# Privatbanka, a.s.

## Consolidated financial statements

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

**Year ended 31 December 2009**

and Independent Auditor’s Report

**Contents**

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# Privatbanka, a.s.

## INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying consolidated financial statements of Privatbanka, a.s. (the "Bank"), and its subsidiary, which comprise the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***The Board of Directors' Responsibility for the Financial Statements***

2. The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's Responsibility***

3. 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 that the financial statements are free of 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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***

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Privatbanka, a.s. and its subsidiary as of 31 December 2009, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Bratislava 12 March 2010

Deloitte

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

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

| | Note | 2009 EUR '000 | 2008 EUR '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 4. | 9 234 | 129 703 |
| Loans and advances to banks | 5. | 72 239 | 52 653 |
| Loans and advances to customers | 6. | 108 423 | 96 706 |
| Securities available for sale | 8. | 245 537 | 117 256 |
| Securities at fair value through profit or loss | 9. | 9 655 | 22 240 |
| Securities held to maturity | 10. | 22 491 | - |
| Tangible and intangible assets | 11. | 2 278 | 1 766 |
| Deferred tax asset | 12. | - | 33 |
| Other assets | 13. | 531 | 543 |
| **Total assets** | | **470 388** | **420 900** |
| **Liabilities and equity** | | | |
| Deposits from banks | 14. | 110 194 | 12 336 |
| Deposits from customers | 15. | 279 336 | 237 850 |
| Debt securities issued | 16. | 41 820 | 139 511 |
| Current income tax liability | 17. | 171 | 849 |
| Deferred tax liability | 12. | 414 | - |
| Other liabilities | 18. | 5 862 | 2 652 |
| **Total liabilities** | | **437 797** | **393 198** |
| **Equity** | | | |
| Share capital | 19. | 25 121 | 25 124 |
| Capital reserves and profit funds | 19. | 2 325 | 2 100 |
| Revaluation reserves on securities available for sale, including deferred tax | 19. | 1 563 | (291) |
| Retained earnings | | 3 582 | 769 |
| **Total equity** | | **32 591** | **27 702** |
| **Total liabilities and equity** | | **470 388** | **420 900** |

The notes on pages 9 to 67 form an integral part of these financial statements.

**Consolidated Income Statement for the year ended 31 December 2009**
**Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union**

| | Note | 2009 EUR '000 | 2008 EUR '000 |
|---|---|---|---|
| Interest income and similar income | 25. | 14 625 | 16 464 |
| Interest expense and similar expense | 26. | (6 403) | (9 862) |
| **Net interest income** | | **8 222** | **6 602** |
| Fee and commission income | 27. | 2 291 | 1 877 |
| Fee and commission expense | 28. | (711) | (647) |
| **Net fee and commission income** | | **1 580** | **1 230** |
| Trading profit | 29. | 2 211 | 1 305 |
| Other income | | 18 | 2 |
| **Operating income** | | **12 031** | **9 139** |
| General operating expenses | 30. | (6 214) | (5 317) |
| Depreciation and amortisation | 11. | (544) | (445) |
| **Operating expense** | | **(6 758)** | **(5 762)** |
| **Profit before impairment losses provisions and write-offs** | | **5 273** | **3 377** |
| Additions to impairment losses and write-off of receivables | 31. | (1 136) | (481) |
| Net income from sale of tangible assets | | (97) | 4 |
| (Additions to)/release to impairment losses for tangible assets | | 37 | (37) |
| Release of provisions for liabilities | | - | 280 |
| **Profit before income taxes** | | **4 077** | **3 143** |
| Current income tax | 21. | (1 030) | (849) |
| Deferred income tax | 21. | (12) | (76) |
| **Net profit** | | **3 035** | **2 218** |

The notes on pages 9 to 67 form an integral part of these financial statements.

| | Note | 2009<br>EUR '000 | 2008<br>EUR '000 |
|---|---|---|---|
| **Profit after tax from the Income Statement** | | **3 035** | **2 218** |
| Revaluation of securities available for sale | | 2 290 | 458 |
| Deferred tax on securities available for sale | | (436) | (87) |
| **Comprehensive income** | | **4 889** | **2 589** |

The notes on pages 9 to 67 form an integral part of these financial statements.

| | Share capital EUR '000 | Retained earnings/ (accumulated losses) EUR '000 | Capital reserves and profit funds EUR '000 | Revaluation reserves on securities available for sale (including deferred tax) EUR '000 | Total EUR '000 |
|---|---|---|---|---|---|
| **At 1 January 2008** | **25 124** | **(1 269)** | **1 920** | **(662)** | **25 113** |
| Additions to statutory reserve fund | - | (180) | 180 | - | - |
| 2008 comprehensive income | - | 2 218 | - | 371 | 2 589 |
| **At 31 December 2008** | **25 124** | **769** | **2 100** | **(291)** | **27 702** |

| | Share capital EUR '000 | Retained earnings/ (accumulated losses) EUR '000 | Capital reserves and profit funds EUR '000 | Revaluation reserves on securities available for sale (including deferred tax) EUR '000 | Total EUR '000 |
|---|---|---|---|---|---|
| **At 1 January 2009** | **25 124** | **769** | **2 100** | **(291)** | **27 702** |
| Rounding of the conversion of registered capital to euros | (3) | - | 3 | - | - |
| Additions to statutory reserve fund | - | (222) | 222 | - | - |
| 2009 comprehensive income | - | 3 035 | - | 1 854 | 4 889 |
| **At 31 December 2009** | **25 121** | **3 582** | **2 325** | **1 563** | **32 591** |

The notes on pages 9 to 67 form an integral part of these financial statements.

| | Note | 2009 EUR '000 | 2008 EUR '000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before changes in operating assets and liabilities | 32. | 3 765 | 2 669 |
| (Increase)/decrease in minimum reserve deposits with the NBS | | 5 358 | (10 770) |
| (Increase)/decrease of loans to customers | | (13 321) | 63 538 |
| (Increase)/decrease in securities at fair value through profit or loss | | 10 460 | (2 565) |
| (Increase)/decrease in securities available for sale | | (123 844) | (76 166) |
| (Increase)/decrease in securities held to maturity | | (22 245) | - |
| (Increase)/decrease in other assets | | 12 | (128) |
| Increase/(decrease) in amounts due to banks | | 97 718 | 6 412 |
| Increase/(decrease) in deposits from customers | | 41 101 | 18 183 |
| Increase/(decrease) in debt securities issued – promissory notes | | (92 464) | 68 138 |
| Income tax paid | | (1 708) | |
| Increase/(decrease) in other liabilities | | 3 210 | (1 551) |
| **Net cash flow from operating activities** | | **(91 958)** | **67 760** |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of tangible and intangible assets | | (1 123) | (778) |
| Sale of tangible and intangible assets | | 7 | 8 |
| **Net cash flow from investment activities** | | **(1 116)** | **(770)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of debt securities – bonds | | (5 053) | 6 592 |
| **Net cash flow from financing activities** | | **(5 053)** | **6 592** |
| | | | |
| **Net increase in cash and cash equivalents** | | **(98 127)** | **73 582** |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 33. | **187 546** | **113 964** |
| **Cash and cash equivalents at the end of the year** | 33. | **89 419** | **187 546** |

The notes on pages 9 to 67 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. Effective from 24 August 2009, the Bank's registered office is Einsteinova 25, 851 01 Bratislava. The Bank's previous registered office was located at Suché mýto 1, 811 03 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

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 investment services provision
XI. Performance of investment surveys and financial analyses 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:

| % | 2009 | 2008 |
|---|---|---|
| Penta Investments Ltd., Limassol | 100,00 | 100,00 |
| **Total** | **100,00** | **100,00** |

The immediate consolidating entity is Penta Investments Limited, which has its registered office at Agias Fylaxeos & Polygnostou 212, C&I CENTER, 2nd floor, P.C. 3803 Limassol, Cyprus.

Penta Holding Limited with its registered office at Agias Fylaxeos & Polygnostou, 212 C&I CENTER, 2nd floor, P.C. 3803 Limassol, Cyprus prepares the consolidated financial statements for all groups of reporting entities in the Consolidation Group.

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

**Privatbanka, a.s. group**
The consolidated financial statements for the year ended 31 December 2009 comprise the Bank and its subsidiary (hereinafter the “Group”).

As at 31 December 2009 and 31 December 2008, the Bank had the following subsidiary:

| Name | Activity | Share (%) |
|---|---|---|
| Privatfin, s.r.o. | Factoring, forfeiting, business advisory services, leasing services | 100 |

Privatfin s.r.o. which has its registered office at Suché mýto 1, 811 03 Bratislava, Corporate ID: 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 2009, it reported a loss of EUR 0.4 thousand (2008: loss of EUR 0.2 thousand).

**Geographical network**
In 2009, the Bank performed its activities in the Slovak Republic through its network of four branches in Banská Bystrica, Brezno and Bratislava (two branches) and three retail offices for non-cash operations in Nitra, Košice and Dunajska Streda. In 2009, the Bank also carried out banking activities in the Czech Republic based on the right of 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 as at 31 December 2009 are as follows:

| | | |
|---|---|---|
| 1. Mgr. Ing. Ľuboš Ševčík CSc. | - Chairman | - Appointed on 4 September 2007 |
| 2. Ing. Ľubomír Lorencovič | - Vice-Chairman | - Appointed on 6 August 2003 |
| 3. Ing. Vladimír Hrdina | - Member | - Appointed on 6 August 2003 |

**Supervisory Board**
The members of the Bank’s Supervisory Board as at 31 December 2009 are as follows:

| | | |
|---|---|---|
| Elected by the General Meeting: | | |
| 1. Mgr. Jozef Oravkin | - Chairman | - Appointed on 4 September 2007 |
| 2. Ing. Peter Benedikt | - Vice-Chairman | - Appointed on 4 September 2007 |
| 3. Mgr. Denisa Mikušová Schultzová | - Member | - Appointed on 4 September 2007 |
| 4. Ing. Jaromír Babinec | - Member | - Appointed on 4 September 2007 |
| Elected by the employees: | | |
| 5. RNDr. Miron Zelina | - Member | - Appointed on 23 August 2007 |
| 6. Ing. Richard Pohranc | - 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 Group's consolidated financial statements (hereinafter the "financial statements") for 2009 and comparative data for 2008 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).

Commission Regulation (EC) 1126/2008 of 3 November 2008 was issued to incorporate all standards presented by the International Accounting Standards Board (IASB) and all interpretations presented by the International Financial Reporting Interpretations Committee (IFRIC) which were fully endorsed in the Community as at 15 October 2008, except for IAS 39 (relating to recognition and measurement of financial instruments) in a single document. Commission Regulation (EC) 1126/2008 of 3 November 2008 replaces Commission Regulation 1725/2003 of 29 September 2003.

IFRS as adopted by the EU do not differ from IFRS as issued by the International Accounting Standards Board except for certain portfolio hedge accounting under IAS 39 that has not been approved by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not impact the financial statements had it been approved by the EU at the reporting date.

In 2009 the Group adopted all the new and revised standards and interpretations issued by the IASB and IFRIC as adopted by the EU that are relevant to its operations and effective for accounting periods commencing 1 January 2009 as follows:

- Amendments to IAS 1 Presentation of Financial Statements (revised in 2007) (effective for the reporting periods beginning on or after 1 January 2009)
- Amendment to IAS 23 Borrowing costs (effective for the reporting periods beginning on or after 1 January 2009)
- Amendment to IAS 27 – Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate and IFRS 1 First-time Adoption of IFRS (effective for the reporting periods beginning on or after 1 January 2009)
- Amendments to IAS 32 "Financial Instruments" and IAS 1 "Presentation of Financial Statements": Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation" (effective for reporting periods beginning on or after 1 January 2009)
- Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets Effective Date and Transition" (applied by the reporting entity on or after 1 July 2008)
- Amendments to IFRS 7 Financial Instruments: Disclosures – Enhanced Disclosures about Fair Value and Liquidity Risk (effective for the reporting periods beginning on or after 1 January 2009)
- Amendments to IFRS 4 Insurance Contracts (effective for the reporting periods beginning on or after 1 January 2009)
- Amendment to IFRS 2 Share-based payments: Vesting conditions and cancellations (effective for the reporting periods beginning on or after 1 January 2009)
- IFRS 8 Operating Segments (effective for the reporting periods beginning on or after 1 January 2009)
- Improvements to IFRS (effective for the reporting periods beginning on or after 1 January 2009)
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" - Embedded Derivatives adopted by the EU on 30 November 2009 (effective for annual periods beginning on or after 1 January 2009)
- IFRIC 13 Customer Loyalty Programmes (effective for the reporting periods beginning on or after 1 July 2008 )
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction" adopted by the EU on 16 December 2008 (effective for annual periods beginning on or after 1 January 2009)
- IFRIC 15 – Agreements for Construction of Real Estate (effective for the reporting periods beginning on or after 1 January 2009)

- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for the reporting periods beginning on or after 1 October 2008)

The adoption of these new and revised standards and interpretations has not resulted in changes to the Group's accounting policies that would have affected the amounts reported for the current or prior years.

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

- Revised IFRS 3 – Business Combinations (effective for the reporting periods beginning on or after 1 July 2009)
- Revisions of and Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for the reporting periods beginning on or after 1 July 2009)
- Modification and Amendment to IAS 39 (revised in 2008) "Financial Instruments: Recognition and Measurement – Eligible Hedged Items" (effective for the reporting periods beginning on or after 1 July 2009)
- IFRS 1 First-time Adoption of International Financial Reporting Standards – it supersedes IFRS 1 (issued in 2003; revised and amended in May 2008) (the reporting entity shall adopt the standard if the first IFRS financial statements are prepared for the period beginning on or after 1 July 2009)
- Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 January 2011)
- IFRIC 12 – Service Concession Arrangements (effective for the reporting periods beginning on or after 1 January 2008; may not be adopted prior to the endorsement of arrangements currently accounted for under IFRIC 4)
- IFRIC 17 – Distributions of Non-cash Assets to Owners (effective for the reporting periods beginning on or after 1 July 2009)
- IFRIC 18 – Transfers of Assets from Customers (effective to transfers of assets from customers received on or after 1 July 2009)

The Group has not elected to adopt these standards revisions and interpretations in advance of their effective dates. The Group anticipates that adopting these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

At the authorisation date of these financial statements the following standards amendments to the existing standards and interpretations have not yet been endorsed for use in the EU; however endorsement is expected by the time the standards and interpretation become effective except for IFRS 9 the endorsement of which is uncertain and was postponed:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013)
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2 IFRS 5 IFRS 8 IAS 1 IAS 7 IAS 17 IAS 18 IAS 36 IAS 38 IAS 39 IFRIC 9 IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2010)
- Revised IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011)
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010)
- Amendments to IFRS 2 "Share-based Payment" – Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010)
- Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit Asset Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011)

- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010)

The Group anticipates that adopting these standards amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

IFRS 9 should have no material impact on the historical financial statements once endorsed; however the Group has not yet evaluated the impact of this standard.

**(2.2) Statement of compliance**
The purpose of preparing these consolidated financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll. The Group prepares its unconsolidated and consolidated 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). In addition to these financial statements the Bank also prepares annual separate financial statements in compliance with IFRS as at 31 December 2009 dated 12 March 2010 which are available in the Collection of Deeds.

On 4 June 2009 the Group's General Meeting approved the Group’s consolidated financial statements prepared in accordance with IFRS as at 31 December 2008.

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**
As at 1 January 2009 the Slovak Republic entered the eurozone and the Slovak crown (SKK) was replaced by the euro (EUR). As a result the Group converted its accounting books to euros as at this date and the financial statements for 2009 and subsequent years are/will be prepared in euros. Comparative data were translated using the conversion exchange rate of EUR/SKK 30.1260.

All data are stated in euros. 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 financial assets available for sale 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 Group will continue operating as a going concern for the foreseeable future.

**Basis of consolidation**
The consolidated financial statements include the separate financial statements of the Bank and the company described in Note 1.

The consolidated financial statements have been prepared using the uniform accounting policies for identical transactions while taking into account the following principles:

**Subsidiaries**
Subsidiaries are enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to manage the financial and operating activities of an enterprise so as to obtain benefits from its activities. The subsidiary was consolidated using the full consolidation method.

The financial statements of the Bank and its subsidiaries are prepared by aggregating individual uniform items of assets, liabilities, equity, revenues and expenses.

To ensure that the consolidated financial statements present financial information about the Group as a single entity, the following steps were taken:

- The carrying amount of the Bank's investment in any subsidiary and the Bank's share in the equity of any subsidiary was eliminated; and
- Intragroup balances, transactions and resulting profits from these transactions were fully eliminated.

**(2.4) Significant accounting judgements and estimates**
The presentation of financial statements in conformity with IFRS requires the management of the Group to 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 recent financial crisis and its resulting impact on financial markets and economic environment have resulted in material adjustments to the valuation of the Groups assets. The management of the Group 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 expenditures required to settle a liability of an uncertain timing or amount resulting from an obligation. As at 31 December 2009 the Group created no provisions for liabilities.

- The Group 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 Group quantifies an 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 Group creates a provision in the amount of a difference between the face value of an asset and anticipated impairment and reclassifies the financial asset. For portfolio-recognised financial assets the Group 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 2009.

- Income tax rules and regulations have undergone significant changes in recent years and there are little historical precedent and 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 and other commercial banks at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the reporting date. Exchange rate gains/losses are included in the Income Statement in "Trading profit".

### (2) Cash and cash equivalents
The Group 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 delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the settlement date. Derivatives are recognised as at a 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 which carry fixed or determinable payments and have fixed maturities and those which the Group 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 "Additions to impairment losses and write-off of receivables".

#### (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 "Securities available-for-sale". 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 "Additions to impairment losses and write-off 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 of the 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/loss”.

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 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 Group 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 Group’s risk management strategy, the hedge relationship is officially documented and the hedging is effective, 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 Group 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) Securities available-for-sale**
Securities available for sale 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: investments held to maturity 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 securities available for sale 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 Group 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. The losses arising from impairment of such investments are recognised in the Income Statement in “Additions to impairment losses and write-off of receivables” and removed from the equity in the “Revaluation reserves on securities available for sale including deferred tax”.

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

After initial recognition deposits from banks deposits from customers 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 Group 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 Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group 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 Group’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 Group 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) 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 Group 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”.

**(6) Determination of fair value**
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.
- 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 are 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 Group 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 42.

To determine the fair values of its financial assets and liabilities the Group 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.

**(7) Impairment of financial assets**
The Group 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 has 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 Group 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 Group 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 Group whether significant or not the Group 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 Group 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 impairment financial assets are grouped on the basis of the Group’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 taking into account the anticipated value of collaterals after the stress test. As the Group 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 commodity prices 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 the current year the management considered indications of losses resulting from an impact of the financial crisis on projects related to land development and real estate construction. The management concluded that there is a possibility there could already be losses incurred in this portfolio that have not yet been identified at a specific customer level. As a result the Group identified two portfolios of loans with similar credit risk characteristics. These are loans granted to corporate clients for financing real estate development projects and loans granted to corporate clients engaged in real estate lease and operations:

- Which are at the start-up phase;
- Whose collateral is in the form of real estate; and
- Whose recovery of the loan is dependent on the final sale of the real estate.

The Group does not have a sufficiently long time series for the calculation of a historical default rate for the loan portfolios. The portfolio provision is created based on management estimates considering the current stagnation of economic conditions on 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 reported losses are in the volume of 3% of total loans included in the portfolio of loans for real estate project financing and 2.5% of total 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). 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 Group 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.

The ultimate outcome could differ from those estimates and future changes in the economic conditions and other factors impacting real estate markets 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 Group 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 Group 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 Group prefers restructuring the loans rather than perfecting 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 as an asset past due. 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.

**(8) 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 balance sheet.

**(9) 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 | 4 years linear |
| Other assets | 4 to12 years linear |

Land and assets under construction are not depreciated.

Gains and losses on 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.

**(10) Impairment of tangible and intangible assets**

At each reporting date the Group 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.

**(11) Guarantees issued**
In the ordinary course of business the Group 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 Group’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”.

**(12) Provisions for liabilities**
A provision is a liability of uncertain timing or amount. A provision is recognised when the Group 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.

**(13) 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 set off current income tax assets against current income tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current income tax assets and liabilities on a net basis.

**(14) Transactions with securities for clients**

Securities received by the Group into custody administration or deposition are recognised at face values in the off-balance sheet. The securities taken over by the Group for management are recognised at fair value in the off-balance sheet. The Group’s amounts due to customers are recognised under the liabilities in the balance sheet owing to cash received for purchase of securities cash to be returned to clients etc.

**(15) Regulatory requirements**

The Group 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 Group'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 significantly different risk and return (hereinafter “business segment”) or this difference is determined by political geographical or other factors (eg geographical segment). The Group's activities and services represent primarily the provision of banking and other financial services in the Slovak Republic. The Group acts on the market as a uniform segment.

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 a decision-maker of the reporting entity to decide on funds to be allocated to the segment and to evaluate its performance and
c) To which separate financial information is available.

The Group recognises segments by geographical areas as the segmentation by activities associated with the provision of products and services is inapplicable.

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

Classification by geographical areas as at 31 December 2009:

| 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 |
|---|---|---|---|---|---|---|
| Cyprus | - | - | 6 494 | - | - | - |
| Czech Republic | 185 | 34 808 | 2 287 | 21 532 | 4 | - |
| Finland | - | - | - | 1 114 | - | - |
| France | - | - | - | 22 031 | - | - |
| Holland | - | - | 51 | 16 882 | 502 | - |
| Croatia | - | - | - | 5 466 | - | - |
| Ireland | - | - | - | 7 894 | - | 20 444 |
| South Korea | - | - | - | 1 098 | - | - |
| Canada | - | - | - | 2 103 | - | - |
| Hungary | - | - | - | 415 | - | 2 047 |
| Germany | - | 124 | - | 13 128 | - | - |
| Poland | - | 415 | - | 28 360 | - | - |
| Austria | - | 10 042 | - | 6 584 | 768 | - |
| Slovak Republic | 8 878 | 25 592 | 103 311 | 77 159 | 8 184 | - |
| Slovenia | - | - | - | 5 130 | - | - |
| USA | 45 | 1 258 | - | 22 886 | 197 | - |
| Spain | - | - | - | 2 113 | - | - |
| Switzerland | 76 | - | - | - | - | - |
| Italy | - | - | - | 6 577 | - | - |
| Great Britain | 50 | - | - | 3 841 | - | - |
| Other countries | - | - | - | 1 294 | - | - |
| **Total gross** | 9 234 | 72 239 | 112 143 | 245 607 | 9 655 | 22 491 |
| Provisions (Note 7) | - | - | (3 720) | (70) | - | - |
| **Total net** | 9 234 | 72 239 | 108 423 | 245 537 | 9 655 | 22 491 |

The Group did not recognise the balances of tangible and intangible assets and other assets as at 31 December 2009 by geographical segments owing to the immateriality of those amounts for the segment reporting.

Classification by geographical areas as at 31 December 2008:

| 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 |
|---|---|---|---|---|---|---|
| Cyprus | - | - | 9 654 | - | - | - |
| Czech Republic | 57 | 49 838 | 1 134 | 5 722 | - | - |
| Finland | - | - | - | - | - | - |
| France | - | - | - | - | - | - |
| Holland | - | - | 57 | - | 478 | - |
| Croatia | - | - | - | - | - | - |
| Ireland | - | - | - | - | - | - |
| South Korea | - | - | - | - | - | - |
| Canada | - | - | - | - | - | - |
| Hungary | - | - | - | - | 2 012 | - |
| Germany | - | 690 | - | - | - | - |
| Poland | - | 1 075 | - | 2 044 | - | - |
| Austria | - | 38 | - | 4 810 | 677 | - |
| Slovak Republic | 129 383 | 240 | 88 450 | 95 810 | 18 738 | - |
| Slovenia | - | - | - | - | - | - |
| USA | 34 | 772 | - | 8 940 | 335 | - |
| Spain | - | - | - | - | - | - |
| Switzerland | 15 | - | - | - | - | - |
| Italy | - | - | - | - | - | - |
| Great Britain | 65 | - | - | - | - | - |
| Other countries | 149 | - | - | - | - | - |
| **Total gross** | 129 703 | 52 653 | 99 295 | 117 326 | 22 240 | - |
| Provisions (Note 7) | - | - | (2 589) | (70) | - | - |
| **Total net** | 129 703 | 52 653 | 96 706 | 117 256 | 22 240 | - |

The Group did not recognise the balances of tangible and intangible assets deferred tax asset and other assets as at 31 December 2008 by geographical segments owing to the immateriality of those amounts for the segment reporting.

## 4. CASH AND BALANCES WITH CENTRAL BANKS

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Cash on hand | 2 206 | 1 032 |
| Current accounts in NBS | - | 254 |
| Minimum reserve deposits at NBS | 7 028 | 12 389 |
| Loans provided to NBS (Repo transactions) | - | 116 028 |
| **Cash and balances with central banks** | **9 234** | **129 703** |

Receivables from central banks except for receivables from repo operations are not secured.

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 Group. The Group's ability to withdraw the reserve is restricted by statutory legislation and therefore it is not included in "Cash and balances with central banks" for the purposes of cash flow statement preparation (see Note 33).

## 5. LOANS AND ADVANCES TO BANKS

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Current accounts | 2 276 | 1 697 |
| Time deposits | 59 887 | 50 918 |
| Loans to banks | 10 019 | - |
| Other receivables due from banks | 57 | 38 |
| **Total loans and advances to banks** | **72 239** | **52 653** |

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 | 2009 | 2008 |
|---|---|---|
| Loans and advances to | | |
| entrepreneurs and corporate entities | 102 405 | 91 694 |
| individuals | 9 738 | 7 601 |
| **Total loans and advances to customers, gross** | **112 143** | **99 295** |
| Provisions for receivables from customers (Note 7) | (3 720) | (2 589) |
| **Total loans and advances to customers, net** | **108 423** | **96 706** |

As at 31 December 2009, the 15 largest customers accounted for 57.5% of the gross loan portfolio which amounted to EUR 64 446 thousand (2008: 53.7%, EUR 53 301 thousand).

Further details on credit risk are described in Note 40.

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

| EUR '000 | 2009 | 2008 |
|---|---|---|
| **Residents** | | |
| Financial institutions | 418 | 953 |
| Non-financial institutions | 92 968 | 79 836 |
| Non-profit organisations | 407 | 117 |
| Self-employed | 24 | 2 397 |
| Individuals | 9 494 | 5 148 |
| **Non-residents** | | |
| Non-financial institutions | 8 612 | 10 787 |
| Individuals | 220 | 57 |
| **Total loans and advances to customers, gross** | **112 143** | **99 295** |
| Provisions for amounts due from customers (Note 7) | (3 720) | (2 589) |
| **Total loans and advances to customers, net** | **108 423** | **96 706** |

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

| EUR '000 | 2009 | 2008 |
|---|---|---|
| **Short-term loans** | **23 013** | **26 721** |
| Of which: project financing | 11 583 | 7 392 |
| Operating | 874 | 3 971 |
| Real estate loans | 12 084 | 3 586 |
| Overdrafts | 4 513 | 6 662 |
| Other | 5 542 | 12 502 |
| **Long-term loans** | **89 130** | **72 574** |
| Of which: project financing | 18 824 | 27 095 |
| Operating | 331 | - |
| Investment | 17 962 | 18 061 |
| Consumer | 102 | 58 |
| Real estate loans | 32 150 | 33 760 |
| Other | 38 585 | 20 695 |
| **Total loans and advances to customers, gross** | **112 143** | **99 295** |
| Provisions for amounts due from customers (Note 7) | (3 720) | (2 589) |
| **Total loans and advances to customers, net** | **108 423** | **96 706** |

The share of project financing loans to the gross receivables from customers represents 27.1% (2008: 34.7%).

### (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 Group's portfolio of loans and advances as at 31 December 2009. Exposure information includes undrawn loan commitments and issued guarantees.

| EUR '000 | Exposure | Provisions | Provisions coverage | Estimated value of collateral | Provisions and collateral coverage |
|---|---|---|---|---|---|
| **Portfolio provisions** | **51 273** | **1 380** | **2,69%** | **51 122** | **102,40%** |
| Individuals | 2 731 | - | - | 2 617 | 95,83% |
| *Of which: defaults* | - | - | - | - | - |
| Entrepreneurs and corporate entities | 48 542 | 1 380 | 2,84% | 48 505 | 102,77% |
| *Of which: defaults* | - | - | - | | - |
| **Individual provisions** | **60 870** | **2 340** | **3,84%** | **54 901** | **94,04%** |
| Not impaired exposures | 53 213 | - | - | 48 878 | 91,85% |
| Impaired exposures | 7 657 | 2 340 | 30,56% | 6 023 | 109,22% |
| **Subtotal, balance-sheet credit risks** | **112 143** | **3 720** | **3,32%** | **106 023** | **97,86%** |
| Off-balance sheet Retail Asset Class | 1 669 | - | - | | |
| Off-balance sheet Corporate Asset Class | 13 427 | - | - | | |
| **Subtotal, off-balance sheet credit risks** | **15 096** | **-** | **-** | | |
| **Total** | **127 239** | **3 720** | **2,92%** | | |

In 2009, the interest income on impaired loans to customer amounted to EUR 949 thousand (2008: EUR 445 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 Group's portfolio of loans and advances as at 31 December 2008. Exposure information includes undrawn loan commitments and issued guarantees.

| EUR '000 | Exposure | Provisions | Provisions coverage | Estimated value of collateral | Provisions and collateral coverage |
|---|---|---|---|---|---|
| **Portfolio provisions** | **35 389** | **865** | **2,44%** | **35 246** | **102,04%** |
| Individuals | 902 | - | - | 807 | 89,47% |
| *Of which: defaults* | - | - | - | - | - |
| Entrepreneurs and corporate entities | 34 487 | 865 | 2,51% | 34 439 | 102,37% |
| *Of which: defaults* | - | - | - | - | - |
| **Individual provisions** | **63 906** | **1 724** | **2,70%** | **51 354** | **83,06%** |
| Not impaired exposures | 58 103 | - | - | 47 472 | 81,70% |
| Impaired exposures | 5 803 | 1 724 | 29,71% | 3 882 | 96,61% |
| **Subtotal, balance-sheet credit risks** | **99 295** | **2 589** | **2,61%** | **86 600** | **89,82%** |
| Off-balance sheet Retail Asset Class | 1 518 | - | - | | |
| Off-balance sheet Corporate Asset Class | 8 393 | - | - | | |
| **Subtotal, off-balance sheet credit risks** | **9 911** | **-** | **-** | | |
| **Total** | **109 206** | **2 589** | **2,37%** | | |

## 7. IMPAIRMENT LOSSES

| EUR '000 | 1.1.2009 | (Additions) | Release | Exchange rate gain/loss | 31.12.2009 |
|---|---|---|---|---|---|
| Loans and advances to customers (Note 6) | (2 589) | (3 659) | 2 528 | - | (3 720) |
| Securities available for sale (Note 8) | (70) | - | - | - | (70) |
| Other assets (Note 13) | (27) | (1) | 27 | | (1) |
| Total impairment losses for receivables | (2 686) | (3 660) | 2 555 | - | (3 791) |
| Tangible and intangible assets (Note 11) | (37) | - | 37 | - | - |
| **Total impairment losses** | **(2 723)** | **(3 660)** | **2 592** | **-** | **(3 791)** |

| EUR '000 | 1.1.2008 | (Additions) | Release | Exchange rate gain/loss | 31.12.2008 |
|---|---|---|---|---|---|
| Loans and advances to customers (Note 6) | (2 072) | (2 373) | 1 856 | - | (2 589) |
| Securities available for sale (Note 8) | (70) | - | - | - | (70) |
| Other assets (Note 13) | (27) | - | - | - | (27) |
| Total impairment losses for receivables | (2 169) | (2 373) | 1 856 | - | (2 686) |
| Tangible and intangible assets (Note 11) | - | (37) | - | - | (37) |
| **Total impairment losses** | **(2 169)** | **(2 410)** | **1 856** | **-** | **(2 723)** |

## 8. SECURITIES AVAILABLE FOR SALE

| EUR '000 | 2009 | 2008 |
|---|---|---|
| State treasury bills domestic | - | 15 626 |
| State treasury bills foreign | 14 974 | - |
| State bonds domestic | 64 787 | 66 964 |
| State bonds foreign | 57 388 | 2 044 |
| Bank bonds domestic | 11 991 | 12 633 |
| Bank bonds foreign | 49 150 | 11 708 |
| Corporate bonds domestic | 260 | 6 188 |
| Corporate bonds foreign | 42 287 | 2 032 |
| Shares domestic | 122 | 122 |
| Shares foreign | 17 | 9 |
| Mutual fund certificates foreign | 4 500 | - |
| Other foreign shares | 131 | - |
| **Total securities available for sale, gross** | **245 607** | **117 326** |
| Provisions (Note 7) | (70) | (70) |
| **Total securities available for sale, net** | **245 537** | **117 256** |

The method for measuring the fair value of available-for-sale securities is described in Note 42.

As at 31 December 2009 in the portfolio of securities the Group recognised available for sale state bonds domestic at the fair value of EUR 1 739 thousand (2008: EUR 1 803 thousand) provided as collateral for the deposits from customers and state bonds domestic at the fair value of EUR 1 895 thousand provided as collateral to a local bank and state bonds domestic at the fair value of EUR 37 162 thousand; and state bonds foreign at the fair value of EUR 40 687 thousand bank bonds domestic at the fair value of EUR 9 050 thousand bank bonds foreign at the fair value of EUR 10 349 thousand and corporate bonds foreign at the fair value of EUR 3 184 thousand provided to the NBS as collateral for pooling.

As at 31 December 2008, the Group's portfolio of available-for-sale securities included state bonds domestic at the fair value of EUR 1 434 thousand provided to the NBS as collateral for euro frontloading.

As at 31 December 2009, the Group's portfolio of available-for-sale securities included foreign state bonds at the fair value of EUR 13 174 thousand, foreign bank bonds at the fair value of EUR 3 201 thousand and foreign corporate bonds at the fair value of EUR 10 267 thousand which are hedged by interest rate swaps against changes in fair value.

The shares domestic include the shares in two privately-held entities for which no market exists. The Group does not expect to sell or otherwise dispose of these participations in the near future. A 100% provision in the amount of EUR 70 thousand was created for one company that is in bankruptcy and after the completion of the bankruptcy preceding the participation will be fully written off.

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

| EUR '000 | 2009 | 2008 |
|---|---|---|
| State treasury bills domestic | - | 1 953 |
| State bonds domestic | 3 150 | 10 744 |
| State bonds foreign | 4 | - |
| Bank bonds domestic | 4 417 | 4 786 |
| Bank bonds foreign | 780 | 2 905 |
| Corporate bonds domestic | 616 | 1 175 |
| Corporate bonds foreign | 688 | 677 |
| **Total securities at fair value through profit or loss** | **9 655** | **22 240** |

The method for measuring the fair value of securities at fair value through profit or loss is described in Note 42.

As at 31 December 2009, the Group's portfolio of securities at fair value through profit or loss included bank bonds domestic at the fair value of EUR 2 990 thousand provided to the NBS as collateral for pooling.

## 10. SECURITIES HELD TO MATURITY

| EUR '000 | 2009 | 2008 |
|---|---|---|
| State bonds foreign | 2 047 | - |
| Bank bonds foreign | 20 444 | - |
| **Total securities held to maturity** | **22 491** | **-** |

As at 31 December 2009, the Group's portfolio of securities held to maturity included bank bonds foreign at amortised cost of EUR 15 325 thousand provided to the NBS as collateral for pooling.

## 11. TANGIBLE AND INTANGIBLE ASSETS

### a) Changes in tangible and intangible assets as at 31 December 2009

| | Tangible assets | | | | Intangible assets | | | |
|---|---|---|---|---|---|---|---|---|
| EUR '000 | Buildings | Furniture, fittings and equipment | Motor vehicles | Prepayment and acquisition of tangible assets | Software | Patents and licences | Prepayment and acquisition of intangible assets | **Total** |
| **Cost** | | | | | | | | |
| At 1 January 2009 | 233 | 1 731 | 202 | 199 | 3 204 | 33 | 338 | **5 940** |
| Additions | 364 | 764 | 17 | 961 | 171 | - | 172 | **2 449** |
| Disposals | (76) | (179) | (48) | (1 149) | (1) | - | (177) | **(1 630)** |
| At 31 December 2009 | 521 | 2 316 | 171 | 11 | 3 374 | 33 | 333 | **6 759** |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2009 | (44) | (1 254) | (114) | - | (2 697) | (28) | - | **(4 137)** |
| Depreciation and amortisation | (9) | (260) | (30) | - | (242) | (3) | - | **(544)** |
| Disposals | 14 | 136 | 48 | - | 2 | - | - | **200** |
| At 31 December 2009 | (39) | (1 378) | (96) | - | (2 937) | (31) | - | **(4 481)** |
| **Provisions** (Note 7) | | | | | | | | |
| At 1 January 2009 | (37) | - | - | - | - | - | - | **(37)** |
| Additions | - | - | - | - | - | - | - | **-** |
| Disposals | 37 | - | - | - | - | - | - | **37** |
| At 31 December 2009 | - | - | - | - | - | - | - | **-** |
| **Net book value** | | | | | | | | |
| At 31 December 2009 | **482** | **938** | **75** | **11** | **437** | **2** | **333** | **2 278** |

**b) Changes in tangible and intangible assets as at 31 December 2008**

| | Tangible assets | | | | Intangible assets | | | |
|---|---|---|---|---|---|---|---|---|
| EUR '000 | Buildings | Furniture, fittings and equipment | Motor vehicles | Prepayment and acquisition of tangible assets | Software | Patents and licences | Prepayment and acquisition of intangible assets | **Total** |
| **Cost** | | | | | | | | |
| At 1 January 2008 | 232 | 1 679 | 206 | - | 3 022 | 29 | 130 | **5 298** |
| Additions | 1 | 143 | 35 | 377 | 191 | 4 | 448 | **1 199** |
| Disposals | - | (91) | (39) | (178) | (9) | - | (240) | **(557)** |
| At 31 December 2008 | 233 | 1 731 | 202 | 199 | 3 204 | 33 | 338 | **5 940** |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2008 | (36) | (1 131) | (118) | - | (2 516) | (24) | - | **(3 825)** |
| Depreciation and amortisation | (8) | (212) | (31) | - | (190) | (4) | - | **(445)** |
| Disposals | - | 89 | 35 | - | 9 | - | - | **133** |
| At 31 December 2008 | (44) | (1 254) | (114) | - | (2 697) | (28) | - | **(4 137)** |
| **Provisions** (Note 7) | | | | | | | | |
| At 1 January 2008 | - | - | - | - | - | - | - | **-** |
| Additions | (37) | - | - | - | - | - | - | **(37)** |
| At 31 December 2008 | (37) | - | - | - | - | - | - | **(37)** |
| **Net book value** | | | | | | | | |
| At 31 December 2008 | **152** | **477** | **88** | **199** | **507** | **5** | **338** | **1 766** |

### c) Sale of tangible assets

In 2009, the Group sold tangible assets in the net book value of EUR 104 thousand before the creation of impairment losses (2008: EUR 4 thousand).

### d) Insurance of assets

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

## 12. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are as follows:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| EUR '000 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Tangible and intangible assets | - | - | (47) | (35) | (47) | (35) |
| Securities - revaluation in equity | - | 68 | (367) | - | (367) | 68 |
| **Total** | **-** | **68** | **(414)** | **(35)** | **(414)** | **33** |

The deferred income tax assets and liabilities have been calculated using the corporate income tax rate of 19% (2008: 19%).

The Group 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 Group expects to realise tax benefits in the future.

Effective from 1 January 2008, amendments to the Income Tax Act were introduced that retrospectively limit the tax deductibility of provisions for losses on loans. Its retrospective application resulted in an additional current income tax liability of EUR 41 thousand recognised in 2009. The Group does not expect to realise benefits from tax non-deductible impairment losses in the future. Therefore as at 31 December 2009 the Group did not recognise deferred income tax asset of EUR 565 thousand arising both from tax non-deductible impairment losses (2008: EUR 322 thousand).

As at 31 December 2009 the Group does not recognise a deferred income tax asset relating to provisions for benefits for the Group's employees and management in the amount of EUR 104 thousand (2008: EUR 103 thousand).

## 13. OTHER ASSETS

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Other debtors | 164 | 382 |
| Advance payments made | 11 | 8 |
| Inventory | 34 | 33 |
| Deferred expenses | 133 | 49 |
| Accrued income | 169 | 89 |
| Receivables from collection | 11 | 1 |
| Receivables from securities market | 2 | - |
| Other receivables from customers | 1 | 1 |
| Other | 7 | 7 |
| **Total other assets, gross** | **532** | **570** |
| Provisions for other debtors (Note 7) | (1) | (27) |
| **Total other assets, net** | **531** | **543** |

## 14. DEPOSITS FROM BANKS

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Loans from the NBS | 100 191 | - |
| Time deposits of banks | 10 003 | 5 651 |
| Loans received from banks | - | 6 685 |
| **Total amounts due to other banks** | **110 194** | **12 336** |

Loans received from the NBS as at 31 December 2009 include two loans: EUR 70 000 thousand falling due on 30 September 2010 and EUR 30 000 thousand falling due on 23 December 2010. The loans are secured by securities at the fair value of EUR 103 422 thousand, which are disclosed in the Statement of Financial Position as “Securities available for sale” and "Securities at fair value through profit or loss” and securities at amortised cost of EUR 15 325 thousand, which are disclosed in the Statement of Financial Position as “Securities held to maturity".

In 2008 the Group received a loan from a foreign bank in the amount of EUR 6 639 thousand falling due on 2 February 2009 and bearing interest at the interest rate of 3M BRIBOR + 0.55%.

All payables due to banks are within maturity.

## 15. DEPOSITS FROM CUSTOMERS

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

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Current accounts | 54 135 | 9 516 |
| Time deposits | 223 044 | 226 096 |
| Saving deposits | 1 658 | 2 154 |
| Other | 499 | 84 |
| **Total deposits from customers** | **279 336** | **237 850** |

Deposits from customers as at the end of 2009 in the amount of EUR 1 660 thousand (2008: EUR 1 704 thousand) are collateralised by securities with fair value of EUR 1 739 thousand (2008: EUR 1 803 thousand) and are stated in the Statement of Financial Position under "Securities available for sale".

As at 31 December 2009, the 15 largest clients accounted for 47.6% of the total deposits from customers, which represents the amount of EUR 133 004 thousand (2008: 67.7%, EUR 161 066 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 2009 represented 40.0% totalling EUR 111 822 thousand (2008: 53.8% EUR 128 044 thousand). Additional information on exposures to related parties is described in Note 35.

All deposits from customers are within maturity.

### (b) Breakdown of deposits from customers per sectors

| EUR '000 | 2009 | 2008 |
|---|---|---|
| **Residents** | | |
| Financial institutions | 11 088 | 9 421 |
| Non-financial institutions | 55 430 | 54 187 |
| Mutual funds | 5 964 | 1 905 |
| Insurance companies | 5 559 | 18 981 |
| Government | 27 | 30 |
| Non-profit companies | 2 940 | 1 170 |
| Self-employed | 5 352 | 536 |
| Individuals | 110 704 | 59 135 |
| **Non-residents** | | |
| Non-financial institutions | 81 032 | 91 594 |
| Individuals | 1 240 | 891 |
| **Total due to clients** | **279 336** | **237 850** |

## 16. DEBT SECURITIES ISSUED

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

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Bills of exchange | 22 846 | 115 373 |
| Bonds without coupons | 5 697 | - |
| Bonds | 13 277 | 24 138 |
| **Total debt securities issued** | **41 820** | **139 511** |

A portion of the debt securities issued comprises payables to related parties. Their share on the total debt securities issues as at 31 December 2009 represented 14.6% totalling EUR 6 109 thousand (2008: 55.2%, EUR 77 051 thousand). Additional information on exposures to related parties is described in Note 35.

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 2009 | Face value 2008 |
|---|---|---|---|---|---|
| Bond 01 - FRN 20090531 | 05/2006 | 05/2009 | 3M EURIBOR + 0,25% | - | 3 319 |
| Bond 02 - FRN 20091025 | 10/2006 | 10/2009 | 3M EURIBOR + 0,25% | - | 9 958 |
| Bond 03 - FRN 20111207 | 12/2006 | 12/2011 | 3M EURIBOR + 0,25% | 3 336 | 3 336 |
| Bond 04 - FRN 20100903 | 09/2008 | 09/2010 | 3M EURIBOR + 0,90% | 9 958 | 7 462 |
| Bond 05 - 20110601 | 06/2009 | 06/2011 | - | 6 000 | - |
| **Total face value** | | | | **19 294** | **24 075** |
| Acrued interest | | | | 15 | 126 |
| Acrued premium | | | | 124 | 13 |
| Total premium (difference between face value and selling price) | | | | (459) | (76) |
| **Total liabilities from debt securites** | | | | **18 974** | **24 138** |

The issued bonds are bearer bonds and all bonds were issued as uncertified securities. Bonds were not issued under a public offering. Bonds, except for Privatbanka 04 bonds are not accepted at the listed securities market or any other stock market. On 24 June 2009, Privatbanka 04 bonds were accepted at the regulated free market of Bratislava Stock Exchange (Burza cenných papierov v Bratislave a.s.).

On 1 June 2009, the Group repaid the face value of 1 000 Privatbanka 01 bonds amounting to EUR 3 319 thousand. On 26 October 2009, the Group repaid the face value of 3 000 Privatbanka 02 bonds amounting to EUR 9 958 thousand.

On 1 June 2009, the Group issued Privatbanka 05 bonds with the face value of EUR 1 000 with the total issue amounting to EUR 6 000 thousand. The bonds are couponless.

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 sectors of creditors

| EUR '000 | 2009 | 2008 |
|---|---|---|
| **Residents** | | |
| Non-financial institutions | 11 432 | 99 872 |
| Government | 103 | 269 |
| Non-profit companies | 2 164 | 3 892 |
| Self-employed | 25 | 305 |
| Individuals | 22 827 | 29 761 |
| **Non-residents** | | |
| Non-financial institutions | 5 138 | 4 938 |
| Individuals | 131 | 474 |
| **Total liabilities from debt securities** | **41 820** | **139 511** |

## 17. CURRENT TAX LIABILITY

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Current tax | 1 030 | 849 |
| Tax prepayments | (859) | - |
| **Total current tax liability** | **171** | **849** |

## 18. OTHER LIABILITIES

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Negative fair value of derivatives for trading (Note 24) | - | 71 |
| Negative fair value of derivatives for hedging (Note 24) | 395 | - |
| Payables to creditors | 256 | 332 |
| Settlement with employees | 194 | 149 |
| Payables to employees | 16 | 16 |
| Payables to State budget | 238 | 179 |
| Payables to social and health insurance companies | 97 | 78 |
| Deferred income | 15 | 7 |
| Accrued expenses | 831 | 785 |
| Payables to securities market | 3 115 | 981 |
| Payables from collection | 11 | 1 |
| Other amounts due to customers | 694 | 53 |
| **Total other liabilities** | **5 862** | **2 652** |

“Payables to securities market” includes the Group’s payables to customers mainly as a result of funds received for investing in securities. The financial funds are not protected by the Deposits Protection Fund. They fall under the protection by the Investments Guarantee Fund.

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

### Share capital

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Issued and fully paid share capital: | | |
| 756,874 ordinary shares (ISIN SK1110001619 with nominal values of EUR 33.19 each) | **25 121** | **25 124** |

The total amount of the share capital in the amount of EUR 25 121 thousand is registered with the Commercial Register. The rounding difference from the conversion of the share capital to euros in the Commercial Register is in the amount of EUR 3 thousand.

The structure of the Bank's shareholders as at 31 December 2009:

| 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 |
| **Total** | | **25 121** | **100,00** | **100,00** |

The structure of the Bank's shareholders as at 31 December 2008:

| Sharholder | Registered office | No. of shares (face value) | Share in registered capital (%) | Share in voting rights (%) |
|---|---|---|---|---|
| Penta Investments Ltd. | Limassol | 25 124 | 100,00 | 100,00 |
| **Total** | | **25 124** | **100,00** | **100,00** |

### 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 Group 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 securities available for sale including deferred tax

Revaluation reserves on securities available for sale represent unrealised revaluation of securities available for sale. Revaluation reserves are disclosed net of deferred tax effect. Such revaluation reserves are not available for distribution to the shareholder.

## 20. PROPOSAL FOR DISTRIBUTION OF 2009 PROFIT

| EUR '000 | 2009 |
|---|---|
| Payment of dividends | 1 366 |
| Allotment to legal reserve fund | 303 |
| Allotment to retained earnings | 1 366 |
| **Net profit for current accounting period** | **3 035** |

## 21. TAX REVENUE/(EXPENSE)

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Current income tax | | |
| Adjusted income tax | (1 030) | (975) |
| Use of tax losses from previous years carried forward | - | 126 |
| Deferred tax | | |
| Due to temporary non-taxable revenues and expense | (12) | (76) |
| **Total** | **(1 042)** | **(925)** |

## 22. RECONCILIATION OF THEORETICAL AND RECORDED TAX

| | 2009 | | |
|---|---|---|---|
| | Balance (EUR '000) | Applicable rate | Impact on tax |
| Theoretical tax base | 4 077 | 19% | 775 |
| Permanent non-deductible differences | 137 | 19% | 26 |
| Permanent deductible differences | (28) | 19% | (5) |
| Effect of use of tax losses carried forward- previously unrecognised deferred tax asset | - | 19% | - |
| Unrecognised deferred income tax asset - other | 6 | 19% | 1 |
| Unrecognised deferred income tax asset owing to temporary differences for which realisation of future tax benefits is uncertain | 1 287 | 19% | 245 |
| Adjusted tax | | | 1 042 |
| Effective tax | | | 1 042 |

| | 2008 | | |
|---|---|---|---|
| | Balance (EUR '000) | Applicable rate | Impact on tax |
| Theoretical tax base | 3 143 | 19% | 597 |
| Permanent non-deductible differences | 183 | 19% | 35 |
| Permanent deductible differences | (28) | 19% | (5) |
| Effect of use of tax losses carried forward- previously unrecognised deferred tax asset | (664) | 19% | (126) |
| Unrecognised deferred income tax asset - other | 325 | 19% | 62 |
| Unrecognised deferred income tax asset owing to temporary differences for which realisation of future tax benefits is uncertain | 1 907 | 19% | 362 |
| Adjusted tax | | | 925 |
| Effective tax | | | 925 |

## 23. OFF-BALANCE SHEET ITEMS

| EUR '000 | Off balance sheet assets | 2009 | 2008 |
|---|---|---|---|
| 1. Receivables from spot operations with interest instruments | | 2 121 | - |
| 2. Receivables from forwards, futures and swaps: | | 2 276 | 5 527 |
| a) With interest rate instruments | | 2 115 | - |
| b) With FX instruments | | 161 | 5 527 |
| 3. Received collaterals | | 106 023 | 204 323 |
| a) Immovables | | 75 398 | 62 475 |
| b) Cash | | 497 | 50 |
| c) Securites | | 27 109 | 139 361 |
| d) Other | | 3 018 | 2 437 |

| EUR '000 | Off balance sheet assets | 2009 | 2008 |
|---|---|---|---|
| 1. Future loans commitments | | 14 299 | 8 705 |
| 2. Provided guarantees | | 797 | 1 206 |
| 3. Payables from forwards, futures and swaps: | | 2 671 | 5 598 |
| a) With interest rate instruments | | 2 510 | - |
| b) With FX instruments | | 161 | 5 598 |
| 4. Securities provided as collaterals | | 122 381 | 3 237 |
| 5. Consigned values | | 293 859 | 246 311 |

## 24. FINANCIAL DERIVATIVES

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

In 2009, the Group 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 securities available for sale. The Group uses 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 Group 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 Group's Assets and Liabilities Management Committee documented at inception of the hedging relationship with the hedging effectiveness proof of the cash flow hedging transactions calculated every three months. Both the prospective and retrospective hedging relationship between cash flows of the hedging and hedged (underlying instrument) are tested regularly.

During 2009, the Group fulfilled all efficiency conditions of hedging derivatives as according to IAS 39.

| 2009<br>EUR '000 | Face value in off-balance sheet<br>Receivable | <br>Payable | Fair value<br>Positive | <br>Negative | Net<br>fair value |
|---|---|---|---|---|---|
| Interest rate swaps | 24 300 | 24 300 | - | (395) | (395) |
| Currency swaps | 160 | 161 | - | - | - |
| **Total financial derivatives** | **24 460** | **24 461** | **-** | **(395)** | **(395)** |

The currency swaps existing as at 31 December 2009 are classified as held for trading. The interest rate swaps serve to hedge changes in fair values of bonds presented in the Statement of Financial Position as "Securities available for sale".

| 2008<br>EUR '000 | Face value in off-balance sheet<br>Receivable | <br>Payable | Fair value<br>Positive | <br>Negative | Net<br>fair value |
|---|---|---|---|---|---|
| Currency swaps | 5 528 | 5 600 | - | (71) | (71) |
| **Total financial derivatives** | **5 528** | **5 600** | **-** | **(71)** | **(71)** |

The currency swaps existing as at 31 December 2008 were classified as held for trading.

Negative fair value of derivatives in 2009 in the amount of EUR 395 thousand (2008: EUR 71 thousand) is presented under "Other liabilities" (Note 18).

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2009 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 | - | - | - | 24 300 | - | **24 300** |
| Currency swaps | 160 | - | - | - | - | **160** |
| **Total receivables** | **160** | **-** | **-** | **24 300** | **-** | **24 460** |
| Interest rate swaps | - | - | - | 24 300 | - | **24 300** |
| Currency swaps | 161 | - | - | - | - | **161** |
| **Total payables** | **161** | **-** | **-** | **24 300** | **-** | **24 461** |

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2008 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 |
|---|---|---|---|---|---|---|
| Currency swaps | 5 528 | - | - | - | - | **5 528** |
| **Total receivables** | **5 528** | **-** | **-** | **-** | **-** | **5 528** |
| Currency swaps | 5 600 | - | - | - | - | **5 600** |
| **Total payables** | **5 600** | **-** | **-** | **-** | **-** | **5 600** |

The following table summarises the impact the hedging of changes in fair values of bonds by interest rate swaps has on the Income Statement:

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Hedging instrument (interest rate swaps) - interest expense - fair value | (395) | - |
| Hedging instrument (interest rate swaps) - interest expense - payments | (109) | - |
| Hedging instrument (interest rate swaps) - interest income - payments | 137 | - |
| Hedged item (bonds) - interest income - accrued interest | 901 | - |
| Hedged item (bonds) - interest income - change in fair value owing to interest rate risk | 157 | - |
| **Total** | **691** | **-** |

## 25. INTEREST INCOME AND SIMILAR INCOME

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Interest income from amounts due from banks and central bank | 1 072 | 4 896 |
| Interest income from clients' current accounts | 287 | 472 |
| Interest income from clients' loans | 6 717 | 8 126 |
| Interest income from securities available for sale | 5 816 | 2 220 |
| Interest income from securities at fair value through profit or loss | 475 | 750 |
| Interest income from securities held to maturity | 119 | - |
| Interest rate swaps | 137 | - |
| Other | 2 | - |
| **Total interest income and similar income** | **14 625** | **16 464** |

## 26. INTEREST EXPENSE AND SIMILAR EXPENSE

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Interest expense from amounts due to banks | 268 | 392 |
| Interest expense from clients' current accounts | 22 | 38 |
| Interest expense from clients' time deposits | 4 061 | 6 239 |
| Interest expense from clients' savings deposits | 23 | 37 |
| Interest expense from debt securities | 1 497 | 3 156 |
| Interest rate swaps | 504 | - |
| Other | 28 | - |
| **Total interest expense and similar expense** | **6 403** | **9 862** |

## 27. FEE AND COMMISSION INCOME

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Income from fees and commissions: | | |
| Loans | 118 | 364 |
| Payments | 80 | 128 |
| Itemised fees | 115 | 122 |
| Securities trading | 1 286 | 695 |
| Portfolio management | 673 | 501 |
| Other | 19 | 67 |
| **Total fee and commission income** | **2 291** | **1 877** |

## 28. FEE AND COMMISSION EXPENSE

| EUR '000 | 2009 | 2008 |
|---|---|---|
| For the following areas: | | |
| Payments | 251 | 192 |
| Interbank transactions | 22 | 36 |
| Securities trading | 109 | 98 |
| Intermediation | 329 | 277 |
| Other | - | 44 |
| **Total fee and commission expense** | **711** | **647** |

## 29. TRADING PROFIT

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Realised profit/loss from debt securities transactions (available for sale) | 1 862 | (16) |
| Profit/loss from debt securities transactions (at fair value through profit or loss) | (65) | 123 |
| Profit/loss from shares and units (available for sale) | 15 | 82 |
| Profit/loss from derivative transactions | 71 | (90) |
| Profit/loss from forex transactions | 328 | 1 204 |
| Profit/loss from other transactions | - | 2 |
| **Total trading profit** | **2 211** | **1 305** |

## 30. GENERAL OPERATING EXPENSES

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Personnel costs | 3 937 | 3 459 |
| Other general operating expenses | 2 277 | 1 858 |
| Of which: Expenses for audit of financial statements | 93 | 68 |
| Other services of audit company | 1 | - |
| Contribution to Deposits Protection Fund | 143 | 64 |
| Rent | 376 | 379 |
| Energy | 114 | 97 |
| Advertising costs | 228 | 108 |
| IT systems | 401 | 423 |
| Training and education | 30 | 50 |
| Car maintenance and fuel | 29 | 32 |
| Membership fees | 139 | 135 |
| Other services | 329 | 119 |
| Other operating expenses | 354 | 314 |
| **Total general operating expenses** | **6 214** | **5 317** |

The average number of employees in 2009 was 120 (2008: 107). The average number of members of management in 2009 was 26 (2008: 29).

The Group 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.

## 31. ADDITIONS TO IMPAIRMENT LOSSES AND WRITE-OFF OF RECEIVABLES

| EUR '000 | 2009 | 2008 |
|---|---|---|
| (Additions to) provisions (Note 7) | (3 660) | (2 373) |
| Release of provisions (Note 7) | 2 555 | 1 856 |
| Income from assigned receivables | - | 36 |
| Income from writte-off receivables | - | 1 |
| Net book value of written-off receivables | (31) | (1) |
| **Total** | **(1 136)** | **(481)** |

## 32. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Profit/loss before tax | 4 077 | 3 143 |
| Adjustments for non-cash items: | | |
| Interest income | (14 625) | (16 464) |
| Interest expense | 6 403 | 9 862 |
| Depreciation | 544 | 445 |
| Provisions for receivables and write-off of receivables | 1 136 | 481 |
| Net book value of tangible assets disposed | 104 | 4 |
| Income from sale of tangible assets | (7) | (8) |
| Provisions for tangible assets | (37) | 37 |
| Provisions | - | (280) |
| **Total before interest received / (paid)** | **(2 405)** | **(2 780)** |
| Interest received | 12 223 | 14 906 |
| Interest paid | (6 053) | (9 457) |
| **Profit before changes in operating assets and liabilities** | **3 765** | **2 669** |

## 33. CASH AND CASH EQUIVALENTS

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Cash at hand (Note 4) | 2 206 | 1 032 |
| Current accounts with NBS (Note 4) | - | 254 |
| NBS granted loans (repo transactions) (Note 4) | - | 116 028 |
| Loans and advances to banks (Note 5) | 72 239 | 52 653 |
| State treasury bills domestic (Note 8) | - | 15 626 |
| State treasury bills foreign (Note 8) | 14 974 | - |
| State treasury bills domestic (Note 9) | - | 1 953 |
| **Cash and cash equivalents** | **89 419** | **187 546** |

## 34. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Legal disputes

The Group conducted a review of legal proceedings pending against the Group as at 31 December 2009. Pursuant to the review of risk of losses from major lawsuits and litigated amounts the Group has recorded no provision for these legal claims as at 31 December 2009.

### b) Commitments arising from issue of guarantees

Commitments from guarantees include issued guarantees that represent an irrevocable commitment that the Group will make payments in the event a customer cannot meet its obligations to third parties. Based on the risk assessment as at 31 December 2009, the Group 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 Group represent issued loan commitments or guarantees undrawn and approved overdraft loans. Commitments to extend credit or guarantees issued by the Group 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.

The irrevocable loan commitments as of 31 December 2009 amounted to EUR 14 299 thousand, (2008: EUR 8 705 thousand).

## 35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has control over the other party or exercises significant influence over the other party in making financial or operational decisions. The Group is controlled by Penta Investments Limited, which holds 100% of the voting rights of the Bank's total votes. Related parties mainly include the Penta Group member entities. The Group receives significant funds from Penta Group entities. Management expects the Group will receive continued funding from the Penta Group companies as part of the normal continuing operation of the Group.

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.

| EUR '000 | 31.12.2009 balance | 31.12.2009 accruals | Total | Interest income/ Interest expense 2009 | Fee and commision income 2009 | Trading profit/loss 2009 | General operating expenses 2009 | Income from sale of tangible assets 2009 |
|---|---|---|---|---|---|---|---|---|
| **Receivables from parent company** | | | | | | | | |
| Other assets | 2 | - | 2 | - | 187 | (64) | - | - |
| **Payables to parent company** | | | | | | | | |
| Payables to clients | 37 899 | - | 37 899 | (197) | 17 | - | - | - |
| Debt securities issued | 172 | - | 172 | (12) | - | - | - | - |
| Receivables from forwards, futures and swaps | 161 | - | 161 | - | - | - | - | - |
| Payables from forwards, futures and swaps | 161 | - | 161 | - | - | - | - | - |
| **Receivables from parent company's related parties** | | | | | | | | |
| Receivables from customers | 4 927 | - | 4 927 | 281 | - | - | - | - |
| Other assets | 47 | - | 47 | - | 775 | 44 | - | - |
| **Payables to parent company's related parties** | | | | | | | | |
| Payables to clients | 73 318 | 77 | 73 395 | (731) | 35 | - | - | - |
| Debt securities issued | 4 963 | 4 | 4 967 | (558) | - | - | - | - |
| Other payables | 46 | - | 46 | - | - | - | (90) | - |
| Loan commitments | 280 | - | 280 | - | - | - | - | - |
| Received collateral | 4 687 | - | 4 687 | - | - | - | - | - |

| EUR '000 | 31.12.2009 balance | 31.12.2009 accruals | Total | Interest income/ Interest expense 2009 | Fee and commision income 2009 | Trading profit/loss 2009 | General operating expenses 2009 | Income from sale of tangible assets 2009 |
|---|---|---|---|---|---|---|---|---|
| **Receivables from management members and their related parties** | | | | | | | | |
| Receivables from customers | 294 | - | 294 | 12 | - | - | - | - |
| Other assets | 5 | - | 5 | - | 4 | - | - | 4 |
| **Payables due to management members and their related parties** | | | | | | | | |
| Payables to clients | 517 | 1 | 518 | (10) | 4 | - | - | - |
| Debt securities issued | 969 | 1 | 970 | (21) | - | - | - | - |
| Other liabilities | 273 | - | 273 | - | - | - | (623) | - |
| Loan commitments | 103 | - | 103 | - | - | - | - | - |
| Guarantees issued | 24 | - | 24 | - | - | - | - | - |
| Received collateral | 294 | - | 294 | - | - | - | - | - |

| EUR '000 | 31.12.2008 balance | 31.12.2008 accruals | Total | Interest income/ Interest expense 2008 | Fee and commision income 2008 | Trading profit/loss 2008 | General operating expenses 2008 |
|---|---|---|---|---|---|---|---|
| **Receivables from parent company** | | | | | | | |
| Other assets | 82 | - | 82 | - | 163 | 1 736 | - |
| **Payables to parent company** | | | | | | | |
| Payables to clients | 57 278 | 2 | 57 280 | (670) | 3 | - | - |
| Debt securities issued | 76 | 1 | 77 | (54) | - | - | - |
| **Receivables from parent company's related parties** | | | | | | | |
| Receivables from customers | 4 313 | - | 4 313 | 1 588 | - | - | - |
| Other assets | 109 | - | 109 | - | 275 | 144 | - |
| **Payables to parent company's related parties** | | | | | | | |
| Payables to clients | 70 332 | 25 | 70 357 | (1 585) | 23 | - | - |
| Debt securities issued | 76 203 | 29 | 76 232 | (398) | - | - | - |
| Other payables | - | - | - | - | - | - | (13) |
| Loan commitments | 266 | - | 266 | - | - | - | - |
| Received collateral | 3 941 | - | 3 941 | - | - | - | - |

| EUR '000 | 31.12.2008 balance | 31.12.2008 accruals | Total | Interest income/ Interest expense 2008 | Fee and commision income 2008 | Trading profit/loss 2008 | General operating expenses 2008 |
|---|---|---|---|---|---|---|---|
| **Receivables from management members and their related parties** | | | | | | | |
| Receivables from customers | 378 | - | 378 | 27 | - | - | - |
| Other assets | 3 | - | 3 | - | 3 | 4 | - |
| **Payables due to management members and their related parties** | | | | | | | |
| Payables to clients | 397 | - | 397 | (13) | 3 | - | - |
| Debt securities issued | 740 | 2 | 742 | (37) | - | - | - |
| Other liabilities | 281 | - | 281 | - | - | - | (582) |
| Loan commitments | 113 | - | 113 | - | - | - | - |
| Guarantees issued | 24 | - | 24 | 1 | - | - | - |
| Received collateral | 378 | - | 378 | - | - | - | - |

The remuneration and salaries of statutory representatives and members of the Supervisory Board (gross values) were in the amount of EUR 592 thousand as of 31 December 2009 (2008: EUR 435 thousand). Members of the Bank’s bodies in 2009 and 2008 did not receive any non-cash remuneration.

## 36. FINANCIAL INSTRUMENTS – MARKET RISK

In carrying out its activities the Group is exposed to market risks that depend on the extent of exposure to individual risk factors mainly changes in interest rates exchange rates and prices of capital and financial market instruments.

### (a) Interest rate risk

Interest rate risk is the risk of a change in the value of the Group's portfolios as a result of changes in market interest rates. To measure the interest rate sensitivity of assets and liabilities the Group 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 extent of the risk of potential loss resulting from changes in market interest rates represented by the value of the theoretical change of the net interest income under exactly specified restrictive conditions of the model. The Group 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 Group's positions.

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

As the Group's Banking Book includes substantial positions in fixed rate bonds the Group decided to partly hedge these positions. As hedging instruments the Group uses interest rate swaps helping the Group to keep the total interest rate position of the Banking Book at an acceptable level while the volatility of profit/loss.

The average effective interest rates of assets and liabilities as at 31 December 2009 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 | 0,76% | 7 028 | - | - | - | - | 2 206 | **9 234** |
| Loans to banks | 0,49% | 62 220 | 10 019 | - | - | - | - | **72 239** |
| Loans to customers | 6,23% | 25 771 | 57 427 | 4 167 | 19 941 | - | 1 117 | **108 423** |
| Securities available for sale | 2,64% | 16 995 | 40 899 | 37 816 | 132 163 | 12 964 | 4 700 | **245 537** |
| Securities at fair value through profit or loss | 1,50% | 6 | 5 418 | 2 917 | 1 124 | 190 | - | **9 655** |
| Securities held to maturity | 2,09% | - | - | 22 491 | - | - | - | **22 491** |
| **Total assets** | | **112 020** | **113 763** | **67 391** | **153 228** | **13 154** | **8 023** | **467 579** |
| Deposits from banks | 0,95% | 10 003 | - | 100 191 | - | - | - | **110 194** |
| Deposits from customers | 1,49% | 169 954 | 16 847 | 73 850 | 18 321 | - | 364 | **279 336** |
| Debt securities issued | 1,50% | 18 143 | 15 250 | 2 376 | 6 051 | - | - | **41 820** |
| **Total liabilities** | | **198 100** | **32 097** | **176 417** | **24 372** | **-** | **364** | **431 350** |
| **Difference** | | **(86 080)** | **81 666** | **(109 026)** | **128 856** | **13 154** | **7 659** | **36 229** |
| **Cumulative difference** | | **(86 080)** | **(4 414)** | **(113 440)** | **15 416** | **28 570** | **36 229** | |

The average effective interest rates of assets and liabilities as at 31 December 2008 and the periods in which these rates are re-measured 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 | 2,40% | 128 671 | - | - | - | - | 1 032 | **129 703** |
| Loans to banks | 1,44% | 52 653 | - | - | - | - | - | **52 653** |
| Loans to customers | 7,23% | 28 329 | 60 657 | 4 208 | - | - | 3 512 | **96 706** |
| Securities available for sale | 4,35% | - | 8 607 | 34 193 | 57 556 | 16 839 | 61 | **117 256** |
| Securities at fair value through profit or loss | 4,35% | 2 416 | 6 325 | 4 238 | 8 016 | 1 245 | - | **22 240** |
| **Total assets** | | **212 069** | **75 589** | **42 639** | **65 572** | **18 084** | **4 605** | **418 558** |
| Deposits from banks | 3,73% | 5 651 | 6 685 | - | - | - | - | **12 336** |
| Deposits from customers | 2,33% | 180 330 | 12 824 | 40 639 | 3 990 | - | 67 | **237 850** |
| Debt securities issued | 2,34% | 116 637 | 17 714 | 5 160 | - | - | - | **139 511** |
| **Total liabilities** | | **302 618** | **37 223** | **45 799** | **3 990** | **-** | **67** | **389 697** |
| **Difference** | | **(90 549)** | **38 366** | **(3 160)** | **61 582** | **18 084** | **4 538** | **28 861** |
| **Cumulative difference** | | **(90 549)** | **(52 183)** | **(55 343)** | **6 239** | **24 323** | **28 861** | |

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 Group due to possible changes in interest rates of the major currencies.

| EUR '000 | Impact on net profit | Impact on equity |
|---|---|---|
| **2009** | | |
| + 0.5% for all currencies | (22) | (1 383) |
| - 0.5% for all currencies | 22 | 1 409 |
| **2008** | | |
| + 0.5% for all currencies | (110) | (1 238) |
| - 0.5% for all currencies | 112 | 1 271 |

### (b) Currency risk

Currency risk is the risk of a change in the value of the Group's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Group manages currency risk by determining and daily monitoring of maximum limits of open positions of the banking book for individual currencies. Currency risk of 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 2009 and 2008.

Effective 1 January 2009, the Slovak crown was replaced by the euro as the national currency of Slovakia at the fixed conversion rate of EUR 1 = SKK 30.1260.

As at 31 December 2009, the Group reported the following structure of financial assets and liabilities in individual currencies:

| EUR '000 | USD | CZK | Other FX | EUR | Total |
|---|---|---|---|---|---|
| Cash and balances with central banks | 45 | 184 | 127 | 8 878 | **9 234** |
| Loans to banks | 25 554 | 1 453 | 854 | 44 378 | **72 239** |
| Loans to customers | - | 2 287 | - | 106 136 | **108 423** |
| Securities available for sale | - | 2 064 | - | 243 473 | **245 537** |
| Securities at fair value through profit or loss | - | 688 | - | 8 967 | **9 655** |
| Securities held to maturity | - | - | - | 22 491 | **22 491** |
| **Total assets** | **25 599** | **6 676** | **981** | **434 323** | **467 579** |
| Deposits from banks | - | - | - | 110 194 | **110 194** |
| Deposits from customers | 25 342 | 6 294 | 222 | 247 478 | **279 336** |
| Debt securities issued | 104 | 335 | 312 | 41 069 | **41 820** |
| **Total liabilities** | **25 446** | **6 629** | **534** | **398 741** | **431 350** |
| **Net FX position** | **153** | **47** | **447** | **35 582** | **36 229** |

As at 31 December 2008, the Group reported the following structure of financial assets and liabilities in individual currencies:

| EUR '000 | EUR | USD | CZK | Other FX | SKK | Total |
|---|---|---|---|---|---|---|
| Cash and balances with central banks | 149 | 34 | 57 | 80 | 129 383 | **129 703** |
| Loans to banks | 791 | 773 | 49 838 | 1 211 | 40 | **52 653** |
| Loans to customers | 2 349 | - | 3 021 | - | 91 336 | **96 706** |
| Securities available for sale | 4 956 | - | 2 032 | - | 110 268 | **117 256** |
| Securities at fair value through profit or loss | 4 628 | 72 | 677 | - | 16 863 | **22 240** |
| **Total assets** | **12 873** | **879** | **55 625** | **1 291** | **347 890** | **418 558** |
| Deposits from banks | - | - | - | - | 12 336 | **12 336** |
| Deposits from customers | 5 022 | 503 | 56 515 | 51 | 175 759 | **237 850** |
| Debt securities issued | 2 776 | 319 | 4 792 | 1 040 | 130 584 | **139 511** |
| **Total liabilities** | **7 798** | **822** | **61 307** | **1 091** | **318 679** | **389 697** |
| **Net FX position** | **5 075** | **57** | **(5 682)** | **200** | **29 211** | **28 861** |

The table below indicates the summary of currencies in which the Group has significant open positions as at 31 December 2009 and 31 December 2008. The sensitivity analysis calculates the effect of possible changes of the exchange rate against the selected currencies on the Income Statement. A positive amount reflects 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 |
|---|---|---|
| **2009** | | |
| CHF | + 14,80% | 46 |
| GBP | + 29,63% | 21 |
| USD | + 29,50% | 25 |
| CZK | + 24,31% | 84 |
| **2008** | | |
| CHF | + 19,08% | 14 |
| GBP | + 23,30% | 23 |
| USD | + 27,91% | 15 |
| CZK | + 23,52% | 8 |

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

## 37. MANAGEMENT OF CAPITAL

The Group's regulatory capital is used to cover risks to which the Group is 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 Group has complied with the statutory amount of requirements for the regulatory capital as well as with all other capital requirements set by the NBS.

In accordance with the prudence principles regulatory capital is used to cover risks arising from the Banking Book, the Trading Book as well as 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 Group has fulfilled all requirements as established by the regulatory body while simultaneously observing the effective adequacy of regulatory capital. The Group 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 Group's appetite for risk. The Group may primarily manage 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 in the previous year.

The Group also applies economic capital management procedures and assesses and calculates requirements for economic capital. Economic capital must cover not only legal requirements for individual types of regulatory risks but also requirements for risks not covered by Pillar 1 which are set by the Group based on the assessment of its risk profile and appetite for risk. The Group has complied with all requirements for economic capital.

The Group's regulatory capital comprises basic regulatory capital as well as deductible items. The basic regulatory capital comprises registered capital reserve fund retained earnings from previous years, software value (as an item reducing basic regulatory capital) and negative financial investments revaluation reserves from the available for sale portfolio (as an item reducing basic regulatory capital). Deductible items are represented by an investment in the subsidiary Privatfin, s.r.o.

The structure of the Group's regulatory capital as at the year-end of 2009 and 2008 is as follows:

| EUR '000 | 2009 | 2008 |
|---|---|---|
| **The Group's basic regulatory capital** | **27 184** | **24 883** |
| **Creating items of basic regulatory capital** | **27 993** | **27 565** |
| Paid up registered capital | 25 121 | 25 124 |
| Reserve fund and other profit funds | 2 325 | 2 100 |
| Retained earnings | 547 | 341 |
| **(-) Creating items of basic regulatory capital** | **809** | **2 682** |
| (-) Accumulated losses | - | 1 790 |
| (-) Intangible assets | 770 | 845 |
| (-) Negative revaluation reserves on securities available for sale | 39 | 47 |
| **Additional regulatory capital** | **-** | **-** |
| **(-) Items deductible from the Group's basic and additional regulatory capital** | **7** | **7** |
| (-) From the Group's basic regulatory capital | 7 | 7 |
| (-) From additional regulatory capital | - | - |
| **Supplementary regulatory capital** | **-** | **-** |
| **Total regulatory capital** | **27 177** | **24 876** |

The indicators of the Group's capital adequacy as at 31 December 2009 and 31 December 2008 are provided in the table below:

| EUR '000 | 2009 | 2008 |
|---|---|---|
| **Adequacy of regulatory capital (%)** | **12,87%** | **16,77%** |
| **Regulatory capital** | **27 177** | **24 876** |
| **Risk-weighted assets (RWA)** | **211 125** | **148 372** |
| RWA from receivables recorded in the Banking Book | 184 762 | 118 455 |
| RWA from positions recorded in the Trading Book | 9 250 | 15 902 |
| RWA from operating risk – standardised approach | 16 238 | 13 413 |
| Other RWA (foreign exchange risk) | 875 | 602 |

## 38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows the structure of the Group's assets and liabilities according to whether they are expected to be recovered or settled within one year or later than one year after 31 December 2009:

| EUR '000 | Up to 1 year | Over 1 year | Not specified | **Total** |
|---|---|---|---|---|
| Cash and balances with central banks | 9 234 | - | - | **9 234** |
| Loans and advances to banks | 72 239 | - | - | **72 239** |
| Loans and advances to customers | 54 584 | 52 648 | 1 191 | **108 423** |
| Securities available for sale | 70 158 | 170 679 | 4 700 | **245 537** |
| Securities at fair value through profit or loss | 4 802 | 4 853 | - | **9 655** |
| Securities held to maturity | 22 491 | - | - | **22 491** |
| Tangible and intangible assets | - | - | 2 278 | **2 278** |
| Other assets | - | - | 531 | **531** |
| **Total assets** | **233 508** | **228 180** | **8 700** | **470 388** |
| Deposits from banks | 110 194 | - | - | **110 194** |
| Deposits from customers | 260 600 | 18 372 | 364 | **279 336** |
| Debt securities issued | 32 435 | 9 385 | - | **41 820** |
| Current income tax liability | 171 | - | - | **171** |
| Deferred tax liability | - | - | 414 | **414** |
| Other liabilities | 4 329 | - | 1 533 | **5 862** |
| **Total liabilities** | **407 729** | **27 757** | **2 311** | **437 797** |
| **Difference** | **(174 221)** | **200 423** | **6 389** | **32 591** |
| **Cummulative difference** | **(174 221)** | **26 202** | **32 591** | |

The table below shows the structure of the Group's assets and liabilities according to whether they are expected to be recovered or settled within one year or later than one year after 31 December 2008:

| EUR '000 | Up to 1 year | Over 1 year | Not specified | **Total** |
|---|---|---|---|---|
| Cash and balances with central banks | 129 703 | - | - | **129 703** |
| Loans and advances to banks | 52 653 | - | - | **52 653** |
| Loans and advances to customers | 67 425 | 27 724 | 1 557 | **96 706** |
| Securities available for sale | 25 927 | 91 268 | 61 | **117 256** |
| Securities at fair value through profit or loss | 7 378 | 14 862 | - | **22 240** |
| Tangible and intangible assets | - | - | 1 766 | **1 766** |
| Deferred income tax asset | - | - | 33 | **33** |
| Other assets | 503 | - | 40 | **543** |
| **Total assets** | **283 589** | **133 854** | **3 457** | **420 900** |
| Deposits from banks | 12 336 | - | - | **12 336** |
| Deposits from customers | 233 722 | 4 069 | 59 | **237 850** |
| Debt securities issued | 128 776 | 10 735 | - | **139 511** |
| Current income tax liability | 849 | - | - | **849** |
| Other liabilities | 2 652 | - | - | **2 652** |
| **Total liabilities** | **378 335** | **14 804** | **59** | **393 198** |
| **Difference** | **(94 746)** | **119 050** | **3 398** | **27 702** |
| **Cummulative difference** | **(94 746)** | **24 304** | **27 702** | |

## 39. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk in the ability of the Group to fulfil its obligations towards its business partners as a result of a difference in the maturity of assets and liabilities. The Group monitors and manages liquidity on the basis of expected cash flow on assets and liabilities. To measure liquidity exposure the Group uses the liquidity gap method. The Group 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 NBS has introduced strict liquidity requirements for banks including the daily monitoring of compliance with these requirements. The Group maintained compliance with these requirements.

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2009:

| 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 | - | 10 004 | 101 017 | - | - | - | **111 021** |
| Deposits from customers | 55 793 | 129 817 | 75 443 | 19 897 | - | - | **280 950** |
| Debt securities issued | - | 20 173 | 12 536 | 10 635 | - | - | **43 344** |
| **Total liabilities** | **55 793** | **159 994** | **188 996** | **30 532** | **-** | **-** | **435 315** |

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2008:

| 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 | - | 12 373 | - | - | - | - | **12 373** |
| Deposits from customers | 11 670 | 181 572 | 41 910 | 4 297 | - | - | **239 449** |
| Debt securities issued | - | 110 524 | 19 192 | 12 068 | - | - | **141 784** |
| **Total liabilities** | **11 670** | **304 469** | **61 102** | **16 365** | **-** | **-** | **393 606** |

## 40. FINANCIAL INSTRUMENTS – CREDIT RISK

While conducting its activities the Group is exposed to credit risk representing a risk that the counterparty will not be able to repay the due amounts in full within the maturity period, as a result of its trading activities and the provision of loans bank guarantees hedging transactions and investment and mediation activities.

The Group 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 a counterparty economically connected group and/or an economic sector. The actual exposure is regularly compared to the set limits. The Group treats a receivable from a debtor or an economically connected group of debtors that exceeds 5% of the Group’s regulatory capital as a significant exposure. An excessive concentration of credit exposure to one entity has an effect on the ability of the debtor to pay its obligations. The Group 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 Group’s receivables from credit activities.

Factors leading to the creation of impairment losses for financial assets assessed individually in 2009:

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

**Provisioning**
The Group has defined in its internal instructions loss events and assigned the corresponding reduction of future cash flows; 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 Group recognises a provision for the relevant financial asset to cover the identified risk.

In line with the IFRS rules, the Group creates portfolios of financial assets that have common characteristics and for which there is a possibility of their impairment if objective circumstances arise at the relevant market. Financial asset portfolios are divided into significant and insignificant based on the amount of provided individual loans. 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 balance sheet 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. Given the changes in the market environment the Group anticipated changes in the quality of this group of financial assets and as a result a portfolio provision was recognised for the aforementioned portfolios. The percentage amount of the portfolio provision was determined by professional judgement 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 | 2009 | 2008 |
|---|---|---|
| **Total credit exposure** | **112 143** | **99 295** |
| Value of received collaterals accepted by the Group | 223 077 | 139 142 |
| Secured portion of credit exposure | 106 023 | 86 600 |
| Unsecured portion of credit exposure | 6 120 | 12 695 |

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 Group in the course of processing of the transaction. The Group reassesses the value of collateral on a regular basis including stress testing using the defined parameters.

In its internal instructions the Group 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 for 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, and 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 whichever is 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.

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

The amount the Group can receive from the sale of collateral could differ from the value accepted by the Group 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 recognised as neither past due nor impaired:

| Clients - transaction rating - 2009 | Receivables (EUR '000) | Share (%) |
|---|---|---|
| Rating A - very good | 13 047 | 12,65 |
| Rating B - good | 34 970 | 33,92 |
| Rating C - below average | 36 171 | 35,08 |
| Rating D - bad | 9 961 | 9,66 |
| Retail | 8 959 | 8,69 |
| **Total** | **103 108** | **100,00** |

| Clients - transaction rating - 2008 | Receivables (EUR '000) | Share (%) |
|---|---|---|
| Rating A - very good | 29 378 | 31,44 |
| Rating B - good | 24 129 | 25,83 |
| Rating C - below average | 26 435 | 28,29 |
| Rating D - bad | 6 129 | 6,56 |
| Retail | 7 362 | 7,88 |
| **Total** | **93 433** | **100,00** |

Based on the balances as at 31 December 2009 and 31 December 2008 there are no clients with accredited external ratings in the Group's loan portfolio.

**Method of determining transaction ratings**

The Group determines the internal rating of corporate clients 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 flows). 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 a company. 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 an 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 Group's financial asset quality.

The Group is monitoring the development of the financial and non-financial situations of clients and updates the respective ratings on a regular quarterly basis. Effective from the 4Q 2008 the Group performs stress testing of the value of real estate on a six-month basis and then updates the value of this type of collateral. Other types of collateral are remeasured on an ongoing 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 2009 the Group recognised overdue loan receivables which were classified as unimpaired in the total amount of EUR 94 thousand of which principal in the amount of EUR 89 thousand overdue within 30 days plus interest and charges in the amount of EUR 5 thousand overdue 1 day. The total amount of outstanding interest overdue was paid within 15 days after the maturity date; the outstanding principal overdue was settled before 31 January 2010. The Group usually collects interest on a monthly basis or (exceptionally) on a quarterly basis.

As at 31 December 2008, the Group recognised receivables overdue from credit transactions classified as unimpaired in the total amount of EUR 1 170 thousand of which principal in the amount of EUR 1 124 thousand overdue for 31 days plus interest and charges in the amount of EUR 46 thousand overdue 1 day. The overall amount of interest overdue was paid within 15 days of maturity; the outstanding principal was settled before 31 January 2009. The Group usually collects interest on a monthly basis or (exceptionally) on a quarterly basis.

**Restructured assets**

Pursuant to internal guidelines, the Group 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 Group opted to change the agreed terms and conditions and did not terminate the credit relationship.

In 2009, the Group mainly extended the maturity of financial assets – loan receivables in the total amount of EUR 22 166 thousand whose operating financing was EUR 3 950 thousand, investment loans was EUR 5 645 thousand and project financing was EUR 12 571 thousand

In 2008, the Group mainly extended the maturity of financial assets – loan receivables in the total amount of EUR 7 900 thousand whose operating financing was EUR 664 thousand investment loans was EUR 3 585 thousand and project financing was EUR 3 651 thousand.

In all instances there were objective reasons when a debtor was unable to implement its business plan in time, mainly owing to the inability to obtain permits from the relevant authorities in the originally planned deadline (mainly change in the zoning plan or granting of land permit) or owing to ongoing processes that did not allow the debtor to sell assets, the proceeds of which had been designated to repay the Group's loan receivable. In all instances the Group treated its position so that in the future the Group 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 | 2009 | 2008 |
|---|---|---|
| Non-banking financial services | 3 552 | 7 316 |
| Manufacturing | 6 466 | 11 961 |
| Construction | 1 411 | 6 386 |
| Agriculture and forestry | 1 234 | 771 |
| Commercial real estate - cash flow based | 17 987 | 13 024 |
| Commercial real estate - collateral based | 35 770 | 38 236 |
| Commerce and services | 8 048 | 11 230 |
| Other | 998 | 333 |
| Individuals | 9 714 | 5 205 |
| Healthcare services | 20 203 | 3 278 |
| Leisure, cultural and sports activities | 6 760 | 1 555 |
| **Total** | **112 143** | **99 295** |

(b) Concentrations to significant connected groups of debtors

The Group does not recognise significant exposures to connected groups. As at 31 December 2009, the maximum rate of exposure to a debtor or an economically connected group is capped at EUR 6 794 thousand owing to the amount of the Group's capital (2008: EUR 6 219 thousand).

**Maximum credit exposure**

| EUR '000 | 2009 | 2008 |
|---|---|---|
| Cash and balances with central bank | 9 234 | 129 703 |
| Loans and advances to banks | 72 239 | 52 653 |
| Loans and advances to customers | 108 423 | 96 706 |
| Securities available for sale | 245 537 | 117 256 |
| Securities at fair value through profit or loss | 9 655 | 22 240 |
| Securities held to maturity | 22 491 | - |
| Other assets | 531 | 543 |
| **Total** | **468 110** | **419 101** |
| Loan commitments | 14 299 | 8 705 |
| Guarantees issued | 797 | 1 206 |
| **Total** | **15 096** | **9 911** |
| **Total credit risk exposure** | **483 206** | **429 012** |

## 41. OPERATIONAL, LEGAL AND OTHER RISKS

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

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

## 42. FAIR VALUES

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 Group's financial assets and financial liabilities at the year-end were as follows:

| EUR '000 | Carrying amount 2009 | Fair value 2009 | Carrying amount 2008 | Fair value 2008 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with central banks | 9 234 | 9 234 | 129 703 | 129 703 |
| Loans and advances to banks | 72 239 | 72 239 | 52 653 | 52 653 |
| Loans and advances to customers | 108 423 | 112 187 | 96 706 | 99 399 |
| Securities available for sale | 245 537 | 245 537 | 117 256 | 117 256 |
| Securities at fair value through profit or loss | 9 655 | 9 655 | 22 240 | 22 240 |
| Securities held to maturity | 22 491 | 22 481 | - | - |
| Other assets | 531 | 531 | 543 | 543 |
| **Financial liabilites** | | | | |
| Deposits from banks | 110 194 | 110 271 | 12 336 | 12 336 |
| Deposits from customers | 279 336 | 277 561 | 237 850 | 238 228 |
| Debt securities issued | 41 820 | 42 587 | 139 511 | 140 267 |

Method used to determine the fair values of financial assets as at 31 December 2009:

| EUR '000 | Market value | Own model with reference to market rates | Own model without reference to market rates | **Total** |
|---|---|---|---|---|
| Loans and advances to customers | - | 112 187 | - | **112 187** |
| Securities available for sale | 161 597 | 83 888 | 52 | **245 537** |
| Securities at fair value through profit or loss | 3 380 | 6 275 | - | **9 655** |
| Securities held to maturity | 22 481 | - | - | **22 481** |

Method used to determine the fair values of financial assets as at 31 December 2008:

| EUR '000 | Market value | Own model with reference to market rates | Own model without reference to market rates | **Total** |
|---|---|---|---|---|
| Loans and advances to customers | - | 99 399 | - | **99 399** |
| Securities available for sale | 55 970 | 61 234 | 52 | **117 256** |
| Securities at fair value through profit or loss | 12 062 | 10 178 | - | **22 240** |

The following methods and assumptions were used to estimate the fair values of the Group'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 with variable interest.

**Securities available for sale**
Securities available for sale 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.

**Securities held to maturity**
Securities held to maturity 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.

**Other assets**
Other assets are measured net of impairment losses for receivables. As other assets are of short-term nature, their carrying value approximates the 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.

## 43. 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 2009.

## 44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were signed and authorised by the Board of Directors on 12 March 2010.

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

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

Ing. Rastislav Blišák
Person responsible for preparation of financial statements

Ing. Eva Hirešová
Person responsible for bookkeeping

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