

# **Privatbanka, a.s.**

## **Financial Statements**

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

**Year Ended 31 December 2012**  
and Independent Auditor's Report

## **Contents**

Independent Auditor's Report	3
Statement of Financial Position	4
Income Statement	5
Statement of Comprehensive Income	6
Statement of Changes in Shareholders' Equity	7
Cash Flow Statement	8
Notes to the Financial Statements	9

## Privatbanka, a.s.

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying separate financial statements of Privatbanka, a.s. (the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Statutory Body's Responsibility for the Financial Statements**

The Bank's statutory body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements 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 Banks' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the statutory body, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Privatbanka, a.s. as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Bratislava, 15 March 2013



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



Mgr. Renáta Ihringová, FCCA  
Responsible Auditor  
Licence SKAu No. 881

**Statement of Financial Position as at 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

	Note	2012 EUR '000	2011 EUR '000
<b>Assets</b>			
Cash and balances with central banks	4.	8 475	12 762
Loans and advances to banks	5.	45 665	33 213
Loans and advances to customers	6.	204 099	197 062
Available-for-sale securities	8.	79 130	112 817
Securities at fair value through profit or loss	9.	5 129	4 923
Held-to-maturity securities	10.	336 072	273 382
Investments in subsidiaries	11.	7	7
Tangible and intangible assets	12.	1 864	1 620
Tax prepayments	13.	-	95
Deferred tax asset	14.	-	119
Other assets	15.	1 671	767
<b>Total assets</b>		<b>682 112</b>	<b>636 767</b>
<b>Liabilities and equity</b>			
Deposits from banks	16.	151 230	70 019
Deposits from customers	17.	451 453	481 137
Debt securities issued	18.	30 087	41 622
Current income tax liability	13.	38	-
Deferred tax liability	14.	215	-
Provisions for liabilities		367	15
Other liabilities	19.	5 673	6 407
<b>Total liabilities</b>		<b>639 063</b>	<b>599 200</b>
<b>Equity</b>			
Share capital	20.	25 121	25 121
Capital reserves and profit funds	20.	3 349	2 975
Revaluation reserves on available-for-sale securities, including deferred tax	20.	513	(667)
Retained earnings		14 066	10 138
<b>Total equity</b>		<b>43 049</b>	<b>37 567</b>
<b>Total liabilities and equity</b>		<b>682 112</b>	<b>636 767</b>

The notes on pages 9 to 72 form an integral part of these financial statements.

**Income Statement for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

	Note	2012 EUR '000	2011 EUR '000
Interest income and similar income	26.	25 717	22 406
Interest expense and similar expense	27.	(14 130)	(11 644)
<b>Net interest income</b>		<b>11 587</b>	<b>10 762</b>
Fee and commission income	28.	5 656	4 140
Fee and commission expense	29.	(679)	(817)
<b>Net fee and commission income</b>		<b>4 977</b>	<b>3 323</b>
Trading profit	30.	1 003	670
Other income		3	4
<b>Operating income</b>		<b>17 570</b>	<b>14 759</b>
General operating expenses	31.	(10 541)	(8 070)
Depreciation and amortisation	12.	(578)	(606)
<b>Operating expense</b>		<b>(11 119)</b>	<b>(8 676)</b>
<b>Operating profit</b>		<b>6 451</b>	<b>6 083</b>
Provisions for impairment losses on loans, net, write-off and assignment of receivables	32.	(1 023)	(697)
Creation/release of provisions for securities		469	(469)
Net income from sale of tangible assets		1	-
Provisions for liabilities		(367)	(15)
<b>Profit before income taxes</b>		<b>5 531</b>	<b>4 902</b>
Current income tax	22.	(1 205)	(1 167)
Deferred income tax	22.	(24)	7
<b>Net profit</b>		<b>4 302</b>	<b>3 742</b>

The notes on pages 9 to 72 form an integral part of these financial statements.

**Statement of Comprehensive Income for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

	<b>Note</b>	<b>2012</b> <b>EUR '000</b>	<b>2011</b> <b>EUR '000</b>
<b>Profit after tax from the Income Statement</b>		<b>4 302</b>	<b>3 742</b>
Revaluation of available-for-sale securities		1 489	(1 653)
Deferred tax on available-for-sale securities		(309)	314
<b>Comprehensive income</b>		<b>5 482</b>	<b>2 403</b>

The notes on pages 9 to 72 form an integral part of these financial statements.

**Statement of Changes in Shareholders' Equity**  
**for the year ended 31 December 2012**  
 Prepared in accordance with International Financial Reporting Standards,  
 as adopted by the European Union

	Share capital	Retained earnings	Capital reserves and profit funds	Revaluation reserves on available-for-sale securities (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
<b>At 1 January 2011</b>	<b>25 121</b>	<b>6 742</b>	<b>2 629</b>	<b>672</b>	<b>35 164</b>
Additions to statutory reserve fund	-	(346)	346	-	-
2011 comprehensive income	-	3 742	-	(1 339)	2 403
<b>At 31 December 2011</b>	<b>25 121</b>	<b>10 138</b>	<b>2 975</b>	<b>(667)</b>	<b>37 567</b>

	Share capital	Retained earnings	Capital reserves and profit funds	Revaluation reserves on available-for-sale securities (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
<b>At 1 January 2012</b>	<b>25 121</b>	<b>10 138</b>	<b>2 975</b>	<b>(667)</b>	<b>37 567</b>
Additions to statutory reserve fund	-	(374)	374	-	-
2012 comprehensive income	-	4 302	-	1 180	5 482
<b>At 31 December 2012</b>	<b>25 121</b>	<b>14 066</b>	<b>3 349</b>	<b>513</b>	<b>43 049</b>

The notes on pages 9 to 72 form an integral part of these financial statements.

**Cash Flow Statement for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

	Note	2012 EUR '000	2011 EUR '000
<b>Cash flow from operating activities</b>			
Profit before changes in operating assets and liabilities	33.	5 826	2 070
(Increase)/decrease in minimum reserve deposits with the NBS		4 412	(8 473)
(Increase)/decrease of loans to customers		(7 463)	(17 766)
(Increase)/decrease in securities at fair value through profit or loss		(212)	692
(Increase)/decrease in available-for-sale securities		35 409	(15 057)
(Increase)/decrease in held-to-maturity securities		(61 232)	(77 108)
(Increase)/decrease in other assets		(904)	(44)
Increase/(decrease) in amounts due to banks		80 000	60 009
Increase/(decrease) in deposits from customers		(29 501)	58 639
Increase/(decrease) in debt securities issued – promissory notes		(5 622)	(4 012)
Income tax paid		(1 072)	(1 504)
Increase/(decrease) in other liabilities		(748)	(1 088)
<b>Net cash flow from operating activities</b>		<b>18 893</b>	<b>(3 642)</b>
<b>Cash flow from investing activities</b>			
Purchase of tangible and intangible assets		(832)	(143)
Sale of tangible and intangible assets		11	-
<b>Net cash flow from investment activities</b>		<b>(821)</b>	<b>(143)</b>
<b>Cash flow from financing activities</b>			
Increase upon issue of long-term debt securities - bonds		14 082	14 818
Decrease upon maturity of long-term debt securities - bonds		(19 573)	(9 009)
<b>Net cash flow from financing activities</b>		<b>(5 491)</b>	<b>5 809</b>
<b>Net increase in cash and cash equivalents</b>		<b>12 581</b>	<b>2 024</b>
<b>Cash and cash equivalents at the beginning of the year</b>	34.	<b>35 266</b>	<b>33 242</b>
<b>Cash and cash equivalents at the end of the year</b>	34.	<b>47 847</b>	<b>35 266</b>

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

The notes on pages 9 to 72 form an integral part of these financial statements.

## **1. GENERAL INFORMATION**

### **Incorporation**

Privatbanka, a.s. (hereinafter also the "Bank") was established on 2 August 1995 and incorporated on 9 August 1995. The Bank commenced its activities on 22 May 1996. The Bank's registered office is Einsteinova 25, 851 01 Bratislava. The Bank's identification number is 31 634 419 and its tax identification number is 2020461905.

### **Principal activities**

The principal activities of the Bank, as a holder of a banking license, include the provision of a wide range of banking and financial services to corporate and private customers.

The banking licence was granted to the Bank for the following activities:

1. Receipt of deposits
2. Provision of loans
3. Domestic and cross-border transfers of funds (payment and settlement)
4. Trading on own account
  - a) With money market financial instruments in Slovak crowns and foreign currency including foreign exchange activities
  - b) With capital market financial instruments in Slovak crowns and foreign currency
  - c) With coins made of precious metal, commemorative banknotes and coins, sheets of banknotes, and sets of coins for circulation
5. Administration of customer's receivables on its account including advisory services
6. Finance lease
7. Provision of guarantees; opening and confirmation of letters of credit
8. Issue and administration of means of payment
9. Provision of business advisory services
10. Issue of securities, participation in issuing securities, and provision of related services
11. Financial intermediation
12. Custody of valuables
13. Safe hire
14. Provision of banking information
15. Acting as a depository according to a special regulation
16. Processing of banknotes, coins, commemorative banknotes and coins
17. Provision of investment services, investment activities, and ancillary services in accordance with Article 79 (1) and in connection with Article 6 (1) and (2) of Act 566/2001 Coll. on Securities and Investment Services and on an amendment to certain acts, as amended, in the following scope:
  - I. Acceptance and forwarding of the client's instructions for one or several financial instruments related to the following financial instruments:
    - a) Convertible securities
    - b) Money market instruments
    - c) Trustee shares or securities issued by foreign collective investment entities
    - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
  - II. Execution of the client's instructions on its account in relation to the following financial instruments:
    - a) Convertible securities
    - b) Money market instruments
    - c) Trustee shares or securities issued by foreign collective investment entities
    - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash

**Notes to the Financial Statements for the year ended 31 December 2012**  
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- III. Trading on own account in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- IV. Portfolio management in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- V. Investment consulting in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
  - d) Futures, swaps, forwards concerning currencies, interest rates or yields to be settled by their delivery or cash
- VI. Underwriting and placement of financial instruments upon a firm commitment in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- VII. Placement of financial instruments without a firm commitment in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- VIII. Keeping in custody and management of financial instruments on the client's account, including custodian management and related services, in particular management of cash and financial collaterals in relation to the following financial instruments:
  - a) Convertible securities
  - b) Money market instruments
  - c) Trustee shares or securities issued by foreign collective investment entities
- IX. Granting of loans and borrowings to an investor to be able to trade one or several financial instruments if the lender or provider of the borrowing is involved in the business
- X. Trading of foreign exchange values if they are associated with the provision of investment services
- XI. Performance of investment surveys and financial analysis or other forms of general recommendations for trading the financial instruments
- XII. Services related to the underwriting of these financial instruments

**Shareholders' structure**

The shareholders' structure is as follows:

%	2012	2011
Penta Investments Ltd., Limassol	100,00	100,00
<b>Total</b>	<b>100,00</b>	<b>100,00</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
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The immediate consolidating entity is Penta Investments Limited, with its registered office at Agias Fylaxeos & Polygnostou, 212, C&I CENTER, 2nd floor, P.C. 3082, Limassol, Cyprus.

The ultimate parent company is Penta Holding Limited, with its registered office at Agias Fylaxeos & Polygnostou, 212, C&I CENTER, 2nd floor, P.C. 3082, Limassol, Cyprus.

The consolidated financial statements are available at Penta Investments Limited. They are deposited with the Commercial Register administered by the Ministry of Commerce, Industry and Tourism, Department of Registrar of Companies and Official Receiver Nicosia, with its registered office at Makarios Avenue, Xenios Building, PC 1427 Nicosia, Cyprus.

### **Investments in subsidiaries**

As at 31 December 2012 and 31 December 2011, the Bank had the following subsidiary:

<b>Name</b>	<b>Activity</b>	<b>Share (%)</b>
Privatfin, s.r.o.	Factoring, forfaiting, business advisory services, leasing services	100

Privatfin, s.r.o., with its registered office at Einsteinova 25, 851 01 Bratislava, Identification number: 36 037 869, is registered in the Commercial Register of the District Court, Bratislava I, section: Sro, No. 40865/B. The subsidiary does not perform activities in significant volumes. As at 31 December 2012, it reported a loss of EUR 1.4 thousand (2011: loss of EUR 0.4 thousand).

### **Geographical network**

In 2012, the Bank performed its activities in the Slovak Republic through the Centre of Banking Services in Bratislava (Centrum bankových služieb), its network of three regional investment branches in Banská Bystrica, Bratislava and Košice, and eight regional investment centres for non-cash operations in Brezno, Nitra, Dunajská Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. In 2012, the Bank also carried out banking activities in the Czech Republic based on the right to the free provision of cross-border banking services without establishing a branch in line with Directive No. 2006/48/EC of the European Parliament and of the Council dated 14 June 2006 on establishing and carrying out activities of credit institutions.

### **Members of the Board of Directors**

The members of the Bank's Board of Directors since 1 September 2012 are as follows:

- |                                 |            |                                 |
|---------------------------------|------------|---------------------------------|
| 1. Mgr. Ing. Ľuboš Ševčík, CSc. | - Chairman | - Appointed on 4 September 2007 |
| 2. RNDr. Miron Zelina, CSc.     | - Member   | - Appointed on 1 September 2012 |
| 3. Ing. Vladimír Hrdina         | - Member   | - Appointed on 6 August 2003    |

The members of the Bank's Board of Directors until 1 September 2012 are as follows:

- |                                 |            |                                 |
|---------------------------------|------------|---------------------------------|
| 1. Mgr. Ing. Ľuboš Ševčík, CSc. | - Chairman | - Appointed on 4 September 2007 |
| 2. Ing. Peter Farkaš            | - Member   | - Appointed on 24 March 2010    |
| 3. Ing. Vladimír Hrdina         | - Member   | - Appointed on 6 August 2003    |

### **Supervisory Board**

The members of the Bank's Supervisory Board since 27 September 2012 are as follows:

Elected by the General Meeting:

- |                        |                 |                                  |
|------------------------|-----------------|----------------------------------|
| 1. Ing. Jozef Špirko   | - Chairman      | - Appointed on 29 April 2011     |
| 2. Ing. Marek Hvozďara | - Vice-Chairman | - Appointed on 27 September 2012 |

Elected by the employees:

- |                            |          |                               |
|----------------------------|----------|-------------------------------|
| 3. Ing. Mgr. Milan Čerešňa | - Member | - Appointed on 24 August 2012 |
|----------------------------|----------|-------------------------------|

**Notes to the Financial Statements for the year ended 31 December 2012**  
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The members of the Bank's Supervisory Board from 24 August to 27 September 2012 were as follows:

Elected by the General Meeting:

- |                           |                 |                              |
|---------------------------|-----------------|------------------------------|
| 1. Ing. Jozef Špirko      | - Chairman      | - Appointed on 29 April 2011 |
| 2. Ing. Lenka Madleňáková | - Vice-Chairman | - Appointed on 29 April 2011 |

Elected by the employees:

- |                            |          |                               |
|----------------------------|----------|-------------------------------|
| 3. Ing. Mgr. Milan Čerešňa | - Member | - Appointed on 24 August 2012 |
|----------------------------|----------|-------------------------------|

The members of the Bank's Supervisory Board until 24 August 2012 were as follows:

Elected by the General Meeting:

- |                           |                 |                              |
|---------------------------|-----------------|------------------------------|
| 1. Ing. Jozef Špirko      | - Chairman      | - Appointed on 29 April 2011 |
| 2. Ing. Lenka Madleňáková | - Vice-Chairman | - Appointed on 29 April 2011 |

Elected by the employees:

- |                       |          |                               |
|-----------------------|----------|-------------------------------|
| 3. RNDr. Miron Zelina | - Member | - Appointed on 23 August 2007 |
|-----------------------|----------|-------------------------------|

## **2. ACCOUNTING POLICIES**

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

### **(2.1) Basis of presentation**

The annual financial statements of the Bank (hereinafter the "financial statements") for 2012 and comparative data for 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

#### **Standards and interpretations valid in the current reporting period**

The Bank adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) at the IASB that have been endorsed for use in the European Union effective for reporting periods beginning on 1 January 2012 and that are relevant to the Bank's operations. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Bank's accounting policies.

#### **Standards and Interpretations issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 "Disclosures of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2014);

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
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- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 “Financial instruments: Presentation” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014); and
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013).

**Standards and Interpretations issued by IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2012:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2015) and Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures;
- Amendments to various standards “Improvements to IFRS (2012)” resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” – Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment Entities” (effective for annual periods beginning on or after 1 January 2014).

The Bank's management anticipates that IFRS 9 adoption in its current wording will have a significant impact on the financial statements, mostly in connection with the classification of financial instruments. The Bank's management also anticipates that adoption of the other standards, revisions and interpretations will have no significant impact on the financial statements in the period of initial application.

## **(2.2) Statement of compliance**

The purpose of preparing these financial statements in the Slovak Republic is to comply with the Act on Accounting No. 431/2002 Coll. The Bank prepares its financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS).

Pursuant to Article 22 (12) of Act No. 431/2002 Coll. on Accounting as amended, the Bank does not prepare consolidated financial statements for the year ended 31 December 2012, since the subsidiary Privatfin, s.r.o. does not have a significant impact on Privatbanka's consolidated group. The judgment on the financial position, expenses, revenues and results of operations of Privatbanka's consolidated group has not been significantly affected by preparing only the Bank's separate financial statements.

On 27 April 2012, the Bank's General Meeting approved the Bank's financial statements prepared in accordance with IFRS as at 31 December 2011.

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

## **(2.3) Basis of preparation**

All data are stated in euros (EUR, €). The unit of measure are thousands of euros, unless specified otherwise. The data in parentheses represent negative values.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial investments, financial assets, financial liabilities, and derivatives at fair value.

Financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value. Other financial and non-financial assets and liabilities are measured at amortised cost or historical cost less provisions.

These financial statements were prepared under the assumption that the Bank will continue operating as a going concern for the foreseeable future.

The Bank has a controlling interest in the subsidiary as stated in Note 11. In these financial statements, the subsidiary is recognised at cost, taking into account losses from impairment.

## **(2.4) Significant accounting judgements and estimates**

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

Significant areas of judgment include the following:

- The on-going financial crisis and its resulting impact on financial markets and the economic environment have resulted in material adjustments to the valuation of the Bank's assets. The management of the Bank has considered all relevant factors in making prudent and reasonable valuation estimates in the circumstances. The financial markets continue to be affected by market liquidity issues and high price volatility. There is also a continued increased level of uncertainty about future economic developments. These factors could result in future changes in the valuation of assets and such changes could be material.
- Provisions for liabilities are based on the management's judgments and represent the best estimate of the expenditures required to settle a liability of an uncertain timing or amount resulting from an obligation.
- The Bank regularly (on a quarterly basis) monitors the loan portfolio and performs an individual or portfolio assessment of receivables from loan transactions in order to identify loss events. Subsequently, the Bank quantifies the impact of a loss event on the recognised financial assets while taking into account estimated income from received collateral. In the case of an impairment of the underlying financial asset, the Bank creates a provision in the amount of the difference between the face value of the assets and the estimated impairment of the assets, and reclassifies the financial asset. For portfolio-recognised financial assets, the Bank tests the impact of objectively-demonstrated events on the recognised financial assets. Considering the current economic conditions, the final outcome of these estimates could differ from the amounts of impairment losses recognised as at 31 December 2012.
- Income tax rules and regulations have undergone significant changes in recent years and there is little historical precedent and few interpretative rulings with respect to the extensive and complex issues affecting the banking industry. Moreover, tax authorities have extensive powers in interpreting the application of the tax laws and regulations in the course of its tax examination of taxpayers. Accordingly, there is a high level of inherent uncertainty about the ultimate outcomes of examinations by the tax authorities.

## **(2.5) Summary of significant accounting policies**

### **(1) Foreign currency translation**

Transactions denominated in foreign currencies are translated to euros using the rates of exchange of the ECB or other commercial banks available on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing on the reporting date. Exchange rate gains/losses are included in the Income Statement in "Trading profit".

### **(2) Cash and cash equivalents**

The Bank considers cash, current accounts with the National Bank of Slovakia or other financial institutions, time deposits with other financial institutions with residual maturity up to three months, and treasury bills with a residual maturity up to three months, to be cash equivalents. For the purposes of determining cash flows, the minimum reserve deposit with the NBS is not included as cash equivalent due to restrictions on its availability.

### **(3) Financial instruments – recognition and measurement**

#### **(i) Date of initial recognition**

Purchases or sales of financial assets that require the delivery of assets within the timeframe generally established by regulation or convention in the marketplace are recognised as at the date of settlement. Derivatives are recognised as at the trade date.

#### **(ii) Initial measurement of financial instruments**

The classification of financial assets and liabilities as at initial recognition depends on the purpose for which the financial assets and liabilities were acquired and also depends on their nature. At initial recognition, the financial instruments are measured at fair value, including the transaction costs.

**(iii) Held-to-maturity financial investments**

Held-to-maturity financial investments are those that carry fixed or determinable payments and have fixed maturities, and those which the Bank has the intention and ability to hold to maturity. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. The losses arising from the impairment of such investments are recognised in the Income Statement line "Creation/release of provisions for securities".

**(iv) Loans and advances to banks and Loans and advances to customers**

"Loans and advances to banks" and "Loans and advances to customers" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Available-for-sale securities". After initial recognition, the loans and advances to banks and the loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition cost and fees that are an integral part of the effective interest rate. Amortisation is included in "Interest income and similar income" in the Income Statement. The losses arising from impairment are recognised in the Income Statement in "Provisions for impairment losses on loans, net, write-off and assignment of receivables".

**(v) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss comprise financial derivatives and securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets held for the purpose of trading and generating profit from short-term fluctuations in prices.

Securities held for trading are measured at fair value. Gains and losses from revaluation are presented in the Income Statement as "Trading profit". Interest earned while holding securities held for trading is reported using the effective interest rate as interest income in the Income Statement as "Interest income and similar income". Dividends earned while holding financial investments are recognised in the Income Statement as "Trading profit" when the right to payment has been established.

Financial derivatives include currency and interest rate swaps, currency and interest rate forwards, FRA and currency options (call and put options) and other financial derivatives for the purposes of trading and interest rate risk and exchange rate risk management. Financial derivatives are measured at fair value. Unrealised gains and losses on financial derivatives are recognised as "Other assets" or "Other liabilities". Realised and unrealised gains and losses on derivatives entered into for trading purposes are included in the Income Statement in "Trading profit".

Derivatives held as hedging instruments for risk management purposes are remeasured to fair value at the end of each reporting period. The treatment of changes in their fair value depends on their classification into the following categories:

**(i) Fair Value Hedge**

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm off-balance sheet irrevocable commitment, changes in the fair value of the derivative are recognised immediately in the Income Statement together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same income statement line as the hedged item).

Hedge accounting is discontinued if the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked. Any adjustment to a hedged item for which the effective interest method is used is amortised to income as part of the recalculated effective interest rate of the item over its remaining life.

*(ii) Cash Flow Hedge*

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in the Income Statement in the same period as the hedged cash flows affect the Income Statement under the same income statement line as the hedged item.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If a derivative expires or is sold, terminated or exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects income. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in the income statement.

The relationship between the hedging instrument and the hedged item, risk management objectives, and the implementation strategy of various hedging transactions are documented at the beginning of the hedge relationship. From the origin of the hedging, the Bank continuously documents whether the hedging instrument is highly effective in offsetting changes in the fair values or cash flows of the hedged item.

Hedging derivatives are defined as derivatives following the Bank's risk management strategy, the hedge relationship is officially documented and the hedging is effective [run-on], ie at the beginning and during the existence of the hedge relationship changes in fair values or cash flows from hedged or hedging items are almost fully set off against final results within the range from 80% to 125%.

*Embedded Derivatives*

Derivatives may be embedded in another contractual arrangement (hereinafter the "host contract"). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through income and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are recognised depending on their classification and are presented in the balance sheet together with the host contract.

**(vi) Available-for-sale securities**

Available-for-sale securities are all securities that are classified in this portfolio upon initial recognition. Also included in this portfolio are such financial investments that do not qualify to be classified in one of the following categories: held-to-maturity investments, financial instruments at fair value through profit or loss, or loans and advances to banks and loans and advances to customers. They include equity instruments, investments in mutual funds and money market, and other debt instruments.

Upon initial recognition, available-for-sale securities are measured at fair value. Unrealised gains and losses are recognised directly in equity in the "Revaluation reserves on available-for-sale securities including deferred tax". When the financial asset is sold, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in "Trading profit". Where the Bank holds more than one investment in the same financial asset, they are deemed to be disposed of on an average price basis. Interest earned while holding available-for-sale financial investments is reported using the effective interest rate as interest income in the Income Statement in "Interest income and similar income". Dividends earned while holding financial investments are recognised in the Income Statement as "Trading profit", when the right of the payment has been established. Losses arising from the impairment of such investments are recognised in the Income Statement in "Creation/release of provisions for securities", and removed from the equity in the "Revaluation reserves on available-for-sale securities including deferred tax".

**(vii) Deposits from customers, deposits from banks and debt securities issued**

Deposits from customers, deposits from banks, and debt securities issued are financial instruments, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder or other banks.

After initial recognition, deposits from customers, deposits from banks, and debt securities issued are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the face value and initial costs that are an integral part of the effective interest rate. The corresponding interest expense is recognised in the Income Statement in line "Interest expense and similar expense".

**(4) 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 Bank 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
- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank 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 Bank's continuing exposure. Continuing exposure that takes the form of a guarantee over the transferred asset is measured at the lower of a) the original carrying amount of the asset, and b) the maximum amount of consideration that the Bank could be required to repay.

**(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 the derecognition of the original liability and recognition of a new liability, and the difference in the relevant carrying amounts is recognised in the Income Statement.

**(5) Reclassification of available-for-sale financial assets to held-to-maturity financial assets**

The fair value of the financial assets as at the date of reclassification represents their new acquisition cost or amortised cost. Any previous gains or losses on these financial assets that were recognised directly in equity as "Revaluation reserve from available-for-sale securities including deferred tax" are amortised in profit/(loss) as "Interest income and similar income" over the remaining useful life using the effective interest rate method. Any difference between the new amortised cost and the amount upon maturity is also amortised over the remaining useful life of the financial assets using the effective interest rate method, similarly as in the amortisation of a discount or premium. If financial assets are subsequently impaired, a gain or loss that is recognised directly in equity will be recognised in the profit/loss in accordance with Note 2.5 point 8.

#### **(6) Repurchase and reverse repurchase agreements**

Transactions where securities are sold under a commitment to repurchase (repos) at a predetermined price or purchased under a commitment to resell (reverse repos) are treated as received loans in "Deposits from banks" or "Deposits from customers" with the security transfer of securities or as loans granted in "Loans and advances to banks" or "Loans and advances to customers". The Bank recognises interest income on securities transferred under a repurchase commitment while interest income on securities received under a resale commitment is not accrued.

Income and expenses arising from repurchase and reverse repurchase commitments, being the difference between the selling and purchase prices of the securities, are accrued over the period of the transaction and recorded in the Income Statement as "Interest income and similar income" or "Interest expense and similar expense".

#### **(7) Determination of fair value**

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

- Level 1: Quoted prices from active markets for identical assets or liabilities
- Level 2: Inputs other than "Level 1" quoted prices, which can be obtained for assets or liabilities either directly (eg prices) or indirectly (derived from interest rates etc)
- Level 3: Input data for assets or liabilities, which cannot be derived from market data

For the determination of a fair value of financial instruments, the following applies:

- The fair value for the financial instruments corresponds to their quoted price in an active market as at the reporting date, without any deduction for transaction costs.
- If the quoted market price is not available or there is no active market for the applicable financial instrument, the fair values of financial instruments are determined using valuation techniques such as theoretical price derived from the proceeds as read from the yield curve of government bonds and the credit margin of issuers' debt securities with comparable credit risk under generally-accepted revaluation rules.

Where valuation techniques are used to determine fair values, financial instruments are measured and periodically reviewed by qualified personnel independent of the field of their creation. If practically feasible, models use only observable data; however, areas such as credit risk, volatilities and liquidity require expert estimates. Changes in the assumptions related to these factors could affect the reported fair value of financial instruments.

- The fair value of shares and other equity securities in companies, the price of which is not listed on an active market and the fair value of which cannot be determined reliably, is recognised at cost less impairment.
- The fair value of government and NBS treasury bills is determined by discounting the face value to present value by the required proceeds by maturity derived from the applicable rates effective on the interbank market.
- For OTC derivatives the fair value is determined by discounting future cash flows to their present value using verifiable market data.

With respect to the definition of the fair value of financial instruments that are not revalued to fair value, the Bank applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market values. More-detailed information on the methods of calculation of fair values of financial instruments not revalued to fair value is provided in Note 43.

To determine the fair values of its financial assets and liabilities, the Bank uses the information from the Bloomberg system, where the value is determined by the values of various contributors (financial market entities contributing their prices into the information system) and other important market information.

#### **(8) Impairment of financial assets**

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is reduced if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or necessary reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

##### **(i) Loans and advances to banks and Loans and advances to customers**

For loans and advances to banks and loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset and such asset shows common indications characteristic for individual portfolios created by the Bank, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred as at the reporting date). The carrying amount of the asset is reduced through the use of an account of impairment losses and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases owing to an event occurring after the impairment was recognised, the previously-recognised impairment loss is increased or reduced by adjusting the account of impairment losses. The unrecovered portion of the loans is written off by the Bank as a loss after all means for recovery of the receivable have been applied including the perfection of the collateral.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that will be generated from the realisation of the collateral less costs of sale.

For the purpose of the collective recognition of impairments, financial assets are grouped on the basis of the Bank's internal credit grading system that considers the same credit risk characteristics, in particular financial asset type, industry, method of collateral, and other relevant factors.

The selected types of loans and advances to corporate customers where no impairment was identified on an individual basis, loans and advances are classified into groups – portfolios with similar credit risk characteristics. For portfolios where risk was identified resulting from a change in economic conditions, downturn in the relevant markets and portfolio-based impairment losses are estimated. Portfolio-based impairment losses cover are intended to reflect risk of loss that has not yet been individually identified, but based on historical experience and mainly the anticipated impact of current economic market conditions, are deemed to be inherent in the portfolios as at the reporting date.

Anticipated future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics, actual and expected developments on the relevant market, based on the estimated market values of collateral. As the Bank has no historical loss experience for groups of assets, similar to those in the group, the amount of such assets is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that no longer exist. Estimates of changes in future cash flows reflect changes in related observable data (such as changes in unemployment rates, property prices, GDP growth or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In 2012, no new loan portfolios were created. At present, the Bank has eight portfolios created for the collective assessment of receivables with common characteristics, of which four portfolios were created for loans granted to individuals and four portfolios for corporate or project loans.

The Bank does not have a sufficiently-long time series for the calculation of an historical default rate for the loan portfolios. The portfolio provision is created based on management estimates, considering the current stagnation of the real estate market, the value of received collateral, and expected recovery rates. The recorded estimated provision relates to the impairment of the whole portfolio. The management assumes that the incurred but not identified losses are in the volume of 3.5% (2011: 3.5%) of the total amount of the loans included in the portfolio of loans for real estate project financing and 2.5% (2011: 2.5%) of the total amount of the loans included in the portfolio of loans for clients engaged in the real estate lease and operations sector (refer also to Note 6 and 7). The Bank recorded a provision in the amount of 2.0% (2011: 2.0%) of the total amount of the loans for the portfolio of loans provided to finance new investment projects. Based on the assessment of the development of loans provided to finance photovoltaic power plants, the Bank concluded that no portfolio provision is currently required for this loan portfolio. It is expected that as future events and uncertainties develop, the management will be able to improve its estimates of incurred losses that will result in future adjustments to impairment losses.

Provisioning for incurred credit losses and identified contingencies involve uncertainties resulting from the aforementioned risks and require the management of the Bank to make subjective judgments in estimating the loss amounts. There are significant uncertainties connected mainly with the ultimate implementation of the real estate development projects that is outside the control of management. In respect of the real estate sector, in 2012, the Bank mainly focused on financing real estate intended for lease where the loan recovery is associated with regular cash flows from the lease of real estate.

The ultimate outcome could differ from those estimates and future changes in the economic conditions, and other factors impacting real estate markets and the development of new investment projects could subsequently result in a change in estimates that could have a material impact on loan loss provisions.

#### **(ii) Held-to-maturity financial investments**

For held-to-maturity investments, the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts previously disclosed in expenses are credited to the "Loss on impairment of financial investments".

#### **(iii) Available-for-sale financial investments**

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or long-term decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement – is removed from equity and recognised in the Income Statement. Provisions for equity investments are not reversed through the Income Statement. Increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate and is recorded as part of “Interest income and similar income”. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the provision for the financial assets is reversed through the Income Statement.

#### **(iv) Renegotiated loans**

The Bank prefers to restructure loans rather than perfect the collateral if such procedure improves or strengthens its position as a creditor. Restructuring may include the extension of repayment dates and the agreement of new credit terms and conditions. Once the terms have been renegotiated, the loan is no longer considered a past-due asset. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

#### **(9) Accrued interest income and expense**

Accrued interest income and expense related to financial assets and liabilities are presented as at the reporting date together with the corresponding assets and liabilities in the statement of financial position.

#### **(10) Tangible and intangible assets**

Tangible and intangible assets are recognised at historical cost less accumulated depreciation and provisions for impairment losses. Tangible and intangible assets are depreciated on a straight-line basis over estimated useful economic life as follows:

Buildings and structures	20 to 40 years, linear
Software	Up to 5 years, linear
Other assets	4 to 12 years, linear

Land and assets under construction are not depreciated.

Gains and losses on the sale of tangible and intangible assets are determined by reference to their net book value and are recognised in the Income Statement in the year of disposal. Low-value tangible and intangible assets and technical improvements costing less than EUR 1 700 in the case of tangible assets, and EUR 2 400 in the case of intangible assets, are recognised in the Income Statement when the expenditure is incurred.

Costs associated with the maintenance of existing software are expensed through “General administrative expenses” as incurred, while the costs of technical improvements are capitalised and increase the cost of software.

#### **(11) Impairment of tangible and intangible assets**

At each reporting date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any).

The recoverable amount is the higher of fair value less costs of sale and present value of future cash flows expected to be derived from the asset. If any of the above amounts exceeds the carrying amount, there is no need to estimate the other amount. If the estimated recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset shall be reduced to equal the recoverable amount. The impairment loss shall be recognised directly in the Income Statement.

#### **(12) Guarantees issued**

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees, and accepted notes. Financial guarantees are initially recognised at fair value, in "Other liabilities". Upon initial recognition, the Bank's liability under each guarantee granted is measured at the higher of the amortised cost and the best estimate of expenditures required to settle any financial obligation arising as a result of the guarantee, and is recognised in "Other liabilities".

#### **(13) Provisions for liabilities**

A provision is a liability of uncertain timing or amount. A reserve is recognised when the Bank has an obligation (legal or constructive) as a result of past events and it is probable that the satisfaction of the obligation will require a cash outflow and, at the same time, the amount of the obligation can be reliably estimated.

The amount of provisions for liability is recognised based on the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision for liability is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision for liability are expected to be recovered from a third party, the receivable is recognised as an asset if it is certain that a reimbursement will be received and the amount of the receivable can be measured reliably.

#### **(14) Recognition of income and expenses**

##### **(i) Interest expense and interest income**

Interest expense and interest income are recorded in the Income Statement on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability, or a group of financial assets or financial liabilities, by allocating interest income and income expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument so that they correspond to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of loans and loan commitments that compensate activities performed to maintain the instrument are recorded on an accrual basis and recognised as effective interest rate adjustments.

Interest expenses and interest income also include transaction fees at the origin of the financial instrument.

##### **(ii) Fee and commission income and expenses**

Fees earned for the administration of loans and other received and paid fees are recorded in the Income Statement when the service is provided or received.

##### **(iii) Income tax**

Income tax includes current tax and deferred tax.

Current income tax represents the expected tax liability resulting from taxable income for the year calculated at the tax rate as at the reporting date with any current income tax adjustments from previous years.

Deferred income tax is calculated using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is calculated at the tax rates that are expected to apply to the period when the time differences are reversed.

Deferred income tax assets are only recognised to the extent that it is probable that taxable profits will be available against which non-utilised tax losses and credits can be applied. Deferred income tax assets are decreased to the extent that it is not probable that the related tax benefits can be realised.

Deferred income tax is charged or credited to the Income Statement, except when such deferred income tax relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity. Deferred income tax assets and liabilities are offset when there is a legally-enforceable right to offset current income tax assets against current income tax liabilities, and when they relate to income taxes levied by the same tax authority and the Bank intends to settle its current income tax assets and liabilities on a net basis.

### **(15) Subsidiaries and other equity investments**

The financial statements present the accounts and results of the Bank only.

#### *Subsidiary Undertakings*

An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50% of such subsidiary's share capital or in which the Bank can exercise more than 50% of the voting rights, or where the Bank can appoint or dismiss the majority of the Board of Directors or Supervisory Board members, or have other means of governing the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are valued at cost less provisions for impairment.

#### *Other equity participations*

Other equity participations represent investments with less than a 20% share on the share capital and voting rights. Such investments are measured using the fair value model applicable on the available-for-sale securities. Investments for which no quoted market prices on an active market are available or investments the fair value of which cannot be determined reliably are recognised at cost.

### **(16) Transactions with securities for clients**

Securities received by the Bank into custody, administration, or deposition are recognised at face value in the off-balance sheet. The securities taken over by the Bank for management are recognised at fair value in the off-balance sheet. The Bank's amounts due to customers are recognised as "Deposits from customers" in the balance sheet owing to cash received for purchase of securities, cash to be returned to clients etc.

### **(17) Regulatory requirements**

The Bank is subject to the regulatory requirements of the central bank. These regulations include those pertaining to capital adequacy, classification of loans and off-balance sheet commitments, asset concentration, credit risks associated with the Bank's clients, liquidity, interest rates, and foreign currency position.

## **3. SEGMENT REPORTING**

A segment is a distinguishable component of an entity that provides products and services with a significantly-different risk and return (hereinafter a "business segment"), or this difference is determined by political, geographical, or other factors (eg geographical segment). The Bank's activities and services represent primarily the provision of banking and other financial services in the Slovak Republic. The Bank acts on the market as a uniform segment.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

An operating segment is a component of the reporting entity:

- a) That is engaged in business activities that may generate revenues and expenses (including revenues and expenses related to transactions with other components of the same reporting entity);
- b) Whose operating results are regularly reviewed by the executive decision-maker of the reporting entity to decide on the funds to be allocated to the segment and to evaluate its performance, and
- c) To which separate financial information is available.

The Bank recognises segments by geographical area as the segmentation by activities associated with the provision of products and services is inapplicable. The segments are recognised in compliance with IFRS.

The Bank does not classify segments by revenue as no such internal reports for the use by the Bank's management that would be regularly reviewed by the executive decision-maker to allocate funds to the segment and to assess its performance are not prepared by the Bank. The costs of preparing such information solely for the purpose of disclosure in the financial statements would be high.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

Classification by geographical area as at 31 December 2012:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Securities available for sale	Securities at fair value through profit or loss	Securities held to maturity	Investments in subsidiaries
Bulgaria	-	-	-	-	-	6 443	-
Cyprus	-	-	15 234	-	-	-	-
Czech Republic	218	28 779	29 050	-	-	4 250	-
Finland	-	-	-	-	-	2 090	-
France	-	-	-	-	-	2 997	-
Holland	-	-	33	-	-	6 860	-
Croatia	-	-	-	-	-	3 276	-
Ireland	-	-	-	-	-	4 149	-
Jersey	-	-	-	16	1 128	2 257	-
South Korea	-	-	-	-	-	1 044	-
Canada	-	-	-	-	-	2 196	-
Luxembourg	-	-	-	4 711	-	3 379	-
Hungary	-	-	-	-	-	6 281	-
Germany	-	420	-	79	682	2 204	-
Poland	-	600	-	-	56	45 421	-
Austria	-	35	-	-	-	7 088	-
Seychelles	-	-	657	-	-	-	-
Slovak Republic	8 140	10 834	165 861	54 379	2 866	183 416	7
USA	60	4 997	-	10 066	397	28 060	-
Spain	-	-	-	-	-	5 572	-
Switzerland	11	-	-	-	-	-	-
Sweden	-	-	-	1 590	-	4 449	-
Italy	-	-	-	8 289	-	8 599	-
United Kingdom	46	-	-	-	-	6 041	-
<b>Total gross</b>	<b>8 475</b>	<b>45 665</b>	<b>210 835</b>	<b>79 130</b>	<b>5 129</b>	<b>336 072</b>	<b>7</b>
Provisions (Note 7)	-	-	(6 736)	-	-	-	-
<b>Total net</b>	<b>8 475</b>	<b>45 665</b>	<b>204 099</b>	<b>79 130</b>	<b>5 129</b>	<b>336 072</b>	<b>7</b>

The Bank did not recognise the balances of tangible and intangible assets and other assets as at 31 December 2012 by geographical segment owing to the immateriality of those amounts for the segment reporting.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

Classification by geographical area as at 31 December 2011:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Securities available for sale	Securities at fair value through profit or loss	Securities held to maturity	Investments in subsidiaries
Bulgaria	-	-	-	-	-	6 703	-
Cyprus	-	-	10 911	-	-	-	-
Czech Republic	194	24 052	28 475	26 304	4	4 248	-
Finland	-	-	-	1 057	-	2 106	-
France	-	-	-	2 746	-	2 994	-
Holland	-	-	40	5 443	-	6 915	-
Croatia	-	-	-	-	-	3 318	-
Ireland	-	-	-	-	-	3 062	-
Jersey	-	-	-	12	1 163	2 148	-
South Korea	-	-	-	-	-	1 065	-
Canada	-	-	-	-	-	2 246	-
Luxembourg	-	-	-	4 491	93	1 660	-
Hungary	-	-	555	-	-	3 784	-
Germany	-	219	-	32	28	2 286	-
Poland	-	202	-	-	23	46 320	-
Austria	-	122	-	-	-	7 077	-
Slovak Republic	12 419	365	162 890	72 518	2 775	120 650	7
Slovenia	-	-	-	-	-	5 201	-
USA	96	8 253	-	-	784	25 015	-
Switzerland	24	-	-	-	-	-	-
Sweden	-	-	-	-	-	3 364	-
Italy	-	-	-	-	53	17 189	-
United Kingdom	29	-	-	753	-	6 031	-
<b>Total gross</b>	<b>12 762</b>	<b>33 213</b>	<b>202 871</b>	<b>113 356</b>	<b>4 923</b>	<b>273 382</b>	<b>7</b>
Provisions (Note 7)	-	-	(5 809)	(539)	-	-	-
<b>Total net</b>	<b>12 762</b>	<b>33 213</b>	<b>197 062</b>	<b>112 817</b>	<b>4 923</b>	<b>273 382</b>	<b>7</b>

The Bank did not recognise the balances of tangible and intangible assets, tax prepayments, deferred tax assets and other assets as at 31 December 2011 by geographical segment owing to the immateriality of those amounts for the segment reporting.

#### **4. CASH AND BALANCES WITH CENTRAL BANKS**

EUR '000	2012	2011
Cash on hand	2 182	2 053
Minimum reserve deposits at NBS	6 293	10 709
<b>Total cash and balances with central banks</b>	<b>8 475</b>	<b>12 762</b>

Receivables from central banks are not secured by any collateral.

The minimum reserve deposits are recognised as an interest-bearing deposit under the regulations of the National Bank of Slovakia. The amount of the reserves depends on the level of deposits accepted by the Bank. The Bank's ability to withdraw the reserve is restricted by statutory legislation; therefore, it is not included in "Cash and balances with central banks" for the purposes of cash flow statement preparation (see Note 34).

#### **5. LOANS AND ADVANCES TO BANKS**

EUR '000	2012	2011
Current accounts	2 302	2 595
Time deposits	43 282	30 472
Other receivables due from banks	81	146
<b>Total loans and advances to banks</b>	<b>45 665</b>	<b>33 213</b>

Loans and advances to banks have not been secured by any collateral.

#### **6. LOANS AND ADVANCES TO CUSTOMERS**

##### **(a) Breakdown of loans and advances to customers per type**

EUR '000	2012	2011
Loans and advances to		
entrepreneurs and corporate entities	184 333	183 829
individuals	26 502	19 042
<b>Total loans and advances to customers, gross</b>	<b>210 835</b>	<b>202 871</b>
Provisions for receivables from customers (Note 7)	(6 736)	(5 809)
<b>Total loans and advances to customers, net</b>	<b>204 099</b>	<b>197 062</b>

As at 31 December 2012, the 15 largest customers accounted for 49.6% of the gross loan portfolio, which amounted to EUR 104 644 thousand (2011: 43.9%, EUR 89 158 thousand).

Further details on credit risk are described in Note 41.

**(b) Breakdown of loans and advances to customers per sector**

EUR '000	2012	2011
<b>Residents</b>		
Financial institutions	8 091	7 355
Non-financial institutions	145 396	134 530
Non-profit organisations	2 645	1 993
Public administration	6	10
Self-employed	4	1 452
Individuals	9 718	17 550
<b>Non-residents</b>		
Non-financial institutions	28 191	26 080
Individuals	16 784	13 901
<b>Total loans and advances to customers, gross</b>	<b>210 835</b>	<b>202 871</b>
Provisions for amounts due from customers (Note 7)	(6 736)	(5 809)
<b>Total loans and advances to customers, net</b>	<b>204 099</b>	<b>197 062</b>

**(c) Breakdown of loans and advances to customers per purpose**

EUR '000	2012 Share in		2011 Share in %	
<b>Short-term loans</b>	<b>86 564</b>		<b>57 057</b>	
Of which: project financing	24 576	11,66	12 899	6,36
Operating	22 303	10,58	6 896	3,40
Consumer	1	0,00	4	0,00
Real estate loans	24 324	11,54	14 552	7,17
Overdrafts	11 769	5,58	11 810	5,82
New investment projects	4 722	2,24	-	0,00
Other	23 445	11,12	23 795	11,73
<b>Long-term loans</b>	<b>124 271</b>		<b>145 814</b>	
Of which: project financing	7 430	3,52	5 874	2,90
Investment	37 999	18,02	17 351	8,55
Consumer	330	0,16	320	0,16
Real estate loans	18 463	8,76	16 876	8,32
Photovoltaic power plants	13 993	6,64	13 258	6,54
New investment projects	12 583	5,97	11 112	5,48
Other	40 903	19,39	86 897	42,83
<b>Total loans and advances to customers, gross</b>	<b>210 835</b>	<b>100,00</b>	<b>202 871</b>	<b>100,00</b>
Provisions for amounts due from customers (Note 7)	(6 736)		(5 809)	
<b>Total loans and advances to customers, net</b>	<b>204 099</b>		<b>197 062</b>	

The share of project financing loans to the gross receivables from customers at the end of 2012 represents 15.20% (2011: 9.30%).

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

**(d) Risk categorisation of loans to customers**

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2012. Exposure information includes undrawn loan commitments and issued guarantees.

EUR '000	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
<b>Portfolio provisions</b>	<b>82 788</b>	<b>1 833</b>	<b>2,21%</b>	<b>71 302</b>	<b>88,34%</b>
Individuals	5 568	19	0,34%	4 479	80,78%
<i>Of which: defaults</i>	-	-	-	-	-
Entrepreneurs and corporate entities	77 220	1 814	2,35%	66 823	88,89%
<i>Of which: defaults</i>	-	-	-	-	-
<b>Individual provisions</b>	<b>128 047</b>	<b>4 903</b>	<b>3,83%</b>	<b>103 129</b>	<b>84,37%</b>
Non-impaired exposures	107 329	-	-	90 935	84,73%
Impaired exposures	20 718	4 903	23,67%	12 194	82,52%
<b>Subtotal, balance-sheet credit risks</b>	<b>210 835</b>	<b>6 736</b>	<b>3,19%</b>	<b>174 431</b>	<b>85,93%</b>
Off-balance sheet Retail Asset Class	2 447	-	-	-	-
Off-balance sheet Corporate Asset Class	7 205	-	-	-	-
<b>Subtotal, off-balance sheet credit risks</b>	<b>9 652</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>220 487</b>	<b>6 736</b>	<b>3,06%</b>	<b>-</b>	<b>-</b>

In 2012 the interest income on impaired loans to customer amounted to EUR 436 thousand (2011: EUR 756 thousand).

The table below details the breakdown of loans to customers according the type of exposure and the level of credit risk identified within the Bank's portfolio of loans and advances as at 31 December 2011. Exposure information includes undrawn loan commitments and issued guarantees.

EUR '000	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
<b>Portfolio provisions</b>	<b>60 977</b>	<b>1 144</b>	<b>1,88%</b>	<b>58 167</b>	<b>97,27%</b>
Individuals	8 737	39	0,45%	6 719	77,35%
<i>Of which: defaults</i>	-	-	-	-	-
Entrepreneurs and corporate entities	52 240	1 105	2,12%	51 448	100,60%
<i>Of which: defaults</i>	-	-	-	-	-
<b>Individual provisions</b>	<b>141 894</b>	<b>4 665</b>	<b>3,29%</b>	<b>121 671</b>	<b>89,04%</b>
Non-impaired exposures	122 887	-	-	107 732	87,67%
Impaired exposures	19 007	4 665	24,54%	13 939	97,88%
<b>Subtotal, balance-sheet credit risks</b>	<b>202 871</b>	<b>5 809</b>	<b>2,86%</b>	<b>179 838</b>	<b>91,51%</b>
Off-balance sheet Retail Asset Class	2 296	-	-	-	-
Off-balance sheet Corporate Asset Class	22 132	-	-	-	-
<b>Subtotal, off-balance sheet credit risks</b>	<b>24 428</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>227 299</b>	<b>5 809</b>	<b>2,56%</b>	<b>-</b>	<b>-</b>

## 7. PROVISIONS FOR IMPAIRMENT LOSSES

EUR '000	1 Jan 2012	(Additions)	Release	Exchange rate gain/loss	31 Dec 2012
Loans and advances to customers (Note 6)	(5 809)	(6 607)	5 690	(10)	(6 736)
Other assets (Note 15)	(181)	-	2	-	(179)
Total provisions for receivables	(5 990)	(6 607)	5 692	(10)	(6 915)
Securities available for sale (Note 8)	(539)	-	539	-	-
<b>Total impairment losses</b>	<b>(6 529)</b>	<b>(6 607)</b>	<b>6 231</b>	<b>(10)</b>	<b>(6 915)</b>

EUR '000	1 Jan 2011	(Additions)	Release	Exchange rate gain/loss	31 Dec 2011
Loans and advances to customers (Note 6)	(5 339)	(4 080)	3 606	4	(5 809)
Other assets (Note 15)	(3)	(179)	1	-	(181)
Total provisions for receivables	(5 342)	(4 259)	3 607	4	(5 990)
Securities available for sale (Note 8)	(70)	(469)	-	-	(539)
<b>Total impairment losses</b>	<b>(5 412)</b>	<b>(4 728)</b>	<b>3 607</b>	<b>4</b>	<b>(6 529)</b>

## 8. AVAILABLE-FOR-SALE SECURITIES

Breakdown of available-for-sale securities per type of security and issuer's country as at 31 December 2012:

EUR '000	State Bonds	Bank Bonds	Corporate Bonds	Shares	Warrants	Total
Jersey	-	-	-	16	-	16
Luxembourg	-	-	4 711	-	-	4 711
Germany	-	-	-	-	79	79
Slovak Republic	50 100	4 227	-	52	-	54 379
USA	-	9 071	995	-	-	10 066
Sweden	-	-	1 590	-	-	1 590
Italy	8 289	-	-	-	-	8 289
<b>Total</b>	<b>58 389</b>	<b>13 298</b>	<b>7 296</b>	<b>68</b>	<b>79</b>	<b>79 130</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

Breakdown of available-for-sale securities per type of security and issuer's country as at 31 December 2011:

EUR '000	STB	State Bonds	Bank Bonds	Corporate Bonds	Bills of Exchange	Shares	Warrants	Total
Czech Republic	-	9 143	-	11 395	5 766	-	-	26 304
Of which: impaired	-	-	-	6 035	-	-	-	-
Finland	-	-	-	1 057	-	-	-	1 057
France	-	-	1 953	793	-	-	-	2 746
Holland	-	-	3 850	1 593	-	-	-	5 443
Jersey	-	-	-	-	-	12	-	12
Luxembourg	-	-	-	4 491	-	-	-	4 491
Germany	-	-	-	-	-	-	32	32
Slovak Republic	34 700	35 511	2 185	-	-	122	-	72 518
United Kingdom	-	-	-	753	-	-	-	753
<b>Total, gross</b>	<b>34 700</b>	<b>44 654</b>	<b>7 988</b>	<b>20 082</b>	<b>5 766</b>	<b>134</b>	<b>32</b>	<b>113 356</b>
Provisions (Note 7)	-	-	-	(469)	-	(70)	-	(539)
<b>Total, net</b>	<b>34 700</b>	<b>44 654</b>	<b>7 988</b>	<b>19 613</b>	<b>5 766</b>	<b>64</b>	<b>32</b>	<b>112 817</b>

The method for measuring the fair value of available-for-sale securities is described in Note 43.

As the structure of primary funds significantly changed in favour of non-current liabilities, the Bank re-assessed its original intention to hold certain debt securities in the available-for-sale portfolio and reclassified these securities in 2011 to "held-to-maturity securities" at the fair value of EUR 184 147 thousand. The Bank plans and is able to hold securities in the portfolio until their maturity.

In connection with this transfer, the Bank continues to recognise as at 31 December 2012 revaluation reserves from available-for-sale securities in the amount of EUR 468 thousand (loss) in equity; the loss will be amortised in the income statement until the maturity of these securities (2011: (loss) EUR 780 thousand). In 2012, a loss in the amount of EUR 242 thousand (2011: EUR 64 thousand) was amortised in the Income Statement line "Interest income and similar income".

As at 31 December 2011, the Bank recognised in the available-for-sale portfolio state treasury bills domestic at the fair value of EUR 248 thousand and state bonds domestic at the fair value of EUR 1 652 thousand provided as collateral for the deposits from customers.

The structure of securities provided as collateral for pooling to the National Bank of Slovakia is as follows:

EUR '000	2012	2011
State treasury bills domestic	-	19 333
State bonds domestic	12 007	18 113
State bonds foreign	-	3 796
Bank bonds foreign	-	1 952
Corporate bonds foreign	-	3 121
<b>Total</b>	<b>12 007</b>	<b>46 315</b>

Securities in pooling are provided as collateral for refinancing transactions with NBS.

As at 31 December 2011, the Bank's portfolio of available-for-sale securities included foreign state bonds at the fair value of EUR 5 881 thousand and foreign corporate bonds at the fair value of EUR 8 803 thousand, which are hedged by interest rate swaps against changes in fair value.

In 2012, the Bank wrote off an ownership interest in the amount of EUR 70 thousand held in a privately-held company after bankruptcy proceedings were completed. A 100% provision for the aforementioned interest was reversed.

## 9. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Breakdown of securities at fair value through profit or loss per type of security and issuer's country as at 31 December 2012:

EUR '000	Municipality		Corporate		Warrants	Certificates	Total
	State Bonds	Bonds	Bank Bonds	Bonds			
Jersey	-	-	-	1 128	-	-	1 128
Germany	-	-	-	-	82	600	682
Poland	-	56	-	-	-	-	56
Slovak Republic	872	-	1 994	-	-	-	2 866
USA	-	-	397	-	-	-	397
<b>Total</b>	<b>872</b>	<b>56</b>	<b>2 391</b>	<b>1 128</b>	<b>82</b>	<b>600</b>	<b>5 129</b>

Breakdown of securities at fair value through profit or loss per type of security and issuer's country as at 31 December 2011:

EUR '000			Corporate		Warrants	Total
	State Bonds	Bank Bonds	Bonds			
Czech Republic		4	-	-	-	4
Jersey		-	-	1 163	-	1 163
Luxembourg		-	93	-	-	93
Germany		-	-	-	28	28
Poland		23	-	-	-	23
Slovak Republic		209	2 566	-	-	2 775
USA		-	784	-	-	784
Italy		53	-	-	-	53
<b>Total</b>	<b>289</b>	<b>3 443</b>	<b>1 163</b>	<b>28</b>		<b>4 923</b>

The method for measuring the fair value of securities at fair value through profit or loss is described in Note 43.

As at 31 December 2012, the Bank's portfolio of securities at fair value through profit or loss included domestic bank bonds at the fair value of EUR 1 428 thousand (31 December 2011: EUR 1 395 thousand) provided to the NBS as collateral for pooling.

## 10. HELD-TO-MATURITY SECURITIES

Breakdown of held-to-maturity securities per type of security and issuer's country as at 31 December 2012:

EUR '000	State Bonds	Bank Bonds	Corporate Bonds	Total
Bulgaria	6 443	-	-	6 443
Czech Republic	2 074	-	2 176	4 250
Finland	-	-	2 090	2 090
France	-	2 997	-	2 997
Holland	-	3 008	3 852	6 860
Croatia	3 276	-	-	3 276
Ireland	-	-	4 149	4 149
Jersey	-	-	2 257	2 257
South Korea	-	1 044	-	1 044
Canada	-	-	2 196	2 196
Luxembourg	-	-	3 379	3 379
Hungary	-	-	6 281	6 281
Germany	-	-	2 204	2 204
Poland	45 421	-	-	45 421
Austria	-	7 088	-	7 088
Slovak Republic	173 194	10 222	-	183 416
USA	-	25 081	2 979	28 060
Spain	-	-	5 572	5 572
Sweden	-	-	4 449	4 449
Italy	920	7 679	-	8 599
United Kingdom	-	6 041	-	6 041
<b>Total</b>	<b>231 328</b>	<b>63 160</b>	<b>41 584</b>	<b>336 072</b>

Breakdown of held-to-maturity securities per type of security and issuer's country as at 31 December 2011:

EUR '000	STB	State Bonds	Bank Bonds	Corporate Bonds	Total
Bulgaria	-	6 703	-	-	6 703
Czech Republic	-	2 107	-	2 141	4 248
Finland	-	-	-	2 106	2 106
France	-	-	2 994	-	2 994
Holland	-	-	2 994	3 921	6 915
Croatia	-	3 318	-	-	3 318
Ireland	-	-	-	3 062	3 062
Jersey	-	-	-	2 148	2 148
South Korea	-	-	-	1 065	1 065
Canada	-	-	-	2 246	2 246
Luxembourg	-	-	-	1 660	1 660
Hungary	-	-	-	3 784	3 784
Germany	-	-	-	2 286	2 286
Poland	-	46 320	-	-	46 320
Austria	-	-	7 077	-	7 077
Slovak Republic	-	115 470	5 180	-	120 650
Slovenia	-	5 201	-	-	5 201
USA	-	-	22 051	2 964	25 015
Sweden	-	-	-	3 364	3 364
Italy	8 806	909	7 474	-	17 189
United Kingdom	-	-	6 031	-	6 031
<b>Total</b>	<b>8 806</b>	<b>180 028</b>	<b>53 801</b>	<b>30 747</b>	<b>273 382</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

In 2012, the Bank sold Slovenian state bonds representing less than 2% of the held-to-maturity portfolio after the ratings downgrade.

As the structure of primary funds significantly changed in favour of non-current liabilities, the Bank re-assessed its original intention to hold certain debt securities in the available-for-sale portfolio and reclassified these securities in 2011 to held-to-maturity securities at the fair value of EUR 184 147 thousand (see Note 8).

As at 31 December 2012, the Bank's portfolio of held-to-maturity securities included bank state bonds domestic at amortised cost of EUR 1 957 thousand (2011: EUR 1 954 thousand) provided to the NBS as collateral to a local bank.

The structure of securities provided as collateral for pooling to the National Bank of Slovakia is as follows:

EUR'000	2012	2011
State bonds domestic	170 291	24 489
State bonds foreign	33 923	28 181
Bank bonds domestic	3 043	3 013
Bank bonds foreign	8 476	8 414
<b>Total</b>	<b>215 733</b>	<b>64 097</b>

## **11. INVESTMENTS IN SUBSIDIARIES**

Name	Registered office	Share on equity EUR '000	Share on reserve fund EUR '000	Share on equity (%)	Carrying amount EUR '000
<b>At 31 Dec 2012</b>					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7
<b>At 31 Dec 2011</b>					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7

## 12. TANGIBLE AND INTANGIBLE ASSETS

### a) Changes in tangible and intangible assets as at 31 December 2012

EUR '000	Tangible assets					Intangible assets				Total
	Buildings	Furniture, fittings and equipment	Motor vehicles	Acquisition of tangible assets	Prepayment and acquisition of tangible assets	Software	Patents and licences	Acquisition of intangible assets	Prepayment and acquisition of intangible assets	
<b>Cost</b>										
At 1 Jan 2012	556	2 366	218	2	-	3 831	35	95	-	<b>7 103</b>
Additions	43	540	71	653	1	198	7	178	6	<b>1 697</b>
Disposals	(13)	(173)	(51)	(654)	(1)	(3)	(6)	(205)	(6)	<b>(1 112)</b>
At 31 Dec 2012	586	2 733	238	1	-	4 026	36	68	-	<b>7 688</b>
<b>Accumulated depreciation</b>										
At 1 Jan 2012	(87)	(1 769)	(162)	-	-	(3 430)	(35)	-	-	<b>(5 483)</b>
Depreciation and amortisation	(25)	(250)	(41)	-	-	(255)	(7)	-	-	<b>(578)</b>
Disposals	4	173	51	-	-	3	6	-	-	<b>237</b>
At 31 Dec 2012	(108)	(1 846)	(152)	-	-	(3 682)	(36)	-	-	<b>(5 824)</b>
<b>Net book value</b>										
At 31 Dec 2012	<b>478</b>	<b>887</b>	<b>86</b>	<b>1</b>	<b>-</b>	<b>344</b>	<b>-</b>	<b>68</b>	<b>-</b>	<b>1 864</b>

**b) Changes in tangible and intangible assets as at 31 December 2011**

EUR '000	Tangible assets					Intangible assets				Total
	Buildings	Furniture, fittings and equipment	Motor vehicles	Acquisition of tangible assets	Prepayment and acquisition of tangible assets	Software	Patents and licences	Acquisition of intangible assets	Prepayment and acquisition of intangible assets	
<b>Cost</b>										
At 1 Jan 2011	556	2 361	218	-	-	3 729	35	118	-	<b>7 017</b>
Additions	-	49	-	51	2	110	6	93	15	<b>326</b>
Disposals	-	(44)	-	(49)	(2)	(8)	(6)	(116)	(15)	<b>(240)</b>
At 31 Dec 2011	556	2 366	218	2	-	3 831	35	95	-	<b>7 103</b>
<b>Accumulated depreciation</b>										
At 1 Jan 2011	(62)	(1 552)	(116)	-	-	(3 169)	(35)	-	-	<b>(4 934)</b>
Depreciation and amortisation	(25)	(261)	(46)	-	-	(268)	(6)	-	-	<b>(606)</b>
Disposals	-	44	-	-	-	7	6	-	-	<b>57</b>
At 31 Dec 2011	(87)	(1 769)	(162)	-	-	(3 430)	(35)	-	-	<b>(5 483)</b>
<b>Net book value</b>										
At 31 Dec 2011	<b>469</b>	<b>597</b>	<b>56</b>	<b>2</b>	<b>-</b>	<b>401</b>	<b>-</b>	<b>95</b>	<b>-</b>	<b>1 620</b>

**c) Insurance of assets**

Tangible assets at the headquarters and the branches were insured against natural disasters for their full cost.

**13. TAX PREPAYMENTS/CURRENT INCOME TAX LIABILITY**

EUR '000	2012	2011
Tax prepayments	1 167	1 262
Current tax	(1 205)	(1 167)
<b>Total</b>	<b>(38)</b>	<b>95</b>

**14. DEFERRED TAX ASSET/DEFERRED TAX LIABILITY**

Deferred income tax assets and liabilities are as follows:

EUR '000	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Tangible and intangible assets	-	-	(62)	(37)	(62)	(37)
Securities - revaluation in equity	-	156	(153)	-	(153)	156
<b>Total</b>	<b>-</b>	<b>156</b>	<b>(215)</b>	<b>(37)</b>	<b>(215)</b>	<b>119</b>

The deferred income tax assets and liabilities have been calculated using the corporate income tax rate of 23% (2011: 19%).

The Bank applies a conservative approach for recognising deferred income tax assets and liabilities. All deferred income tax liabilities are recognised in the full amount, while only those deferred income tax assets are recognised for which the Bank expects to realise tax benefits in the future.

The Bank does not expect to realise benefits from tax non-deductible impairment losses in the future. Therefore, as at 31 December 2012 the Bank did not recognise deferred income tax asset of EUR 1 438 thousand, arising from tax non-deductible impairment losses (2011: EUR 1 096 thousand).

As at 31 December 2012, the Bank does not recognise a deferred income tax asset relating to provisions for benefits for the Bank's employees and management in the amount of EUR 95 thousand (2011: EUR 116 thousand).

## 15. OTHER ASSETS

EUR '000	2012	2011
Other debtors	1 502	681
Advance payments made	49	21
Inventory	40	24
Deferred expenses	250	76
Accrued income	-	132
Other receivables from customers	7	14
Other	2	-
<b>Total other assets, gross</b>	<b>1 850</b>	<b>948</b>
Provisions for other debtors (Note 7)	(179)	(181)
<b>Total other assets, net</b>	<b>1 671</b>	<b>767</b>

## 16. DEPOSITS FROM BANKS

EUR '000	2012	2011
Loans from the ECB	151 230	70 019
<b>Total deposits from banks</b>	<b>151 230</b>	<b>70 019</b>

Loans received from the ECB as at 31 December 2012 represent a loan in the amount of EUR 70 000 thousand, falling due on 29 January 2015, and a loan in the amount of EUR 80 000 thousand, falling due on 26 February 2015. These loans are secured by securities at the fair value of EUR 13 435 thousand (31 December 2011: EUR 47 710 thousand), which are disclosed in the Statement of Financial Position as "Available-for-sale securities" and "Securities at fair value through profit or loss", and securities at amortised cost of EUR 215 733 thousand (31 December 2011: EUR 64 097 thousand), which are disclosed in the Statement of Financial Position as "Held-to-maturity securities".

All payables due to banks are within maturity.

## 17. DEPOSITS FROM CUSTOMERS

### (a) Breakdown of deposits from customers per type

EUR '000	2012	2011
Current accounts	104 024	89 253
Time deposits	341 552	390 382
Saving deposits	629	840
Deposit certificates	4 963	
Received loans	-	247
Other	285	415
<b>Total deposits from customers</b>	<b>451 453</b>	<b>481 137</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

A received loan as at 31 December 2011 represents a repo transaction in the amount of EUR 247 thousand, falling due on 21 March 2012. The repo transaction was secured by securities with fair value of EUR 248 thousand, and is stated in the Statement of Financial Position under "Available-for-sale securities".

As at 31 December 2012, the 15 largest clients accounted for 30.1% of the total deposits from customers, which represents the amount of EUR 136 094 thousand (2011: 35.3%, EUR 169 909 thousand).

A major portion of the deposits from customers comprises payables to related parties. Their share of the total deposits from customers as at 31 December 2012 represented 16.6%, totalling EUR 74 803 thousand (2011: 25.8%, EUR 124 247 thousand). Additional information on exposures to related parties is described in Note 36.

All deposits from customers are within maturity.

**(b) Breakdown of deposits from customers by sector**

EUR '000	2012	2011
<b>Residents</b>		
Financial institutions	34 414	6 180
Non-financial institutions	59 813	145 477
Mutual funds	-	797
Insurance companies	2 095	4 631
Government	2 019	1 432
Non-profit companies	5 131	4 419
Self-employed	435	409
Individuals	268 042	242 157
<b>Non-residents</b>		
Non-financial institutions	75 958	74 727
Non-profit companies	435	7
Individuals	3 111	901
<b>Total deposits from customers</b>	<b>451 453</b>	<b>481 137</b>

**18. DEBT SECURITIES ISSUED**

**(a) Breakdown of debt securities issued according to type**

EUR '000	2012	2011
Bills of exchange	3 034	8 677
Bonds without coupons	-	6 991
Bonds	27 053	25 954
<b>Total debt securities issued</b>	<b>30 087</b>	<b>41 622</b>

All payables under the debt securities issued are within maturity.

**(b) Summary of bonds issued**

EUR '000	Start of issue	Maturity of issue	Interest rate	Face value 2012	Face value 2011
Bond 06 - 20120114	01/2010	01/2012	-	-	7 000
Bond 07 - 3.50% 20120630	06/2010	06/2012	3.50%	-	6 000
Bond 08 - 3.50% 20120913	09/2010	09/2012	3.50%	-	7 000
Bond 09 - 3.50% 20130317	03/2011	03/2013	3.50%	7 000	7 000
Bond 10 - 4.25% 20140914	09/2011	09/2014	4.25%	5 000	3 208
Bond 11 - 3.60% 20130916	09/2011	09/2013	3.60%	5 000	2 715
Bond 12 - 3.80% 20140320	03/2012	03/2014	3.80%	3 000	-
Bond 13 - 4.50% 20160330	03/2012	03/2016	4.50%	3 000	-
Bond 14 - 3.60% 20140220	02/2012	02/2014	3.60%	4 000	-
<b>Total face value</b>				<b>27 000</b>	<b>32 923</b>
Accrued interest				50	34
Accrued discount/premium				7	424
Total discount/premium (difference between face value and selling price)				(4)	(436)
<b>Total liabilities from debt securities</b>				<b>27 053</b>	<b>32 945</b>

The issued bonds are bearer bonds and all bonds were issued as uncertified securities. Bonds, except for the Privatbanka 10 bond, Privatbanka 12 bond and Privatbanka 13 bond, were not issued under a public offering. Bonds were not accepted at the listed securities market or any other stock market.

On 20 February 2012, the Bank issued Privatbanka 14 bonds (ISIN: SK4120008368) with a face value of EUR 1 thousand, with the total issue amounting to EUR 4 000 thousand. Yields on bonds are paid on a quarterly basis and are set at a fixed interest rate of 3.60% p.a. of the bond's face value. Bonds are due on 20 February 2014. As at 31 December 2012, the Bank sold 4 000 units of Privatbanka 14 bonds in the total face value of EUR 4 000 thousand. No request for admission at the stock market in the Slovak Republic or abroad will be filed for the bonds.

On 20 March 2012, the Bank issued Privatbanka 12 bonds (ISIN: SK4120008384) with a face value of EUR 1 thousand, with the total issue amounting to EUR 3 000 thousand. Yields on bonds are paid on a quarterly basis and are set at a fixed interest rate of 3.80% p.a. of the bond's face value. Bonds are due on 20 March 2014. As at 31 December 2012, the Bank sold 3 000 units of Privatbanka 12 bonds in the total face value of EUR 3 000 thousand. No request for admission at the stock market in the Slovak Republic or abroad will be filed for the bonds.

On 30 March 2012, the Bank issued Privatbanka 13 bonds (ISIN: SK4120008376) with a face value of EUR 1 000, with the total issue amounting to EUR 3 000 thousand. Yields on bonds are paid on a quarterly basis and are set at a fixed interest rate of 4.50% p.a. of the bond's face value. Bonds are due on 30 March 2016. As at 31 December 2012, the Bank sold 3 000 units of Privatbanka 13 bonds in the total face value of EUR 3 000 thousand. No request for admission at the stock market in the Slovak Republic or abroad will be filed for the bonds.

On 14 January 2012, the Bank repaid the face value of 7 000 units of Privatbanka 06 bonds (ISIN: SK4120006982) amounting to EUR 7 000 thousand.

On 2 July 2012, the Bank repaid the face value of 6 000 units of Privatbanka 07 bonds (ISIN: SK4120007352) amounting to EUR 6 000 thousand.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

On 13 September 2012, the Bank repaid the face value of 7 000 units of Privatbanka 08 bonds (ISIN: SK4120007451) amounting to EUR 7 000 thousand.

The bonds are negotiable and are not subject to any pre-emptive right. The entitlement to receiving the face value plus yield is governed by generally binding legal regulations and the bond issue terms and conditions, the full wording of which is published as required pursuant to Act No. 530/1990 Coll. on Bonds as amended.

**(c) Breakdown of debt securities issued per sector of creditors**

EUR '000	2012	2011
<b>Residents</b>		
Non-financial institutions	8 844	13 609
Government	97	-
Non-profit companies	722	1 362
Self-employed	553	164
Individuals	19 505	21 963
<b>Non-residents</b>		
Non-financial institutions	202	3 595
Individuals	164	929
<b>Total liabilities from debt securities</b>	<b>30 087</b>	<b>41 622</b>

**19. OTHER LIABILITIES**

EUR '000	2012	2011
Negative fair value of derivatives for trading (Note 25)	1 256	807
Negative fair value of derivatives for hedging (Note 25)	-	364
Payables to creditors	209	234
Settlement with employees	235	242
Social fund	9	9
Payables to State budget	1 807	1 394
Payables to social and health insurance companies	161	114
Deferred income	31	9
Accrued expenses	734	934
Payables to securities market	11	-
Other amounts due to customers	1 220	2 300
<b>Total other liabilities</b>	<b>5 673</b>	<b>6 407</b>

Movements in the social fund:

EUR '000	
Balance at 31 Dec 2011	9
Creation	52
Drawing	(52)
Balance at 31 Dec 2012	9

## 20. SHARE CAPITAL, CAPITAL RESERVES FROM PROFIT AND REVALUATION RESERVES

### Share capital

EUR '000	2012	2011
Issued and fully paid share capital:		
756,874 ordinary shares (ISIN SK1110001619 with nominal values of EUR 33.19 each)	25 121	25 121

The total amount of the share capital in the amount of EUR 25 121 thousand is registered with the Commercial Register.

The structure of the Bank's shareholders as at 31 December 2012 and 31 December 2011:

Sharholder	Registered office	No. of shares (face value)	Share in registered capital (%)	Share in voting rights (%)
Penta Investments Ltd.	Limassol	25 121	100,00	100,00
<b>Total</b>		<b>25 121</b>	<b>100,00</b>	<b>100,00</b>

### Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Bank is obliged to contribute an amount to the fund each year that is not less than 10% of its annual net profit (calculated in accordance with Slovak accounting regulations) until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve fund is not available for distribution to shareholders.

### Revaluation reserves on available-for-sale securities including deferred tax

Revaluation reserves on available-for-sale securities represent unrealised revaluation of available-for-sale securities and securities reclassified to the portfolio of held-to-maturity securities. The revaluation reserves are disclosed net of deferred tax effect. Such revaluation reserves are not available for distribution to the shareholder.

## 21. PROPOSAL FOR DISTRIBUTION OF 2012 PROFIT

EUR '000	2012
Allotment to legal reserve fund	430
Allotment to retained earnings	3 872
<b>Net profit for current accounting period</b>	<b>4 302</b>

## 22. TAX REVENUE/(EXPENSE)

EUR '000	2012	2011
Current income tax	(1 205)	(1 167)
Deferred tax due to temporary non-taxable revenues and expense	(24)	7
<b>Total</b>	<b>(1 229)</b>	<b>(1 160)</b>

## 23. RECONCILIATION OF THEORETICAL AND RECORDED TAX

	2012		
	Balance (EUR '000)	Applicable rate	Impact on tax
Theoretical tax base	5 531	19%	1 051
Permanent non-deductible differences	529	19%	101
Permanent deductible differences	-	19%	-
Effect of use of tax losses carried forward- previously unrecognised deferred tax asset	-	19%	-
Unrecognised deferred income tax asset - other	(196)	19%	(37)
Unrecognised deferred income tax asset owing to temporary differences for which realisation of future tax benefits is uncertain	547	19%	104
Impact of a change of the tax rate			10
Adjusted tax			1 229
Effective tax			1 229

	2011		
	Balance (EUR '000)	Applicable rate	Impact on tax
Theoretical tax base	4 902	19%	931
Permanent non-deductible differences	165	19%	31
Permanent deductible differences	-	19%	-
Effect of use of tax losses carried forward- previously unrecognised deferred tax asset	-	19%	-
Unrecognised deferred income tax asset - other	(74)	19%	(14)
Unrecognised deferred income tax asset owing to temporary differences for which realisation of future tax benefits is uncertain	1 116	19%	212
Adjusted tax			1 160
Effective tax			1 160

## 24. OFF-BALANCE SHEET ITEMS

EUR '000	Off balance sheet assets	2012	2011
1. Receivables from spot operations:		1 000	-
a) With interest rate instruments		-	-
b) With FX instruments		1 000	-
2. Receivables from forwards, futures and swaps:		209	1 069
a) With interest rate instruments		199	1 069
b) With FX instruments		10	-
3. Received collaterals:		177 505	196 612
a) Immovables		80 555	95 525
b) Cash		22 030	35 081
c) Securites		56 850	41 063
d) Other		18 070	24 943

EUR '000	Off balance sheet liabilities	2012	2011
1. Undrawn loan facilities		7 343	21 497
2. Provided guarantees		2 309	2 931
3. Liabilities from spot transactions:		998	-
a) With interest rate instruments		-	-
b) With FX instruments		998	-
4. Liabilities from futures, forwards and swaps:		1 465	2 240
a) With interest rate instruments		1 455	2 240
b) With FX instruments		10	-
5. Securities provided as collaterals		231 125	115 661
6. Consigned values		172 703	347 344

## 25. FINANCIAL DERIVATIVES

In its ordinary business activities, the Bank carries out transactions with financial derivatives to manage its liquidity, interest rate, and foreign exchange risks.

The Bank performed the following cash flow hedge transactions to hedge the interest rate risk generated by the fixed interest rate of the purchased bonds classified as available-for-sale securities. The Bank used interest rate swaps as an instrument to hedge the risk of changes in fair values of bonds resulting from changes in interest rates, under which the Bank receives a floating rate and pays a fixed rate.

In accordance with requirements of IAS 39 regulations, each hedging derivative and every hedging transaction must be covered by the hedging strategy approved by the Bank's Assets and Liabilities Management Committee, documented at the inception of the hedging relationship, with the hedging effectiveness proof of the cash flow hedging transactions calculated every month. Both the prospective and retrospective hedging relationship between cash flows of the hedging and hedged (underlying instrument) are tested regularly.

During 2011 and 2012, the Bank fulfilled all efficiency conditions of hedging derivatives as according to IAS 39.

2012 EUR '000	Face value in off-balance sheet		Fair value		Net fair value
	Receivable	Payable	Positive	Negative	
Interest rate swaps for trading	28 800	28 800	-	(1 256)	(1 256)
Currency forwards for trading	10	10	-	-	-
<b>Total financial derivatives</b>	<b>28 810</b>	<b>28 810</b>	<b>-</b>	<b>(1 256)</b>	<b>(1 256)</b>

2011 EUR '000	Face value in off-balance sheet		Fair value		Net fair value
	Receivable	Payable	Positive	Negative	
Interest rate swaps for hedging	13 750	13 750	-	(364)	(364)
Interest rate swaps for trading	20 300	20 300	-	(807)	(807)
<b>Total financial derivatives</b>	<b>34 050</b>	<b>34 050</b>	<b>-</b>	<b>(1 171)</b>	<b>(1 171)</b>

In 2012, the negative fair value of derivatives amounting to EUR 1 256 thousand (2011: EUR 1 171 thousand) is recognised in line "Other liabilities" (Note 19).

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2012 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps for trading	-	1 000	4 000	23 800	-	28 800
Currency forwards for trading	10	-	-	-	-	10
<b>Total receivables</b>	<b>10</b>	<b>1 000</b>	<b>4 000</b>	<b>23 800</b>	<b>-</b>	<b>28 810</b>
Interest rate swaps for trading	-	1 000	4 000	23 800	-	28 800
Currency forwards for trading	10	-	-	-	-	10
<b>Total payables</b>	<b>10</b>	<b>1 000</b>	<b>4 000</b>	<b>23 800</b>	<b>-</b>	<b>28 810</b>

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2011 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps for hedging	-	750	4 500	8 500	-	13 750
Interest rate swaps for trading	-	-	-	20 300	-	20 300
<b>Total receivables</b>	<b>-</b>	<b>750</b>	<b>4 500</b>	<b>28 800</b>	<b>-</b>	<b>34 050</b>
Interest rate swaps for hedging	-	750	4 500	8 500	-	13 750
Interest rate swaps for trading	-	-	-	20 300	-	20 300
<b>Total payables</b>	<b>-</b>	<b>750</b>	<b>4 500</b>	<b>28 800</b>	<b>-</b>	<b>34 050</b>

## 26. INTEREST INCOME AND SIMILAR INCOME

EUR '000	2012	2011
Interest income from amounts due from banks and central bank	125	842
Interest income from clients' current accounts	641	605
Interest income from clients' loans	11 598	11 742
Interest income from securities available for sale	2 516	7 029
Interest income from securities at fair value through profit or loss	138	155
Interest income from securities held to maturity	10 346	1 591
Interest rate swaps	348	429
Other	5	13
<b>Total interest income and similar income</b>	<b>25 717</b>	<b>22 406</b>

## **27. INTEREST EXPENSE AND SIMILAR EXPENSE**

EUR '000	2012	2011
Interest expense from amounts due to banks	1 280	222
Interest expense from clients' current accounts	394	191
Interest expense from clients' time deposits	10 349	9 172
Interest expense from clients' savings deposits	12	11
Interest expense from clients' deposit certificates	48	-
Interest expense from debt securities	1 108	1 163
Interest rate swaps	825	811
Other	114	74
<b>Total interest expense and similar expense</b>	<b>14 130</b>	<b>11 644</b>

## **28. FEE AND COMMISSION INCOME**

EUR '000	2012	2011
Income from fees and commissions:		
Loans	206	254
Payments	91	73
Itemised fees	216	139
Securities trading	3 722	2 653
Portfolio management	1 305	933
Other	116	88
<b>Total fee and commission income</b>	<b>5 656</b>	<b>4 140</b>

## **29. FEE AND COMMISSION EXPENSE**

EUR '000	2012	2011
For the following areas:		
Payments	177	208
Interbank transactions	33	29
Securities trading	242	282
Intermediation	227	298
<b>Total fee and commission expense</b>	<b>679</b>	<b>817</b>

### 30. TRADING PROFIT

EUR '000	2012	2011
Realised profit/loss from debt securities transactions (available-for-sale)	494	357
Realised profit/loss from debt securities transactions (held-to-maturity)	(37)	-
Profit/loss from debt securities transactions (at fair value through profit or loss)	192	(8)
Profit/loss from shares and units (available-for-sale)	11	58
Profit/loss from derivative transactions	(78)	(93)
Profit/loss from forex transactions	421	352
Profit/loss from other transactions	-	4
<b>Total trading profit</b>	<b>1 003</b>	<b>670</b>

### 31. GENERAL OPERATING EXPENSES

EUR '000	2012	2011
Personnel costs	5 174	4 933
Other general operating expenses	5 367	3 137
Of which: Expenses for audit of financial statements	91	91
Contribution to Deposits Protection Fund	255	430
Special levy	2 262	-
Rent	714	673
Energy	156	148
Advertising costs	107	205
IT systems	230	218
Training and education	20	9
Car maintenance and fuel	43	42
Membership fees	98	162
Other services	1 024	750
Other operating expenses	367	409
<b>Total general operating expenses</b>	<b>10 541</b>	<b>8 070</b>

The average number of employees in 2012 was 150 (2011: 142). The average number of members of management in 2012 was 27 (2011: 27).

As of 1 January 2012, banks and branches of foreign banks in Slovakia are obliged to pay a special levy (the so-called bank tax) pursuant to Act No. 384/2011 Coll. on Special Levy of Selected Financial Institutions and on Amendment to and Supplementation of Certain Acts (hereinafter the "Special Levy Act"). Banks and branches of foreign banks are obliged to pay the levy in four quarterly instalments in the amount of one fourth of the annual rate (annual rate: 0.4%) of the amount of the Bank's liabilities defined in line with the Special Levy Act. The Act also introduced an obligation for banks to pay an extraordinary levy in the amount of 0.1% of the Bank's liabilities recognised in the Bank's separate financial statements as at 31 December 2011.

The Bank does not have any pension arrangements other than the state compulsory pension system. Pursuant to Slovak legal regulations, employers are obliged to pay contributions to social security, health insurance, medical insurance, accident insurance, unemployment insurance, and contributions to a guarantee fund set as a percentage of the gross salary. These expenses are recognised in the Income Statement in the period in which the employee was entitled to the salary.

### **32. PROVISIONS FOR IMPAIRMENT LOSSES ON LOANS, NET, WRITE-OFF AND ASSIGNMENT OF RECEIVABLES**

EUR '000	2012	2011
(Creation) of provisions for impairment losses (Note 7)	(6 607)	(4 259)
Release of provisions for impairment losses (Note 7)	5 692	3 607
Net book value of written-off receivables	(108)	(37)
Expenses from assignment of receivables	-	(8)
<b>Total</b>	<b>(1 023)</b>	<b>(697)</b>

### **33. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES**

EUR '000	2012	2011
Profit before income taxes	5 531	4 902
Adjustments for non-cash items:		
Interest income	(25 717)	(22 406)
Interest expense	14 130	11 644
Depreciation/amortisation of tangible and intangible assets	578	606
Provisions for receivables, write-off and assignment of receivables	1 023	697
Provisions for securities	(469)	469
Provisions for liabilities	367	15
Net book value of tangible assets disposed	10	-
Income from sale of tangible assets	(11)	-
<b>Total before interest received / (paid)</b>	<b>(4 558)</b>	<b>(4 073)</b>
Interest received	23 908	18 548
Interest paid	(13 524)	(12 405)
<b>Profit before changes in operating assets and liabilities</b>	<b>5 826</b>	<b>2 070</b>

### **34. CASH AND CASH EQUIVALENTS**

EUR '000	2012	2011
Cash on hand (Note 4)	2 182	2 053
Loans and advances to banks (Note 5)	45 665	33 213
<b>Cash and cash equivalents</b>	<b>47 847</b>	<b>35 266</b>

### **35. COMMITMENTS AND CONTINGENT LIABILITIES**

#### **(a) Legal disputes**

The Bank conducted a review of legal proceedings pending against the Bank as at 31 December 2012 and 31 December 2011. Under the review of risks of losses from major litigations and the involved amounts, the Bank recorded a provision for such litigations amounting to EUR 312 thousand as at 31 December 2012.

**b) Commitments arising from issue of guarantees**

Commitments from guarantees include issued guarantees that represent an irrevocable commitment that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Based on the risk assessment as at 31 December 2012 and 31 December 2011, the Bank did not create any provisions to cover losses included in balances of undrawn loan commitments and guarantees, which are recognised in off-balance sheet accounts.

**c) Commitments to extend credit, undrawn loan commitments, unused overdrafts, and approved overdraft loans**

The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused authorisations to extend credits in the form of loans or guarantees. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, undrawn and approved overdraft loans. Commitments to extend credit or guarantees issued by the Bank that are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities as they result from contractual terms and conditions in loan agreements.

**36. RELATED PARTY TRANSACTIONS**

Related parties as defined by IAS 24 include:

- a) A person or a close family member of that person is related to the Bank if that person:
- Has control or joint control over the Bank;
  - Has significant influence over the Bank; or
  - Is a member of the key management personnel of the Bank or a parent company of the Bank.
- b) An entity is related to the Bank if any of the following conditions applies:
- The entity and the Bank are members of the same group (which means that each parent company, subsidiary and fellow subsidiary is related to the others);
  - One entity is an associate or joint venture of the Bank (or an associate or joint venture of a member of the group of which the Bank is a member);
  - The entity and the Bank are joint ventures of the same third party;
  - The entity is a joint venture of a third entity and the Bank is an associate of the same third entity;
  - The entity is a post-employment defined benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
  - The entity is controlled or jointly controlled by a person identified in (a); and
  - A person who has control or joint control over the Bank has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent company of the entity).

The Bank is controlled by Penta Investments Limited, which holds 100% of the voting rights of the Bank's total votes.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits. These transactions were carried out on an arm's length basis and at market prices.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

EUR '000	31 Dec 2012 balance	31 Dec 2012 accruals	Total	Interest income/ Interest expense 2012	Fee and commission income 2012	Trading profit 2012	General operating expenses 2012	(Creation)/ release of provisions 2012
<b>Receivables from parent company</b>								
Loans and advances to customers	3 966	-	3 966	208	-	-	-	-
Other assets	143	-	143	-	613	352	-	-
<b>Payables to parent company</b>								
Deposits from customers	7 369	-	7 369	(16)	15	-	-	-
Liabilities from debt securities	-	-	-	(13)	-	-	-	-
<b>Receivables from parent's related parties</b>								
Loans and advances to customers	10 160	1	10 161	457	-	-	-	(105)
Other assets	103	-	103	-	2 535	30	-	-
<b>Payables to parent's related parties</b>								
Deposits from banks	-	-	-	(10)	-	-	-	-
Deposits from customers	66 249	45	66 294	(1 275)	60	-	-	-
Debt securities issued	1 235	2	1 237	(15)	-	-	-	-
Other liabilities	27	-	27	-	-	-	(553)	-
Undrawn credit facilities	261	-	261	-	-	-	-	-
Received collateral	6 665	-	6 665	-	-	-	-	-

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

EUR '000	31 Dec 2012 balance	31 Dec 2012 accruals	Total	Interest income/ Interest expense 2012	Fee and commission income 2012	Trading profit 2012	General operating expenses 2012	(Creation)/ release of provisions 2012
<b>Receivables from subsidiaries</b>								
Investments in subsidiaries	7	-	7	-	-	-	-	-
Loans and advances to customers	126	-	126	-	-	-	-	-
<b>Payables to subsidiaries</b>								
Deposits from customers	19	-	19	-	-	-	-	-
<b>Receivables from management members and their related parties</b>								
Loans and advances to customers	236	-	236	9	-	-	-	-
Other assets	1	-	1	-	2	-	-	-
<b>Payables due to management members and their related parties</b>								
Deposits from customers	1 120	1	1 121	(16)	1	-	-	-
Debt securities issued	47	-	47	(2)	-	-	-	-
Other liabilities	267	-	267	-	-	-	(589)	-
Undrawn loan facilities	37	-	37	-	-	-	-	-
Provided guarantees	239	-	239	-	-	-	-	-

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

EUR '000	31 Dec 2011 balance	31 Dec 2011 accruals	Total	Interest income/ Interest expense 2011	Fee and commission income 2011	Trading profit 2011	General operating expenses 2011	(Creation)/ release of provisions 2011
<b>Receivables from parent company</b>								
Other assets	178	-	178	-	652	220	-	-
<b>Payables to parent company</b>								
Deposits from customers	2 070	-	2 070	(923)	15	-	-	-
Liabilities from debt securities	-	-	-	(49)	-	-	-	-
<b>Receivables from parent's related parties</b>								
Loans and advances to banks	-	-	-	76	-	-	-	-
Loans and advances to customers	8 244	2	8 246	481	6	-	-	150
Securities available for sale	-	-	-	8	-	8	-	-
Other assets	99	-	99	-	1 486	19	-	-
<b>Payables to parent's related parties</b>								
Deposits from banks	-	-	-	(20)	-	-	-	-
Deposits from customers	121 620	83	121 703	(834)	37	-	-	-
Debt securities issued	130	-	130	(5)	-	-	-	-
Other liabilities	22	-	22	-	-	-	(498)	-
Undrawn credit facilities	250	-	250	-	-	-	-	-
Received collateral	8 128	-	8 128	-	-	-	-	-

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

EUR '000	31 Dec 2011 balance	31 Dec 2011 accruals	Total	Interest income/ Interest expense 2011	Fee and commission income 2011	Trading profit 2011	General operating expenses 2011	(Creation)/ release of provisions 2011
<b>Receivables from subsidiaries</b>								
Investments in subsidiaries	7	-	7	-	-	-	-	-
<b>Payables to subsidiaries</b>								
Deposits from customers	9	-	9	-	-	-	-	-
<b>Receivables from management members and their related parties</b>								
Loans and advances to customers	305	-	305	9	-	-	-	-
Other assets	2	-	2	-	2	-	-	-
<b>Payables due to management members and their related parties</b>								
Deposits from customers	465	-	465	(12)	1	-	-	-
Debt securities issued	259	-	259	(14)	-	-	-	-
Other liabilities	283	-	283	-	-	-	(586)	-
Undrawn loan facilities	33	-	33	-	-	-	-	-
Provided guarantees	-	-	-	-	-	-	-	-
Received collateral	197	-	197	-	-	-	-	-

The remuneration and salaries of statutory representatives and members of the Supervisory Board (gross values) were in the amount of EUR 642 thousand as of 31 December 2012 (2011: EUR 542 thousand). Members of the Bank's bodies in 2012 and 2011 did not receive any non-cash remuneration.

### **37. FINANCIAL INSTRUMENTS – MARKET RISK**

When conducting its business activities, the Bank is exposed to market risks that depend on the level of exposure to individual risk factors, mainly including changes in interest rates, exchange rates, and prices of capital and financial market instruments.

Given the optimisation of debt securities' classification in the Bank's portfolios, the volatility of prices of these securities did not have a significant impact on the value of the Bank's own funds and its results of operations.

Subsequent to the end of the preceding reporting period, no events occurred that would have a significant impact on market risks resulting from financial instruments.

#### **(a) Interest rate risk**

Interest rate risk is the risk of a change in the value of the Bank's portfolios or a change in the net interest income as a result of changes in market interest rates in connection with the volume disagreement of the measurement of the Bank's assets and liabilities. To measure the interest rate sensitivity of assets and liabilities, the Bank uses interest gap analysis. Assets and liabilities are classified into time segments depending on the time of revaluation of the instrument or its reinvestment. The size of the interest gap represents the degree of the risk of a potential loss or profit against projected revenues in the form of a change in the net interest income resulting from changes in market interest rates under exactly specified restrictive conditions of the model. The Bank has set a limit for the maximum interest rate exposure defined by the maximum theoretical change of net interest income within one year starting from the moment of the valuation of the Bank's positions.

To measure the interest rate risk of the Banking and Trading Books, the Bank uses interest rate sensitivity based on modified duration and convexity. This method is used on a daily basis to monitor the interest rate sensitivity of all of the Bank's portfolios.

The Bank measures its interest rate risk of the Trading Book using the VaR and interest sensitivity model for which it has set maximum risk exposures, which it monitors daily.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

The average effective interest rates of assets and liabilities as at 31 December 2012 and the periods in which these rates are remeasured are as follows:

EUR '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	0.75%	6 293	-	-	-	-	2 182	8 475
Loans to banks	0.07%	45 585	-	-	-	-	80	45 665
Loans to customers	5.79%	58 648	71 518	25 302	43 103	257	5 271	204 099
Securities available for sale	2.08%	85	24 940	14 953	39 005	-	147	79 130
Securities at fair value through profit or loss	2.02%	150	3 130	1 169	598	-	82	5 129
Securities held to maturity	3.07%	34 149	87 854	42 984	161 733	9 352	-	336 072
Investments in subsidiaries	-	-	-	-	-	-	7	7
<b>Total assets</b>		<b>144 910</b>	<b>187 442</b>	<b>84 408</b>	<b>244 439</b>	<b>9 609</b>	<b>7 769</b>	<b>678 577</b>
Deposits from banks	0.75%	70 647	80 583	-	-	-	-	151 230
Deposits from customers	2.39%	130 558	83 292	56 989	177 330	3 000	284	451 453
Debt securities issued	3.68%	780	8 105	6 177	15 025	-	-	30 087
<b>Total liabilities</b>		<b>201 985</b>	<b>171 980</b>	<b>63 166</b>	<b>192 355</b>	<b>3 000</b>	<b>284</b>	<b>632 770</b>
<b>Difference</b>		<b>(57 075)</b>	<b>15 462</b>	<b>21 242</b>	<b>52 084</b>	<b>6 609</b>	<b>7 485</b>	<b>45 807</b>
<b>Cumulative difference</b>		<b>(57 075)</b>	<b>(41 613)</b>	<b>(20 371)</b>	<b>31 713</b>	<b>38 322</b>	<b>45 807</b>	

The average effective interest rates of assets and liabilities as at 31 December 2011 and the periods in which these rates are remeasured are as follows:

EUR '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	1.25%	10 709	-	-	-	-	2 053	12 762
Loans to banks	2.60%	33 213	-	-	-	-	-	33 213
Loans to customers	6.06%	45 748	87 721	28 543	31 501	379	3 170	197 062
Securities available for sale	2.81%	754	8 963	74 508	28 496	-	96	112 817
Securities at fair value through profit or loss	2.35%	6	3 373	681	835	-	28	4 923
Securities held to maturity	3.33%	17 251	39 236	29 576	178 043	9 276	-	273 382
Investments in subsidiaries	-	-	-	-	-	-	7	7
<b>Total assets</b>		<b>107 681</b>	<b>139 293</b>	<b>133 308</b>	<b>238 875</b>	<b>9 655</b>	<b>5 354</b>	<b>634 166</b>
Deposits from banks	1.00%	-	-	-	70 019	-	-	70 019
Deposits from customers	1.98%	150 775	62 651	113 976	139 467	14 265	3	481 137
Debt securities issued	3.10%	13 406	1 046	13 980	13 190	-	-	41 622
<b>Total liabilities</b>		<b>164 181</b>	<b>63 697</b>	<b>127 956</b>	<b>222 676</b>	<b>14 265</b>	<b>3</b>	<b>592 778</b>
<b>Difference</b>		<b>(56 500)</b>	<b>75 596</b>	<b>5 352</b>	<b>16 199</b>	<b>(4 610)</b>	<b>5 351</b>	<b>41 388</b>
<b>Cumulative difference</b>		<b>(56 500)</b>	<b>19 096</b>	<b>24 448</b>	<b>40 647</b>	<b>36 037</b>	<b>41 388</b>	

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

The interest rate sensitivity analysis is based on the assumption of a parallel movement of the yield curve. The table below shows the change in net profit and equity of the Bank due to possible changes in interest rates of the major currencies.

EUR '000	Impact on net profit	Impact on equity
<b>2012</b>		
+ 0,5% for all currencies	(11)	(178)
- 0,5% for all currencies	11	180
<b>2011</b>		
+ 0,5% for all currencies	(10)	(147)
- 0,5% for all currencies	11	147

**(b) Currency risk**

Currency risk is the risk of a change in the value of the Bank's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Bank manages currency risk by determining and daily monitoring of maximum limits of open positions of the banking book for individual currencies. A potential excessive open currency position of the Banking Book is immediately repurchased through an internal operation in the Trading Book. The currency risk of the trading book is limited by maximum exposure using the VaR model. The following tables show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured open currency positions as at the year-end of 2012 and 2011.

As at 31 December 2012, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	Total
Cash and balances with central banks	8 140	218	60	57	8 475
Loans to banks	10 670	28 789	5 030	1 176	45 665
Loans to customers	197 585	6 513	1	-	204 099
Securities available for sale	70 264	8 866	-	-	79 130
Securities at fair value through profit or loss	3 584	1 545	-	-	5 129
Securities held to maturity	324 895	11 177	-	-	336 072
Investments in subsidiaries	7	-	-	-	7
<b>Total assets</b>	<b>615 145</b>	<b>57 108</b>	<b>5 091</b>	<b>1 233</b>	<b>678 577</b>
Deposits from banks	151 230	-	-	-	151 230
Deposits from customers	389 266	55 943	4 965	1 279	451 453
Debt securities issued	29 675	21	-	391	30 087
<b>Total liabilities</b>	<b>570 171</b>	<b>55 964</b>	<b>4 965</b>	<b>1 670</b>	<b>632 770</b>
<b>Net FX position</b>	<b>44 974</b>	<b>1 144</b>	<b>126</b>	<b>(437)</b>	<b>45 807</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

As at 31 December 2011, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	Total
Cash and balances with central banks	12 419	193	96	54	12 762
Loans to banks	10 487	14 011	8 269	446	33 213
Loans to customers	187 170	9 892	-	-	197 062
Securities available for sale	98 709	14 108	-	-	112 817
Securities at fair value through profit or loss	3 759	1 164	-	-	4 923
Securities held to maturity	262 532	10 850	-	-	273 382
Investments in subsidiaries	7	-	-	-	7
<b>Total assets</b>	<b>575 083</b>	<b>50 218</b>	<b>8 365</b>	<b>500</b>	<b>634 166</b>
Deposits from banks	70 019	-	-	-	70 019
Deposits from customers	423 908	49 466	7 135	628	481 137
Debt securities issued	40 143	182	1 237	60	41 622
<b>Total liabilities</b>	<b>534 070</b>	<b>49 648</b>	<b>8 372</b>	<b>688</b>	<b>592 778</b>
<b>Net FX position</b>	<b>41 013</b>	<b>570</b>	<b>(7)</b>	<b>(188)</b>	<b>41 388</b>

The table below is a summary of the currencies in which the Bank has significant open positions as at 31 December 2012 and 31 December 2011. The sensitivity analysis calculates the effect of possible changes in the exchange rate against the selected currencies on the Income Statement. A positive amount reflects a net potential gain and a negative amount reflects net potential loss on the Income Statement.

EUR '000	Change in exchange rate	Impact on net profit
<b>2012</b>		
CHF	+3,94%	(3)
GBP	+13,20%	16
USD	+19,83%	(36)
CZK	+14,98%	23
<b>2011</b>		
CHF	+35,94%	(26)
GBP	+18,28%	(20)
USD	+25,90%	(2)
CZK	+14,13%	(45)

Other than an impact on the Income Statement, changes in FX rates have no impact on equity.

### 38. MANAGEMENT OF CAPITAL

The Bank's regulatory capital is used to cover unexpected losses to which the Bank may be exposed in performing its activities. The amount of the regulatory capital and requirements for regulatory capital are monitored on a regular basis, inter alia, by reference to and in compliance with the prudence principles set by the NBS. The Bank has complied with the statutory amount of requirements for the regulatory capital as well as with all other capital requirements set by the NBS.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

In accordance with the prudence principle, regulatory capital is used to cover risks arising from the Banking Book, the Trading Book, to cover other risks, in particular foreign exchange risks and commodity risks, and to cover operational risks.

The basic requirement of the regulatory capital management process is to ensure that the Bank has fulfilled all requirements as established by the regulatory body while simultaneously observing the effective adequacy of regulatory capital. The Bank manages the structure of its regulatory capital and may apply changes in the structure of its regulatory capital provided in the event that there is a change in economic terms and conditions or a change in the Bank's appetite for risk. The Bank may influence its regulatory capital based on the decision with regard to distribution of profit in a relevant accounting period, or based on the decision about an issue of subordinated debt or based on other decisions to increase capital. No changes occurred in the policy on regulatory capital management compared to the previous reporting period.

The Bank also applies internal capital management procedures and assesses and calculates requirements for internal capital within the ICAAP process. Internal capital must cover not only legal requirements for individual types of regulatory risk, but also requirements for risks not covered by Tier 1, which are set by the Bank based on the assessment of its risk profile and risk appetite. The Bank has complied with all internal capital requirements.

The Bank's regulatory capital comprises original own funds, additional own funds and deductible items. The original own funds comprise share capital, reserve fund, retained earnings from previous years, software value (as an item reducing the original own funds), and negative financial investments revaluation reserves from the available-for-sale portfolio (as an item reducing the original own funds). The additional own funds comprise positive financial investments revaluation reserves from the available-for-sale portfolio. Deductible items are represented by an investment in the subsidiary Privatfin, s.r.o.

The structure of the Bank's regulatory capital as at the year-end of 2012 (unaudited) and 2011 is as follows:

EUR '000	2012	2011
<b>The Bank's original own funds</b>	<b>37 824</b>	<b>33 329</b>
<b>Items creating original own funds</b>	<b>38 234</b>	<b>34 492</b>
Paid up registered capital	25 121	25 121
Reserve fund and other profit funds	3 349	2 975
Retained earnings	9 764	6 396
<b>(-) Items creating original own funds</b>	<b>410</b>	<b>1 163</b>
(-) Accumulated losses from previous years	-	-
(-) Intangible assets	410	496
(-) Negative financial investments revaluation reserves from the AFS portfolio	-	667
<b>Additional own funds</b>	<b>513</b>	<b>-</b>
Subordinated debts	-	-
Positive financial investments revaluation reserves from the AFS portfolio	513	-
<b>(-) Items deductible from the Bank's original and additional own funds</b>	<b>7</b>	<b>7</b>
(-) From the Bank's original own funds	4	7
(-) From additional own funds	3	-
<b>Supplementary own funds</b>	<b>-</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>38 330</b>	<b>33 322</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

The indicators of the Bank's capital adequacy as at 31 December 2012 (unaudited) and 31 December 2011 are provided in the table below:

EUR '000	2012	2011
<b>Adequacy of regulatory capital (%)</b>	<b>12,35%</b>	<b>12,20%</b>
<b>Regulatory capital</b>	<b>38 330</b>	<b>33 322</b>
<b>Risk-weighted assets (RWA)</b>	<b>310 400</b>	<b>273 175</b>
RWA from receivables recorded in the Banking Book	263 425	240 825
RWA from positions recorded in the Trading Book	18 663	8 375
RWA from operating risk	28 312	23 975

The National Bank of Slovakia, as the supervising authority, requires that the Bank maintain the proportion of the total regulatory capital to risk-weighted assets at at least 8%.

In the reporting periods, the Bank's regulatory capital exceeded the minimum requirement level at 8% of risk-weighted assets; thus, the Bank complied with the regulatory authority's capital requirement.

### 39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2012:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	8 475	-	-	-	-	-	8 475
Loans and advances to banks	45 640	25	-	-	-	-	45 665
Loans and advances to customers	868	44 305	58 670	89 676	5 223	5 357	204 099
Securities available for sale	64	11 347	13 104	54 468	-	147	79 130
Securities at fair value through profit or loss	-	175	648	4 224	-	82	5 129
Securities held to maturity	193	62 509	35 245	228 773	9 352	-	336 072
Investments in subsidiaries	-	-	-	-	-	7	7
Tangible and intangible assets	-	-	-	-	-	1 864	1 864
Other assets	353	740	-	158	-	420	1 671
<b>Total assets</b>	<b>55 593</b>	<b>119 101</b>	<b>107 667</b>	<b>377 299</b>	<b>14 575</b>	<b>7 877</b>	<b>682 112</b>
Deposits from banks	-	-	-	151 230	-	-	151 230
Deposits from customers	113 510	120 509	57 145	157 258	3 000	31	451 453
Debt securities issued	764	8 122	6 176	15 025	-	-	30 087
Current tax liability	-	38	-	-	-	-	38
Deferred tax liability	-	-	-	-	-	215	215
Provisions for liabilities	-	-	-	-	-	367	367
Other liabilities	1 704	1 718	-	14	-	2 237	5 673
<b>Total liabilities</b>	<b>115 978</b>	<b>130 387</b>	<b>63 321</b>	<b>323 527</b>	<b>3 000</b>	<b>2 850</b>	<b>639 063</b>
<b>Difference</b>	<b>(60 385)</b>	<b>(11 286)</b>	<b>44 346</b>	<b>53 772</b>	<b>11 575</b>	<b>5 027</b>	<b>43 049</b>
<b>Cummulative difference</b>	<b>(60 385)</b>	<b>(71 671)</b>	<b>(27 325)</b>	<b>26 447</b>	<b>38 022</b>	<b>43 049</b>	

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

The table below shows the structure of the Bank's assets and liabilities by maturity as at 31 December 2011:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	12 762	-	-	-	-	-	<b>12 762</b>
Loans and advances to banks	33 093	120	-	-	-	-	<b>33 213</b>
Loans and advances to customers	525	20 098	77 599	88 340	7 267	3 233	<b>197 062</b>
Securities available for sale	-	4 217	80 008	28 496	-	96	<b>112 817</b>
Securities at fair value through profit or loss	-	40	863	3 992	-	28	<b>4 923</b>
Securities held to maturity	193	5 481	9 851	248 580	9 277	-	<b>273 382</b>
Investments in subsidiaries	-	-	-	-	-	7	<b>7</b>
Tangible and intangible assets	-	-	-	-	-	1 620	<b>1 620</b>
Tax prepayments	-	95	-	-	-	-	<b>95</b>
Deferred tax asset	-	-	-	-	-	119	<b>119</b>
Other assets	16	240	-	25	-	486	<b>767</b>
<b>Total assets</b>	<b>46 589</b>	<b>30 291</b>	<b>168 321</b>	<b>369 433</b>	<b>16 544</b>	<b>5 589</b>	<b>636 767</b>
Deposits from banks	-	-	-	70 019	-	-	<b>70 019</b>
Deposits from customers	132 509	93 637	114 197	121 950	18 840	4	<b>481 137</b>
Debt securities issued	4 830	9 622	13 980	13 190	-	-	<b>41 622</b>
Provisions for liabilities	-	-	-	-	-	15	<b>15</b>
Other liabilities	2 697	1 346	-	-	-	2 364	<b>6 407</b>
<b>Total liabilities</b>	<b>140 036</b>	<b>104 605</b>	<b>128 177</b>	<b>205 159</b>	<b>18 840</b>	<b>2 383</b>	<b>599 200</b>
<b>Difference</b>	<b>(93 447)</b>	<b>(74 314)</b>	<b>40 144</b>	<b>164 274</b>	<b>(2 296)</b>	<b>3 206</b>	<b>37 567</b>
<b>Cummulative difference</b>	<b>(93 447)</b>	<b>(167 761)</b>	<b>(127 617)</b>	<b>36 657</b>	<b>34 361</b>	<b>37 567</b>	

#### 40. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk in the ability of the Bank to fulfil its obligations towards its business partners as a result of a difference in the maturity of assets and liabilities. The Bank monitors and manages liquidity on the basis of expected cash flows from assets and liabilities. To measure liquidity exposure, the Bank uses the liquidity gap method. The Bank defines and manages the risk of the ability to fulfil its obligations by means of specified limits of discrepancy in the maturity of assets and liabilities in individual time segments.

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2012:

EUR'000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not specified	Total
Deposits from banks	-	-	-	152 831	-	-	<b>152 831</b>
Deposits from customers	103 670	130 154	58 689	173 494	3 788	-	<b>469 795</b>
Debt securities issued	-	9 065	6 764	15 549	-	-	<b>31 378</b>
<b>Total liabilities</b>	<b>103 670</b>	<b>139 219</b>	<b>65 453</b>	<b>341 874</b>	<b>3 788</b>	<b>-</b>	<b>654 004</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2011:

EUR'000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not specified	Total
Deposits from banks	-	-	-	72 392	-	-	<b>72 392</b>
Deposits from customers	82 407	136 002	116 562	132 674	17 778	-	<b>485 423</b>
Debt securities issued	-	14 670	14 526	13 540	-	-	<b>42 736</b>
<b>Total liabilities</b>	<b>82 407</b>	<b>150 672</b>	<b>131 088</b>	<b>218 606</b>	<b>17 778</b>	<b>-</b>	<b>600 551</b>

#### **41. FINANCIAL INSTRUMENTS – CREDIT RISK**

As a result of its business activities arising from the provision of loans, bank guarantees, hedging transactions, and investment and mediation activities the Bank is exposed to credit risk representing the risk that the counterparty will be unable or unwilling to repay the due amounts in full when they fall due.

The Bank mitigates the credit risk by setting limits for exposures with respect to an individual debtor or economically-connected group of debtors or to individual sectors of the national economy in order to avoid inadequate credit risk concentration owing to the accumulation of receivables from counterparty, an economically-connected group, and/or an economic sector. The actual exposure is regularly compared to the set limits. The Bank treats a receivable from a debtor or an economically connected group of debtors that exceeds 5% of the Bank's regulatory capital as a significant exposure. The excessive concentration of credit exposure to one entity has an effect on the ability of the debtor to pay its obligations. The Bank has created a system of internal reports on significant credit exposures to debtors which exceed the specified limit.

Credit risk is also managed by the regular monitoring of financial assets and the subsequent analysis of the debtor's ability to repay its liabilities and by obtaining solvent collateral for the Bank's receivables from credit activities.

Factors leading to the creation of impairment losses for financial assets assessed individually in 2012:

1. The client was unable to realise its business plan in the agreed time;
2. The client failed to meet the agreed contracting terms and conditions despite the Bank's notices;
3. The client failed to repay the granted loan in a due and timely manner.

#### **Provisioning**

The Bank has defined in its internal instructions loss events and assigned the corresponding reduction of future cash flows from debtors' economic activities; subsequently, it discounts all estimated cash flows, including cash flows from realising collateral, using the effective interest rate. In the event of impairment of a financial receivable, the Bank recognises a provision for the relevant financial asset to cover the identified risk.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

In line with IFRS rules, the Bank creates portfolios of financial assets that have common characteristics, and for which there is a possibility of their impairment if objective circumstances arise in the relevant market. Based on the amount of individual loans provided, financial asset portfolios are divided into significant and insignificant. For portfolios where loss events were identified in the form of changed economic conditions or other objective events in respect of the relevant market, impairment losses can be recorded. Portfolio-based impairment losses are intended to reflect a potential risk of loss that cannot be individually identified, but based on historical experience and an impact of current economic market conditions are deemed that their disclosure in the statement of financial position is required.

Portfolios of significant financial assets include portfolios of loans provided to corporate customers to finance real estate development projects and activities in real estate lease and operations, to finance photovoltaic power plants and new investment projects where the recoverability of a loan is linked to generating future cash flows. The Bank monitors changes in economic conditions on the market and regularly re-assesses portfolio provisions for such portfolios the percentage of which is set based on an expert estimate, taking into account the existing situation on the real estate market, the value of the received collateral, and the expected recovery rates.

#### **Credit exposure, collaterals**

EUR '000	2012	2011
<b>Total credit exposure</b>	<b>210 835</b>	<b>202 871</b>
Value of received collaterals accepted by the Bank	264 515	295 646
Secured portion of credit exposure	174 431	179 838
Unsecured portion of credit exposure	36 404	23 033

The value and type of collateral required to secure the credit risk of the counterparty in credit transactions depend on the extent of the credit risk in a specific credit transaction as identified by the Bank in the course of processing of the transaction. The Bank reassesses the value of collateral on a regular basis.

In its internal instructions, the Bank has defined acceptance procedures as well as procedures for valuing individual collateral types depending on their liquidity.

The most frequently-used collateral types:

- Project funding: real estate, current and future receivables resulting from sale agreements and other contracts on the sale or lease of developed real estate;
- Operational funding: trade receivables;
- Investment funding: clients' movable and immovable assets;
- Acquisition funding: securities (in particular shares); and
- Credits granted to individuals: real estate, securities, personal guarantees.

#### **Assumptions in estimates of collateral realisable value**

The value of collateral is determined as follows:

- Immovable and movable assets: on the basis of a comparison between the general value of assets in an expert's opinion and the fair value of assets as identified by means of an expert's estimate. If there is a difference between these two values, the lower shall be considered the value of the immovable asset;
- Cash collateral: the value of the collateral equals the nominal value of a receivable from deposit; in respect of securities, market prices as at the date of valuation are used; and
- Receivables, promissory notes, and accession to liability by a third party: on the basis of their nominal value, net of ratings of a sub-debtor, debtor under a promissory note or a guarantor.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

The value accepted by the Bank is the value that results from multiplying the collateral's value by the relevant coefficient representing the degree of acceptance of a specific type of collateral. This value is concurrently the value for calculating impairment losses.

The value of collateral is regularly updated according to type and any anticipated volatility in prices, and is performed on at least an annual basis. In the event of collateral impairment, the Bank will require additional security for the credit transaction or will realise other measures to reduce the credit risk.

The amount the Bank can receive from the sale of collateral could differ from the value accepted by the Bank for credit risk management purposes, and such difference could be material.

**Credit quality of assets recognised as neither past due nor impaired**

Overview of the quality of financial assets resulting from credit transactions that are recognised as neither past due nor impaired:

Clients - transaction rating - 2012	Receivables (EUR '000)	Share (%)
Rating A - very good	26 542	13,96
Rating B - good	29 430	15,48
Rating C - below average	70 210	36,93
Rating D - bad	37 686	19,82
Retail	26 249	13,81
<b>Total</b>	<b>190 117</b>	<b>100,00</b>

Clients - transaction rating - 2011	Receivables (EUR '000)	Share (%)
Rating A - very good	36 985	20,11
Rating B - good	29 822	16,22
Rating C - below average	63 964	34,79
Rating D - bad	25 716	13,99
Retail	27 377	14,89
<b>Total</b>	<b>183 864</b>	<b>100,00</b>

Based on the balances as at 31 December 2012 and 31 December 2011, there are no clients with accredited external ratings in the Bank's loan portfolio.

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as overdue or impaired as at 31 December 2012:

Available-for-sale securities	(EUR '000)	Share (%)
Aaa	4 712	5,95
A2	50 522	63,85
A3	5 514	6,97
Baa2	9 854	12,45
No rating	8 528	10,78
<b>Total</b>	<b>79 130</b>	<b>100,00</b>

Out of the securities with no Moody's Investors Service rating, securities at fair value of EUR 4 155 thousand have an A- rating with Standard & Poor's.

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
**as adopted by the European Union**

Securities recognised at fair value through profit or loss	(EUR '000)	Share (%)
A2	513	10,00
A3	248	4,84
Baa2	149	2,91
No rating	4 219	82,25
<b>Total</b>	<b>5 129</b>	<b>100,00</b>

Out of the securities with no Moody's Investors Service rating, the securities at fair value of EUR 415 thousand have an A- rating with Standard & Poor's.

Securities held to maturity	(EUR '000)	Share (%)
Aa3	1 044	0,31
A1	6 224	1,85
A2	241 327	71,81
A3	12 893	3,84
Ba1	3 379	1,01
Baa1	5 012	1,49
Baa2	36 644	10,90
Baa3	5 481	1,63
No rating	24 068	7,16
<b>Total</b>	<b>336 072</b>	<b>100,00</b>

Out of the securities with no Moody's Investors Service rating, the securities at amortised cost of EUR 6 281 thousand have a BB+ rating with Standard & Poor's.

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as overdue or impaired as at 31 December 2011:

Available-for-sale securities	(EUR '000)	Share (%)
Aaa	4 491	4,19
Aa3	3 850	3,59
A1	44 654	41,63
A2	5 360	5,00
A3	3 140	2,93
Baa1	1 953	1,82
Baa2	1 057	0,99
No rating	42 746	39,85
<b>Total</b>	<b>107 251</b>	<b>100,00</b>

Out of the securities with no Moody's Investors Service rating, the securities at fair value of EUR 1 039 thousand have an A- rating with Standard & Poor's and securities at fair value of EUR 1 805 thousand have a BB+ rating.

Securities recognised at fair value through profit or loss	(EUR '000)	Share (%)
A1	441	8,96
A2	75	1,52
A3	222	4,51
Baa1	335	6,80
No rating	3 850	78,21
<b>Total</b>	<b>4 923</b>	<b>100,00</b>

Securities held to maturity	(EUR '000)	Share (%)
Aa2	3 063	1,12
Aa3	16 255	5,95
A1	136 680	50,00
A2	66 928	24,48
A3	10 192	3,73
Baa1	5 784	2,12
Baa2	8 950	3,27
Baa3	7 263	2,66
No rating	18 267	6,67
<b>Total</b>	<b>273 382</b>	<b>100,00</b>

#### **Method of determining transaction ratings**

The Bank determines the internal rating of corporate customers on the basis of their financial analysis and non-financial analysis.

The financial analysis is based on an assessment of individual items of clients' assets, liabilities, expenses and revenues, realisation of assets and equity, and the subsequent calculation of basic financial ratios (indebtedness, liquidity, profitability, activity and cash flow). The financial situation of clients is denoted by letters: A (very good), B (good), C (below average), and D (bad).

The non-financial analysis is based on clients' payment discipline, use of banking services, business sector, market position, sales commitments, management level, and overall performance of companies.

The non-financial analysis results in the classification of clients into four business risk classes: 1 (low risk), 2 (adequate risk), 3 (prevailing risk), 4 (high risk)

The client's internal rating – A, B, C or D – results from a combination of the financial analysis and non-financial analysis.

The resulting value of the collateral to determine the extent of credit risk represents the actually achievable market price at the time of collateral realisation, where the period to realise the collateral (representing its liquidity) should not exceed three months from the commencement of enforcing the pledge and/or exercising other rights securing the loan.

The resulting value of the collateral and the client's internal rating represents a transaction rating as an objective evaluation of the Bank's financial asset quality.

The Bank is monitoring the development of the financial and non-financial situations of clients and updates the respective ratings on a regular quarterly basis. The Bank remeasures the value of real estate at least annually and then updates the value of this type of collateral. Other types of collateral are remeasured on an on-going basis, upon identifying circumstances that have an impact on the recognised value of the collateral.

### **Ageing structure of financial assets overdue, recognised as unimpaired**

As at 31 December 2012, the Bank recognised overdue loan receivables, which were classified as unimpaired in the total amount of EUR 5 313 thousand, of which the principal in the amount of EUR 4 787 thousand overdue from 1 to 31 days (of which principal in the amount of EUR 3 977 thousand overdue one day), and interest and charges in the amount of EUR 526 thousand overdue one day. The total overdue amount of the outstanding principal was settled up to 45 days overdue and the overdue interest was paid up to 31 days.

As at 31 December 2011, the Bank recognised overdue loan receivables, which were classified as unimpaired in the total amount of EUR 2 910 thousand, of which principal in the amount of EUR 2 793 thousand overdue from 1 to 31 days, plus interest and charges in the amount of EUR 117 thousand overdue 1 day. The total amount of outstanding interest overdue was paid within 42 days after the maturity; the outstanding principal overdue was settled within 31 days.

### **Restructured assets**

Pursuant to internal guidelines, the Bank considered as restructured assets those financial assets where certain risk was identified as a result of which the asset could be impaired or the receivable overdue could be recognised; however, based on the analysis, the Bank opted to change the agreed terms and conditions and did not terminate the credit relationship.

In 2012, the Bank mainly extended the maturity of financial assets – loan receivables in the total amount of EUR 23 114 thousand, of which operating financing was EUR 11 909 thousand, investment loans were EUR 11 205 thousand.

In 2011, the Bank mainly extended the maturity of financial assets – loan receivables in the total amount of EUR 31 055 thousand, whose operating financing was EUR 12 962 thousand, investment loans was EUR 18 093 thousand.

There were mainly objective reasons that led to the failure to implement the business plan, ie exit from a project on the anticipated deadline, owing to the inability to obtain permits from the relevant authorities (mainly change in the zoning plan or granting of land permit), and owing to on-going processes that did not allow the debtor to sell assets, the proceeds of which had been designated to repay the Bank's loan receivable. In all instances the Bank treated its position so that in the future the Bank is not exposed to higher risks than as at the moment of closing the deal.

### **Major credit risk exposures**

#### **(a) Concentrations to national economy sectors**

EUR '000	2012	2011
Non-banking financial services	2 442	4 970
Manufacturing	27 891	31 586
<i>Of which: photovoltaic power plants</i>	13 993	13 258
Construction	4 398	12 485
Agriculture and forestry	1 126	3 571
Commercial real estate - cash flow based	21 595	8 653
Commercial real estate - collateral based	24 848	21 889
Commerce and services	67 154	50 276
Other	5 000	4 321
Individuals	26 502	31 451
Healthcare services	17 860	22 748
Leisure, cultural and sports activities	12 019	10 921
<b>Total</b>	<b>210 835</b>	<b>202 871</b>

(b) Concentrations to significant connected groups of debtors

The Bank does not recognise significant exposures to connected groups. As at 31 December 2012, the maximum rate of exposure to a debtor or an economically-connected group is capped at EUR 9 582 thousand owing to the amount of the Bank's capital (2011: EUR 8 334 thousand).

**Maximum credit exposure**

EUR '000	2012	2011
Cash and balances with central bank	8 475	12 762
Loans and advances to banks	45 665	33 213
Loans and advances to customers	204 099	197 062
Securities available for sale	79 130	112 817
Securities at fair value through profit or loss	5 129	4 923
Securities held to maturity	336 072	273 382
Investments in subsidiaries	7	7
Tax prepayments	-	95
Deferred tax asset	-	119
Other assets	1 671	767
<b>Total</b>	<b>680 248</b>	<b>635 147</b>
Undrawn loan facilities	7 343	21 497
Provided guarantees	2 309	2 931
<b>Total</b>	<b>9 652</b>	<b>24 428</b>
<b>Total credit risk exposure</b>	<b>689 900</b>	<b>659 575</b>

## 42. OPERATIONAL, LEGAL AND OTHER RISKS

The Bank creates a database of operational losses and events with a potential risk of loss. This database is created as it is the Bank's intention to adopt more-sophisticated techniques of quantifying operational risk.

Legal and other risks are monitored in the Bank's internal control system in the event of reviews made by the Department of Internal Control and Audit and by divisions of the headquarters.

#### 43. FAIR VALUES

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

EUR '000	Carrying amount 2012	Fair value 2012	Carrying amount 2011	Fair value 2011
<b>Financial assets</b>				
Cash and balances with central banks	8 475	8 475	12 762	12 762
Loans and advances to banks	45 665	45 665	33 213	33 213
Loans and advances to customers	204 099	211 759	197 062	202 123
Securities available for sale	79 130	79 130	112 817	112 817
Securities at fair value through profit or loss	5 129	5 129	4 923	4 923
Securities held to maturity	336 072	349 885	273 382	270 075
Investments in subsidiaries	7	7	7	7
<b>Financial liabilities</b>				
Deposits from banks	151 230	151 567	70 019	69 345
Deposits from customers	451 453	454 679	481 137	481 674
Debt securities issued	30 087	30 786	41 622	41 730

The method used to determine the fair values of selected financial assets as at 31 December 2012:

EUR '000	Market value	Own model with reference to market rates	Own model without reference to market rates	Total
Loans and advances to customers	-	211 759	-	<b>211 759</b>
Securities available for sale	67 147	11 931	52	<b>79 130</b>
Securities at fair value through profit or loss	1 759	3 370	-	<b>5 129</b>
Securities held to maturity	276 324	73 561	-	<b>349 885</b>
Investments in subsidiaries	-	-	7	<b>7</b>

**Notes to the Financial Statements for the year ended 31 December 2012**  
**Prepared in accordance with International Financial Reporting Standards,**  
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The method used to determine the fair values of selected financial assets as at 31 December 2011:

EUR '000	Market value	Own model with reference to market rates	Own model without reference to market rates	Total
Loans and advances to customers	-	202 123	-	<b>202 123</b>
Securities available for sale	31 684	75 515	5 618	<b>112 817</b>
Securities at fair value through profit or loss	920	4 003	-	<b>4 923</b>
Securities held to maturity	270 075	-	-	<b>270 075</b>
Investments in subsidiaries	-	-	7	<b>7</b>

The following methods and assumptions were used to estimate the fair values of the Bank's financial assets and financial liabilities:

**Cash and balances with central banks**

The carrying value of cash and balances with central banks approximate their fair value.

**Loans and advances to banks**

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

**Loans and advances to customers**

Loans and advances to customers are measured net of impairment losses for receivables. The fair values of loans and advances to customers are calculated by discounting the future cash flows using the current market rates increased by updated risk interest margin by loans.

**Available-for-sale securities**

Available-for-sale securities are stated at quoted market prices. If the quoted market price is not available or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods. The method of calculating financial instruments' fair value is described in Note 2.5.

**Securities at fair value through profit or loss**

Securities at fair value through profit or loss are stated at quoted market prices. If the quoted market price is not available or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods. The method of calculating financial instruments' fair value is described in Note 2.5.

**Held-to-maturity securities**

Held-to-maturity securities are stated at quoted market prices. If the quoted market price is not available or if there is no active market for the relevant financial instrument, the fair value of a financial instrument is determined using valuation methods. The method of calculating financial instruments' fair value is described in Note 2.5.

**Investments in subsidiaries**

Net value of assets approximates fair value.

**Deposits from banks**

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

**Deposits from customers**

The fair values of deposits from customers are calculated by discounting the future cash flows using the current market rates effective as at year-ends.

**Debt securities issued**

The fair values of debt securities issued are calculated by discounting the future cash flows using the current market rates effective as at year-ends.

**44. SIGNIFICANT SUBSEQUENT EVENTS**

As at the date of preparation of the financial statements, there have been no significant events that would require a material adjustment to the amounts or disclosures in the financial statements as at 31 December 2012.

**45. APPROVAL OF FINANCIAL STATEMENTS**

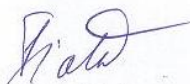
The financial statements were signed and authorised by the Board of Directors on 15 March 2013.



Mgr. Ing. Ľuboš Ševčík, CSc.  
Chairman of the Board of Directors and  
General Director



Ing. Vladimír Hrdina  
Member of the Board of Directors  
and Executive Director



Ing. Radovan Fiala  
Person responsible for preparation of financial  
statements



Ing. Rastislav Blišák  
Person responsible for bookkeeping

**Privatbanka, a.s.**  
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