Collective Investments, the Company is subject to several limitations relating to its investment activities.

2.24 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and Amounts due from banks with contractual maturity up to three months.

3. Due from banks

The breakdown of balances on bank accounts and term deposits as at 31 December 2017 and 31 December 2016 is as follows:

in thousands of euro	**2017**	**2016**
Current accounts	1,998	691
Term deposits	-	-
	1,998	691

The Company has a current account in € and HUF with its authorised depository Všeobecná úverová banka, a.s.

4. Financial assets at fair value through profit or loss

The structure of financial assets at fair value through profit or loss as at 31 December 2017 and 31 December 2016 is as follows:

in thousands of euro	**2017**	**2016**
Securities held for trading	13,430	8,677

The Company held the following financial assets at fair value through profit or loss as at 31 December 2017:

in thousands of euro	**CCY**	**Units**	**Acqusi-tion cost**	**Unit FV in CCY**	**Fair Value**
Securities held for trading					
VÚB AM PRIVÁTNY EUROVÝ FOND, o.p.f. VÚB Asset Management, správ. spol., a.s.	EUR	121,536,862	4,414	0.036887	4,483
VÚB AM FOND BANKOVÝCH VKLADOV, o.p.f. VÚB Asset Management, správ. spol., a.s.	EUR	87,858,206	8,952	0.101829	8,947
			13,366		13,430

The Company held the following financial assets at fair value through profit or loss as at 31 December 2016:

in thousands of euro	**CCY**	**Units**	**Acqusi-tion cost**	**Unit FV in CCY**	**Fair Value**
Securities held for trading					
VÚB AM PRIVÁTNY EUROVÝ FOND, o.p.f. VÚB Asset Management, správ. spol., a.s.	EUR	46,846,501	1,664	0.036778	1,723
VÚB AM FOND BANKOVÝCH VKLADOV, o.p.f. VÚB Asset Management, správ. spol., a.s.	EUR	68,230,929	6,952	0.101923	6,954
			8,616		8,677

Financial assets recorded at fair value through profit or loss are subject to the risk of fair value change as a result of market interest rate changes and changes in equity market prices.

5. Subsidiaries

in thousands of euro	**Share in %**	**2017**	**2016**
CIB Befektetési Alapkezelö Zrt.	100	2,278	2,278
PBZ Invest d.o.o.	100	660	660
		2,938	2,938

PBZ Invest d.o.o. has its registered seat at Ilica 5 - Oktogon, 10 000 Zagreb, Croatia. CIB Befektetési Alapkezelö Zrt. has its registered seat at Medve utca 4-14, 1027 Budapest, Hungary. Both companies provide asset management services.

The Company is not a partner with unlimited liability in any other company.

Dividend income from subsidiaries was as follows:

in thousands of euro	**2017**	**2016**
CIB Befektetési Alapkezelö Zrt.	3,713	2,960
PBZ Invest d.o.o.	-	3,139
	3,713	6,099

6. Receivables from funds

The structure of receivables from funds as at 31 December 2017 and 31 December 2016 is as follows:

in thousands of euro	**2017**	**2016**
VÚB AM EDÍCIA SVET, o.p.f.	790	-
VÚB AM ACTIVE BOND FUND, o.p.f.	221	231
VÚB AM ACTIVE MAGNIFICA, o.p.f.	174	170
VÚB AM KONZERVATÍVNE PORTFÓLIO, o.p.f.	173	120
VÚB AM FLEXIBILNÝ KONZERVATÍVNY FOND, o.p.f.	138	136
VÚB AM DYNAMICKÉ PORTFÓLIO, o.p.f.	135	82
VÚB AM FLEXIBLE MAGNIFICA FUND, o.p.f.	114	125
VÚB AM VYVÁŽENÝ RASTOVÝ FOND, o.p.f.	83	68
VÚB AM DLHOPISOVÝ KONVERGENTNÝ FOND, o.p.f.	63	58
VÚB AM MAGNIFICA EDÍCIA III, o.p.f.	53	-
VÚB AM MAGNIFICA EDÍCIA II, o.p.f.	39	586
VÚB AM FOND BANKOVÝCH VKLADOV, o.p.f.	27	90
VÚB AM MAGNIFICA EDÍCIA I, o.p.f.	25	24
VÚB AM PRIVÁTNY EUROVÝ FOND, o.p.f.	13	21
VÚB AM EUROVÝ FOND, o.p.f.	-	64
	2,048	1,775

7. Intangible assets

The movement of intangible assets in 2017 is as follows:

in thousands of euro	Software	Other intangible assets	Assets in progress	Total
Acquisition cost				
1 January 2017	783	-	-	783
Additions	-	-	64	64
Disposals	(2)	-	-	(2)
Transfers	50	-	(50)	-
31 December 2017	831	-	14	845
Accumulated amortisation				
1 January 2017	(622)	-	-	(622)
Amortisation for the year	(33)	-	-	(33)
Disposals	2	-	-	2
31 December 2017	(653)	-	-	(653)
Net book value				
1 January 2017	161	-	-	161
31 December 2017	178	-	14	192

The movement of intangible assets in 2016 is as follows:

in thousands of euro	Software	Other intangible assets	Assets in progress	Total
Acquisition cost				
1 January 2016	721	1	-	722
Additions	-	-	69	69
Disposals	(7)	(1)	-	(8)
Transfers	69	-	(69)	-
31 December 2016	783	-	-	783
Accumulated amortisation				
1 January 2016	(603)	(1)	-	(604)
Amortisation for the year	(26)	-	-	(26)
Disposals	7	1	-	8
31 December 2016	(622)	-	-	(622)
Net book value				
1 January 2016	118	-	-	118
31 December 2016	161	-	-	161

Intangible assets comprise mainly software used to perform the valuation of the funds' assets, administration of the clients' database and risk management. The estimated useful life of the software is in line with the depreciation and amortisation plan of the Company (seven years). In order to maintain the highest efficiency and effectiveness, the software is being upgraded continuously. Upgrades of the software extend its useful life.

The gross book value of fully amortised assets that are still used by the Company was € 559 thousand as at 31 December 2017 (31 December 2016 € 561 thousand).

8. Property and equipment

The movement of property and equipment in 2017 is as follows:

in thousands of euro	Property and equipment	Furniture and office equipment	Other tangible assets	Assets in progress	Total
Acquisition cost					
1 January 2017	97	3	4	-	104
Additions	-	-	-	18	18
Disposals	(12)	-	(1)	-	(13)
Transfers	18	-	-	(18)	-
31 December 2017	103	3	3	-	109
Accumulated depreciation					
1 January 2017	(68)	(2)	(4)	-	(74)
Depreciation for the year	(17)	-	-	-	(17)
Disposals	13	-	1	-	14
31 December 2017	(72)	(2)	(3)	-	(77)
Net book value					
1 January 2017	29	1	-	-	30
31 December 2017	31	1	-	-	32

The movement of property and equipment in 2016 is as follows:

in thousands of euro	Property and equipment	Furniture and office equipment	Other tangible assets	Assets in progress	Total
Acquisition cost					
1 January 2016	129	3	5	-	137
Additions	-	-	-	5	5
Disposals	(37)	-	(1)	-	(38)
Transfers	5	-	-	(5)	-
31 December 2016	97	3	4	-	104
Accumulated depreciation					
1 January 2016	(84)	(2)	(5)	-	(91)
Depreciation for the year	(21)	-	-	-	(21)
Disposals	37	-	1	-	38
31 December 2016	(68)	(2)	(4)	-	(74)
Net book value					
1 January 2016	45	1	-	-	46
31 December 2016	29	1	-	-	30

8. Property and equipment (continued)

The gross book value of fully depreciated assets that are still used by the Company was € 35 thousand as at 31 December 2017 (€29 thousand as at 31 December 2016).

The Company's insurance covers all standard risks to property and equipment and intangible assets (theft, robbery, natural hazards, vandalism, and other damages).

At 31 December 2017 and 31 December 2016, no property and equipment was pledged by the Company to secure transactions with counterparties.

9. Taxes

The effective tax rate differs from the statutory tax rate in 2017 and in 2016. The reconciliation of the Company's profit before tax with the actual corporate income tax is as follows:

in thousands of euro	2017		2016	
	Tax base	**Tax at applicable tax rate (21%)**	**Tax base**	**Tax at applicable tax rate (22%)**
Profit before tax	5,991	(1,258)	8,350	(1,837)
Tax effect of expenses that are not deductible in determining taxable profit				
Tax deductible expense upon payment	1,529	(321)	1,443	(317)
Creation of reserves for bonuses	360	(76)	225	(50)
Creation of provisions for accrued expenses	65	(14)	17	(4)
Representation expenses	35	(7)	26	(6)
Other	50	(11)	38	(8)
	2,039	(429)	1,749	(385)
Tax effect of revenues that are deductible in determining taxable profit				
Dividends received	(3,713)	779	(6,099)	1,340
Tax deductible expense upon payment – paid	(1,443)	303	(1,839)	405
Use of reserves for bonuses	(205)	44	(251)	55
Use of reserves for accrued expenses	(17)	4	(50)	11
Release of reserves for bonuses	(5)	1	-	-
Other	-	-	(1)	-
	(5,378)	1,131	(8,235)	1,811
Current income tax	2,652	(556)	1,864	(411)
Deferred income tax at 21% (2016: 22%)		59		(120)
Income tax expense		(497)		(531)
Effective tax rate		8.29 %		6.35 %

9. Taxes (continued)

Deferred income tax

In 2017 and 2016, the Company accounted for deferred income tax from taxable temporary differences between the carrying amount of assets and liabilities and their tax written-down value.

Deferred income taxes as at 31 December 2017 are calculated on all temporary differences using a tax rate of 21% as follows:

in thousands of euro	**2017**	**Income/ (loss)**	**2016**
Other liabilities – tax base after payment	419	59	360
Deferred income tax asset	419	59	360

Deferred income taxes as at 31 December 2016 are calculated on all temporary differences using a tax rate of 22% as follows:

in thousands of euro	**2016**	**Income/ (loss)**	**2015**
Other liabilities – tax base after payment	360	(120)	480
Deferred income tax asset	360	(120)	480

10. Other assets

The structure of other assets as at 31 December 2017 and 31 December 2016 is as follows:

in thousands of euro	**2017**	**2016**
Other receivables and prepayments	41	32
Other assets	25	22
	66	54

There are no overdue receivables within other assets. The Company did not create any impairment losses for receivables as at 31 December 2017 and 31 December 2016.

11. Accrued expenses

The breakdown of accrued expenses as at 31 December 2017 and 31 December 2016 is as follows:

in thousands of euro	**2017**	**2016**
VÚB – administration fees	855	650
VÚB – admission fees	567	682
VÚB – other	50	59
ISP Group Services	41	-
Generali – administration fees	36	35
Eurizon – commission of the administration fees	22	20
Epsilon – commission of the administration fees	22	16
Audit	18	16
Eurizon – service level agreement	6	5
VÚB – competitions for salesmen	4	4
Eurizon – license agreement	2	2
Eurizon – other	1	2
Other	74	34
	1,698	1,525

12. Other liabilities

The breakdown of other liabilities as at 31 December 2017 and 31 December 2016 is as follows:

in thousands of euro	**2017**	**2016**
Year-end bonuses	393	237
Payables to employees	64	40
Undrawn vacations	43	35
Social security payables	27	23
VÚB, a.s. – fees	26	21
Supervisory Board remuneration	7	14
Other direct and indirect taxes	22	12
Social fund	-	5
VÚB Leasing	2	2
Other liabilities	14	19
	598	408

There were no overdue payables within the balance of other liabilities (short-term and long-term) as at 31 December 2017 and 31 December 2016.

The movements in social fund liability were as follows:

in thousands of euro	**1 Jan 2017**	**Creation**	**Use**	**31 Dec 2017**
Social fund	5	6	(11)	-

in thousands of euro	**1 Jan 2016**	**Creation**	**Use**	**31 Dec 2016**
Social fund	9	6	(10)	5

13. Equity

The movements on the equity accounts are detailed in the Statement of changes in equity.

Share capital

The shareholding structure of the Company is as follows:

	2017	**2016**
Eurizon Capital S.A.	100.0 %	100.0 %

In December 2016, the majority shareholder Eurizon Capital S.A. acquired stakes of Všeobecná úverová banka, a.s. and Privredna Banka Zagreb d.d. The reason for this transaction was to achieve the separation and independence of the asset management companies from their distributors, in line both with the model adopted by Intesa Sanpaolo Group and with the indications of the Supervisory Authorities and the simplification of decision-making and governance processes.

The share capital as at 31 December 2017 in the amount of € 4,094 thousand consists of 1,233 ordinary shares (as at 31 December 2016 the share capital was in the amount of € 4,094 and consisted of 1,233 ordinary shares) with a nominal value of € 3,320 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares of the Company were authorized, issued and fully paid as at 31 December 2017 and 2016.

13. Equity (continued)

Earnings per share of the Company as at 31 December 2017 and as at 31 December 2016:

in thousands of euro	**2017**	**2016**
Net profit for the year	5,494	7,819
Number of shares	1,233	1,233
Basic and diluted earnings per share	4.46	6.36

Share premium and Other funds

Compensation for the issue of new shares in 2013 were in-kind contributions in the form of holdings in the companies PBZ Invest d.o.o. as a contribution of the shareholder Privredna Banka Zagreb d.d. and CIB Befektetési Alapkezelö Zrt. as a contribution of the shareholder Eurizon Capital S.A. The fair value of these companies was allocated between the share capital in the amount of € 2,434 thousand and the share premium in the amount of € 38,438 thousand.

As the transaction was a common control transaction, the value was subsequently adjusted to the value that has been recognised in the original parent companies before the transaction. The value adjustment of € (37,934) thousand is recognised under Other funds.

Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future losses. The Company is obliged to contribute an amount to the fund each year that is not less than 10% of its annual net profit until the aggregate amount reaches a minimum level equal to 20 % of the issued share capital. The aggregate amount of legal reserve fund is € 819 thousand as at 31 December 2017, which represents the level of 20% of the issued share capital (as at 31 December 2016: € 819 thousand, which represented the level of 20% of the issued share capital).

Distribution of profit

On 7 March 2017, the General Assembly meeting was held, at which the shareholders approved the 2016 profit distribution as follows:

in thousands of euro	**2016**
Transfer to retained earnings	7,819
	7,819

Proposed distribution of profit

The Management Board will propose the following 2017 profit distribution at the General Assembly meeting to be held on 12 March 2018:

in thousands of euro	**2017**
Transfer to retained earnings	5,494
	5,494

14. Off-balance sheet liabilities

In the normal course of business, the Company enters into agreements under operating leases for premises and transportation vehicles for employees. As at 31 December 2017 and 31 December 2016, the total amount of future payments arising from irrevocable operating lease agreements was as follows:

in thousands of euro	**2017**	**2016**
Within 1 year	78	81
1 – 5 years	11	57
	89	138

15. Interest and similar income

The breakdown of interest income is as follows:

in thousands of euro	**2017**	**2016**
Interest from deposits	-	-
	-	-

16. Fee and commission income

The breakdown of income from fees and commissions is as follows:

	2017					**2016**
in thousands of euro	**Administration fees**	**Fees for sale of mutual fund certificates**	**Termination fees**	**Other fees and commissions**	**Total**	**Total**
Active Bond Fund, o.p.f.	2,475	498	18	45	3,036	2,581
Active Magnifica, o.p.f.	1,782	358	53	110	2,303	1,711
Konzervat. portfólio, o.p.f.	1,920	39	107	-	2,066	1,533
Flexibilný konzervatívny fond, o.p.f	1,486	246	8	35	1,775	1,735
Flexible Magnifica fund, o.p.f.	1,372	160	2	24	1,558	1,550
Dynamické portfólio, o.p.f.	1,066	440	18	-	1,524	901
Magnifica Edícia III, o.p.f.	319	752	-	-	1,071	-
Vyváž. rastový fond, o.p.f.	854	82	12	-	948	787
Edícia svet, o.p.f.	25	764	-	-	789	-
Dlhopisový konverg. fond, o.p.f.	710	25	13	-	748	698
Fond bankových vkladov o.p.f	521	-	-	-	521	1,166
Magnifica Edícia II, o.p.f.	458	-	-	-	458	585
Magnifica Edícia I, o.p.f.	285	-	-	7	292	482
Privátny eurový fond, o.p.f.	158	-	-	-	158	249
Eurový fond, o.p.f.	141	3	1	-	145	812
Ostatné poplatky	-	-	-	27	27	25
	13,572	3,367	232	248	17,419	14,815

17. Fee and commission expense

The breakdown of expenses for fees and commissions is as follows:

in thousands of euro	**2017**	**2016**
Fees for fund administration	(9,544)	(7,766)
Fees for sale of mutual fund certificates	(2,973)	(2,267)
Bank fees	(4)	(2)
Other fees	(5)	(7)
	(12,526)	(10,042)

18. Net loss from trading

The breakdown of net loss from trading is as follows:

in thousands of euro	**2017**	**2016**
Gain from securities	2	4
Realised FX losses	(4)	(14)
	(2)	(10)

19. Personnel expenses

The breakdown of personnel expenses as at 31 December 2017 is as follows:

in thousands of euro	**Key management personnel**	**Employees**	**Total**
Wages and salaries	(391)	(293)	(684)
Bonuses for 2017	(375)	-	(375)
Social security costs	(178)	(131)	(309)
			(1,368)

The breakdown of personnel expenses as at 31 December 2016 is as follows:

in thousands of euro	**Key management personnel**	**Employees**	**Total**
Wages and salaries	(378)	(338)	(716)
Bonuses for 2016	(193)	(1)	(194)
Social security costs	(177)	(135)	(312)
			(1,222)

19. Personnel expenses (continued)

Average number of employees by categories:

	2017	2016
Key management personnel	2	2
Middle management	6	6
Administration	17	19
Headcount as at 31 December	25	27
Average number of employees	24.6	26.9

The average number of employees as well as employees in Administration include two employees (2016: two employees) on maternity leave as at 31 December 2017.

20. Other operating expenses

The breakdown of other operating expenses is as follows:

in thousands of euro	2017	2016
Advisory services	(366)	(347)
Rent	(188)	(191)
IT systems maintenance	(172)	(137)
Advertising and promotional activities	(125)	(145)
Fee to NBS, Investment Guarantee Fund	(92)	(182)
Market information providers (Bloomberg, Reuters)	(47)	(48)
Travelling	(46)	(37)
Audit	(26)	(22)
Supervisory Board remuneration	(25)	(45)
Education	(21)	(25)
Fuel	(9)	(7)
Office supplies	(9)	(12)
Copy machine service	(7)	(6)
Archive	(7)	(6)
Translations	(5)	-
Advertising	(3)	(3)
Other	(72)	(53)
	(1,220)	(1,266)

The breakdown of audit and assurance services is as follows:

in thousands of euro	2017	2016
Audit of the separate financial statements	(25)	(21)
Audit of the consolidation package	(1)	(1)
	(26)	(22)

Expenses for the statutory audit of the mutual funds under the Company's administration are recorded as an expense of the individual funds.

21. Financial and operational risk management

The purpose of risk management is to achieve an optimal ratio between the risk profile of the Company and its profitability. The Company, based on the activities it performs, is exposed particularly to the following types of risks: credit, market and operational risk. The risk management process comprises mainly risk identification, risk quantification, reporting, and preventing and detecting measures.

Due to the non-complex structure of the financial instruments portfolio, the Company is exposed to credit risk, liquidity risk, interest rate risk and operational risk. The Company is not exposed to share price risk. Nor is the Company exposed to currency risk since the Company maintains its accounting books in euro and its activities are conducted in euro and generally the investments are made only into funds investing into financial assets denominated in euro.

21.1 Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to banks as well as investment securities.

In order to achieve the required appreciation of the invested assets and acceptable risk position, as at 31 December 2017 and 31 December 2016, the Company only invested into low-risk instruments with a short duration denominated in €. The Company does not require collateral to minimise credit risk, which reflects the nature of the Company's operations and counterparties.

The Company does not use any internal ratings to assess the credit quality of the financial assets. The quality of financial assets based on external credit risk ratings was as follows:

in thousands of euro	**External rating**	**2017**	**2016**
Amounts due from banks	A2 *	1,998	691
Financial assets at fair value through profit or loss	n/a	13,430	8,677
Receivables from funds	n/a	2,048	1,775

* external rating according to Moody´s rating agency

The Company did not establish an allowance for impairment losses as there was no evidence of impairment for the financial assets.

21.2 Liquidity risk

Liquidity risk is defined as the risk that the Company is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the Company is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit. With regard to the highly liquid assets in particular, there may be strains in the market that make them difficult (or even impossible) to sell or be used as collateral in exchange for funds. From this perspective, the Company's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).

The following table provides a breakdown of financial assets by their residual maturity from the balance sheet date to the agreed due date. If there is a possibility of early repayment, or if a repayment schedule exists which enables an early repayment, the table is prepared with the most prudent classification of the due date. Those financial assets without an agreed due date are disclosed commonly within the category 'unspecified maturity'.

21. Financial risk management (continued)

The residual maturity of financial assets as at 31 December 2017 is as follows:

in thousands of euro	Within 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Unspe-cified maturity	Total
Financial assets							
Amounts due from banks	1,998	-	-	-	-	-	1,998
Financial assets at fair value through profit or loss	-	-	-	-	-	13,430	13,430
Receivables from funds	2,048	-	-	-	-	-	2,048
	4,046	-	-	-	-	13,430	17,476

The residual maturity of financial assets as at 31 December 2016 is as follows:

in thousands of euro	Within 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Unspe-cified maturity	Total
Financial assets							
Amounts due from banks	691	-	-	-	-	-	691
Financial assets at fair value through profit or loss	-	-	-	-	-	8,677	8,677
Receivables from funds	1,775	-	-	-	-	-	1,775
	2,466	-	-	-	-	8,677	11,143

21.3 Interest rate risk

The Company is exposed to interest rate risk as the value of certain financial instruments will vary due to market changes in interest rates and the maturity of interest-earning assets will differ from the maturity of interest-bearing liabilities used as the source of financing the assets. The extent to which the financial instrument is exposed to interest rate risk can be derived from the period during which the interest rate is fixed to the financial instrument.

An overview of statement of financial position items by the agreed period during which the underlying interest rate is fixed for the item as at 31 December 2017 is as follows:

in thousands of euro	Within 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Unspe-cified maturity	Total
Financial assets							
Amounts due from banks	1,998	-	-	-	-	-	1,998
Financial assets at fair value through profit or loss	-	-	-	-	-	13,430	13,430
Receivables from funds	2,048	-	-	-	-	-	2,048
	4,046	-	-	-	-	13,430	17,476

21. Financial risk management (continued)

An overview of statement of financial position items by the agreed period during which the underlying interest rate is fixed for the item as at 31 December 2016 is as follows:

in thousands of euro	Within 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Unspe-cified maturity	Total
Financial assets							
Amounts due from banks	691	-	-	-	-	-	691
Financial assets at fair value through profit or loss	-	-	-	-	-	8,677	8,677
Receivables from funds	1,775	-	-	-	-	-	1,775
	2,466	-	-	-	-	8,677	11,143

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

31 December 2017 in thousands of euro	Less than 12 months	Over 12 months	Total
Assets			
Due from banks	1 998	-	1 998
Financial assets at fair value through profit or loss	-	13 430	13 430
Subsidiaries	-	2 938	2 938
Receivables from funds	2 048	-	2 048
Intangible assets	-	192	192
Property and equipment	-	32	32
Deferred income tax asset	-	419	419
Other assets	41	25	66
	4 087	17 036	21 123
Liabilities			
Current income tax liability	(97)	-	(97)
Accrued expenses	(1 698)	-	(1 698)
Other liabilities	(598)	-	(598)
	(2 393)	-	(2 393)
	1 694	17 036	18 730

21. Financial risk management (continued)

31 December 2016 in thousands of euro	Less than 12 months	Over 12 months	Total
Assets			
Due from banks	691	-	691
Financial assets at fair value through profit or loss	-	8 677	8 677
Subsidiaries	-	2 938	2 938
Receivables from funds	1 775	-	1 775
Current income tax receivable	483	-	483
Intangible assets	-	161	161
Property and equipment	-	30	30
Deferred income tax asset	-	360	360
Other assets	32	22	54
	2 981	12 188	15 169
Liabilities			
Accrued expenses	(1 525)	-	(1 525)
Other liabilities	(408)	-	(408)
	(1 933)	-	(1 933)
	1 048	12 188	13 236

21.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 behaviour. Operational risks arise from all of the Company's operations. The Company adopted the Standardised Approach for Operational Risk management and measurement.

22. Adequacy of own funds

The Management Company is obliged to comply with regulatory requirements issued primarily by the NBS, which are set out under Act No. 203/2011 on collective investment and under the Decree of NBS No. 7/2011 about proportionality of own resources. These include limits and restrictions on capital adequacy. These requirements apply to all management companies in Slovakia and their compliance is determined on the basis of reports submitted by the management company under statutory accounting rules.

The summary of these requirements valid for 2017 is as follows:

- Initial capital of the Company is at least € 125 thousand.
- The Company is obliged to observe the adequacy of own funds. Own funds of the management company are appropriate under this Act, unless they are below:
  a) € 125 thousand plus 0.02% of the value of the assets in the funds managed by the Company exceeding € 250,000,000, this amount is not increased when it reaches € 10,000,000,
  b) One quarter of average general operating costs of the management company for the previous calendar year, if the management company operated for less than one year, a quarter of a value of general operating costs referred to in its business plan.
- The Company must not acquire in its property or property in the open-ended mutual fund, which it manages, more than 10% of the total nominal value of shares with voting rights issued by one issuer.
- The Company may not acquire in its property or assets to the open-ended mutual fund, which manages, shares with voting rights which would enable the Company to exercise a significant influence on the management of the issuer located in the territory of the Slovak republic, or in a non EU State.
- The Company is required to comply with restrictions on the acquisition of significant influence in the management of the issuer established in EU Member State, provided by the law of that Member State, taking into account the property in the mutual fund, which it manages.

22. Adequacy of own funds (continued)

- Internal organisation of the Company shall provide risk minimisation for the holders of mutual fund certificates or for the Company's clients by preventing conflict of interest between the Company and its clients, between two of its clients mutually, between one of its clients and the holders of mutual fund certificates or between the holders of mutual fund certificates .

The Company regularly and on a timely basis informs the NBS about the amount of initial capital, its own resources and structure according to the NBS measure No. 7/2011 on asset management company's own resources and attaches the information about proportionality of own resources according to the law No. 203/2011 on collective investments.

in thousands of euro	**Indicator value 2017**	**Indicator value 2016**
Limit of initial capital	634	628
Paid up share capital	4,094	4,094
Share premium	38,438	38,438
Retained earnings	7,819	-
Items decreasing value of own funds	(3,130)	(3,099)
Reserve fund and other funds	(37,115)	(37,115)
Accumulated losses of previous periods	-	-
Capital total	10,106	2,318
Data on compliance with the limits of own funds	1,594 %	369 %

Limit of initial capital was fulfilled at 1,594 % (2016: 369 %).

23. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities as at 31 December 2017 is as follows:

in thousands of euro	**Note**	**Carrying amount**	**Fair value**
Amounts due from banks	3	1,998	1,998
Financial assets at fair value through profit or loss	4	13,430	13,430
Receivables from funds	6	2,048	2,048

The fair value of financial assets and liabilities as at 31 December 2016 is as follows:

in thousands of euro	**Note**	**Carrying amount**	**Fair value**
Amounts due from banks	3	691	691
Financial assets at fair value through profit or loss	4	8,677	8,677
Receivables from funds	6	1,775	1,775

The following table shows an analysis of financial instruments disclosed at fair value by level of the fair value hierarchy:

in thousands of euro		**December 2017**			
	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
Amounts due from banks	3	-	1,998	-	1,998
Financial assets at fair value through profit or loss	4	13,430	-	-	13,430
Receivables from funds	6	-	-	2,048	2,048

23. Fair value of financial assets and liabilities

in thousands of euro		December 2016			
	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
Amounts due from banks	3	-	691	-	691
Financial assets at fair value through profit or loss	4	8,677	-	-	8,677
Receivables from funds	6	-	-	1,775	1,775

The Company uses the following hierarchy for the determination and disclosure of fair value of financial instruments based on the valuation technique:

Level 1: Quoted (unadjusted) prices from active markets for identical assets or liabilities;

Level 2: Other techniques, by which all inputs which have a significant impact on the posted fair value are observable, either directly or indirectly;

Level 3: Techniques that use inputs with significant impact on the posted fair value, but these inputs are not based on observable market data.

Amounts due from banks

Amounts due from banks represent current account balances and short-term deposits with a maturity period of less than 14 days. Accordingly, the book value is considered to be the fair value.

Financial assets at fair value through profit or loss

All securities are carried at quoted market prices.

Receivables from funds

Receivables from funds represent due management fees from the funds. As they are short-term the book value is considered to be the fair value.

24. Financial assets and liabilities in foreign currencies

All financial assets and liabilities of the Company were denominated in EUR as at 31 December 2017.

25. Related parties transactions

Related parties are those counterparties that represent:

(a) enterprises that directly, or indirectly, through one or more intermediaries, control, or are controlled by, have a significant influence or are under common control of the reporting enterprise;

(b) associates – enterprises in which the parent company has significant influence and which are neither a subsidiary nor a joint venture;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company, and anyone expected to influence, or be influenced by, that person in their dealings with the Company;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and officers of the Company and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Company and enterprises that have a member of key management in common with the Company.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. All transactions with related parties were performed on an arm's length basis.

25. Related parties transactions (continued)

The breakdown of receivables and payables with related parties as at 31 December 2017 is as follows:

in thousands of euro	Mutual Funds VUB AM (1)	Share-holders (2)	Other companies in ISP group (3)	Generali (4)	KMP (5)	Total
Assets						
Amounts due from banks	-	-	1,998	-	-	1,998
Financial assets at fair value through profit or loss	13,430	-	-	-	-	13,430
Subsidiaries	-	-	2,938	-	-	2,938
Receivables from funds	2,048	-	-	-	-	2,048
Other assets	-	-	9	-	-	9
	15,478	-	4,945	-	-	20,423
Liabilities						
Accrued expenses	-	-	1,587	36	-	1,623
Other liabilities	-	-	28	-	400	428
	-	-	1,615	36	400	2,051

(1) Mutual Funds VÚB AM – Related party (a)
(2) Eurizon Capital S.A. – Shareholder of the Company (a)
(3) Všeobecná úverová banka, a.s. (Shareholder until December 2016); Consumer Finance Holding, a.s.; VÚB Leasing a. s.; Eurizon Capital SGR S.p.A.; Epsilon SGR; PBZ Invest d.o.o.; CIB Befektetési Alapkezelö Zrt.; Intesa Sanpaolo S.p.A – Related parties (a)
(4) VÚB Generali dôchodková správcovská spoločnosť, a.s. – Related party (a)
(5) KMP – Key management personnel and supervisory board (d)

The breakdown of receivables and payables with related parties as at 31 December 2016 is as follows:

in thousands of euro	Mutual Funds VUB AM (1)	Share-holders (2)	Other companies in ISP group (3)	Generali (4)	KMP (5)	Total
Assets						
Amounts due from banks	-	-	691	-	-	691
Financial assets at fair value through profit or loss	8,677	-	-	-	-	8,677
Subsidiaries	-	-	2,938	-	-	2,938
Receivables from funds	1,775	-	-	-	-	1,775
Other assets	-	-	8	-	-	8
	10,452	-	3,637	-	-	14,089
Liabilities						
Accrued expenses	-	-	1,452	35	-	1,487
Other liabilities	-	-	23	-	253	276
	-	-	1,475	35	253	1,763

25. Related parties transactions (continued)

Summary of transactions with group companies and other related parties during the year 2017:

in thousands of euro	Mutual Funds VUB AM (1)	Share-holders (2)	Other companies in ISP group (3)	Generali (4)	KMP (5)	Total
Interest and similar income	-	-	-	-	-	-
Fee and commission income	17,393	-	22	-	-	17,415
Fee and commission expense	-	-	(12,379)	(144)	-	(12,523)
Dividend income	-	-	3,715	-	-	3,715
Net loss from trading	-	-	(4)	-	-	(4)
Other income	-	-	23	-	-	23
Personnel expenses	-	-	(13)	-	(944)	(957)
Other operating expenses	-	-	(671)	-	(41)	(712)
	17,393	-	(9,307)	(144)	(985)	6,957

(1) Mutual Funds VÚB AM – Related party (a)
(2) Eurizon Capital S.A.; Všeobecná úverová banka, a.s. (until December 2016) – Shareholders of the Company (a)
(3) Consumer Finance Holding, a.s.; VÚB Leasing a. s.; Eurizon Capital SGR S.p.A. ; Epsilon SGR; PBZ Invest d.o.o.; CIB Befektetési Alapkezelö Zrt.; Intesa Sanpaolo S.p.A – Related parties (a)
(4) VÚB Generali dôchodková správcovská spoločnosť, a.s. – Related party (a)
(5) KMP – Key management personnel and supervisory board (d)

Summary of transactions with group companies and other related parties during the year 2016:

in thousands of euro	Mutual Funds VUB AM (1)	Share-holders (2)	Other companies in ISP group (3)	Generali (4)	KMP (5)	Total
Interest and similar income	-	-	-	-	-	-
Fee and commission income	14,790	22	-	-	-	14,812
Fee and commission expense	-	(9,896)	-	(140)	-	(10,036)
Dividend income	-	-	6,099	-	-	6,099
Net income from trading	-	-	(5)	-	-	(5)
Other income	-	-	23	-	-	23
Personnel expenses	-	-	(13)	-	(748)	(761)
Other operating expenses	-	(434)	(221)	-	(61)	(716)
	14,790	(10,308)	5,883	(140)	(809)	9,416

See note 19, regarding the bonuses for key management personnel.

25. Related parties transactions (continued)

The asset value of mutual funds managed by VÚB Asset Management, správ. spol., a.s. is shown in the table below:

in thousands of euro	**Mutual funds' assets as at 31 December 2017**	**Mutual funds' assets as at 31 December 2016**
VÚB AM ACTIVE BOND FUND, o.p.f.	292,343	274,719
VÚB AM KONZERVATÍVNE PORTFÓLIO, o.p.f.	248,750	165,886
VÚB AM ACTIVE MAGNIFICA, o.p.f.	180,409	140,954
VÚB AM FLEXIBILNÝ KONZERVATÍVNY FOND, o.p.f.	171,901	150,609
VÚB AM PRIVÁTNY EUROVÝ FOND, o.p.f.	130,402	106,783
VÚB AM FOND BANKOVÝCH VKLADOV, o.p.f.	130,239	235,236
VÚB AM DYNAMICKÉ PORTFÓLIO, o.p.f.	125,484	64,183
VÚB AM FLEXIBLE MAGNIFICA FUND, o.p.f.	120,140	127,224
VÚB AM EDÍCIA SVET, o.p.f.	77,079	-
VÚB AM MAGNIFICA EDÍCIA III, o.p.f.	75,535	-
VÚB AM DLHOPISOVÝ KONVERGENTNÝ FOND, o.p.f.	57,376	51,708
VÚB AM MAGNIFICA EDÍCIA II, o.p.f.	55,324	56,810
VÚB AM VYVÁŽENÝ RASTOVÝ FOND, o.p.f.	46,468	37,694
VÚB AM MAGNIFICA EDÍCIA I, o.p.f.	34,007	33,836
VÚB AM EUROVÝ FOND, o.p.f.	-	134,189
	1,745,457	1,579,831

26. Subsequent events

Due to the prepared intragroup reorganisation within Intesa SanPaolo Group, the 100% interest in the Company held by Eurizon Capital S.A. will be acquired by Eurizon Capital SGR S.p.A. The reorganisation shall be finished in the first half of the year 2018.

RNDr. Ing. Marian Matušovič PhD.
Member of the Management Board

Marco Canton
Member of the Management Board