Privatbanka, a.s.

Financial statements

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

Year ended 31 December 2011

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.:

We have audited the accompanying separate financial statements of Privatbanka, a.s. (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banks' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the statutory body, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Privatbanka, a.s. as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Bratislava, 19 March 2012

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

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

	Note	2011 EUR '000	2010 EUR '000
Assets			
Cash and balances with central banks	4.	12 762	24 591
Loans and advances to banks	5.	33 213	10 887
Loans and advances to customers	6.	197 062	179 523
Securities available for sale	8.	112 817	286 920
Securities at fair value through profit or loss	9.	4 923	5 610
Securities held to maturity	10.	273 382	5 675
Investments in subsidiaries	11.	7	7
Tangible and intangible assets	12.	1 620	2 083
Tax prepayments	13.	95	-
Deferred tax asset	14.	119	-
Other assets	15.	767	901
Total assets		**636 767**	**516 197**
Liabilities and equity			
Deposits from banks	16.	70 019	9 992
Deposits from customers	17.	481 137	423 285
Debt securities issued	18.	41 622	39 817
Current income tax liability	13.	-	242
Deferred tax liability	14.	-	202
Provisions for liabilities		15	-
Other liabilities	19.	6 407	7 495
Total liabilities		**599 200**	**481 033**
Equity			
Share capital	20.	25 121	25 121
Capital reserves and profit funds	20.	2 975	2 629
Revaluation reserves on securities available for sale, including deferred tax	20.	(667)	672
Retained earnings		10 138	6 742
Total equity		**37 567**	**35 164**
Total liabilities and equity		**636 767**	**516 197**

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

Privatbanka

Income Statement for the year ended 31 December 2011
Prepared in accordance with International Financial Reporting Standards, as adopted by the European Union

	Note	2011 EUR '000	2010 EUR '000
Interest income and similar income	26.	22 406	18 734
Interest expense and similar expense	27.	(11 644)	(8 666)
Net interest income		**10 762**	**10 068**
Fee and commission income	28.	4 140	3 916
Fee and commission expense	29.	(817)	(895)
Net fee and commission income		**3 323**	**3 021**
Trading profit	30.	670	1 706
Other income		4	4
Operating income		**14 759**	**14 799**
General operating expenses	31.	(8 070)	(7 817)
Depreciation and amortisation	12.	(606)	(632)
Operating expense		**(8 676)**	**(8 449)**
Operating profit		**6 083**	**6 350**
Provisions for impairment losses on loans, net, write-off and assignment of receivables	32.	(697)	(1 621)
Provisions for securities		(469)	-
Net income from sale of tangible assets		-	3
Provisions for liabilities		(15)	-
Profit before income taxes		**4 902**	**4 732**
Current income tax	22.	(1 167)	(1 270)
Deferred income tax	22.	7	2
Net profit		**3 742**	**3 464**

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

	Note	2011 EUR '000	2010 EUR '000
Profit after tax from the Income Statement		**3 742**	**3 464**
Revaluation of securities available for sale		(1 653)	(1 100)
Deferred tax on securities available for sale		314	209
Comprehensive income		**2 403**	**2 573**

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

	Share capital	Retained earnings	Capital reserves and profit funds	Revaluation reserves on securities available for sale (including deferred tax)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
At 1 January 2010	**25 121**	**3 582**	**2 325**	**1 563**	**32 591**
Additions to statutory reserve fund	-	(304)	304	-	**-**
2010 comprehensive income	-	3 464	-	(891)	**2 573**
At 31 December 2010	**25 121**	**6 742**	**2 629**	**672**	**35 164**

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

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

	Note	2011 EUR '000	2010 EUR '000
Cash flow from operating activities			
Profit before changes in operating assets and liabilities	33.	2 070	7 729
(Increase)/decrease in minimum reserve deposits with the NBS		(8 473)	4 793
(Increase)/decrease of loans to customers		(17 766)	(72 580)
(Increase)/decrease in securities at fair value through profit or loss		692	3 936
(Increase)/decrease in securities available for sale		(15 057)	(58 001)
(Increase)/decrease in securities held to maturity		(77 108)	16 837
(Increase)/decrease in other assets		(44)	(377)
Increase/(decrease) in amounts due to banks		60 009	(100 009)
Increase/(decrease) in deposits from customers		58 639	143 806
Increase/(decrease) in debt securities issued – promissory notes		(4 012)	(10 153)
Income tax paid		(1 504)	(1 198)
Increase/(decrease) in other liabilities		(1 088)	1 631
Net cash flow from operating activities		**(3 642)**	**(63 586)**
Cash flow from investing activities			
Purchase of tangible and intangible assets		(143)	(438)
Sale of tangible and intangible assets		-	4
Net cash flow from investment activities		**(143)**	**(434)**
Cash flow from financing activities			
Increase upon issue of long-term debt securities - bonds		14 818	17 719
Decrease upon maturity of long-term debt securities - bonds		(9 009)	(9 876)
Net cash flow from financing activities		**5 809**	**7 843**
Net decrease in cash and cash equivalents		**2 024**	**(56 177)**
Cash and cash equivalents at the beginning of the year	34.	**33 242**	**89 419**
Cash and cash equivalents at the end of the year	34.	**35 266**	**33 242**

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

1. GENERAL INFORMATION

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

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

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

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

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 analysis or other forms of general recommendations for trading the financial instruments
XII. Services related to the underwriting of these financial instruments

Shareholders' structure
The shareholders' structure is as follows:

%	2011	2010
Penta Investments Ltd., Limassol	100,00	100,00
Total	**100,00**	**100,00**

The immediate consolidating entity is Penta Investments Limited, with its registered office at Agias Fylaxeos & Polygnostou, 212, C&I CENTER, 2nd floor, P.C. 3082, Limassol, Cyprus.

Penta Holding Limited prepares the consolidated financial statements for all groups of reporting entities in the Consolidation Group. Penta Holding Limited has its registered office at Agias Fylaxeos & Polygnostou, 212, C&I CENTER, 2nd floor, P.C. 3082, Limassol, Cyprus.

The consolidated financial statements are available at Penta 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.

Investments in subsidiaries
As at 31 December 2011 and 31 December 2010, 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., with its registered office at Einsteinova 25, 851 01 Bratislava, Identification number: 36 037 869, is registered in the Commercial Register of the District Court, Bratislava I, section: Sro, No. 40865/B. The subsidiary does not perform activities in significant volumes. As at 31 December 2011, it reported a loss of EUR 0.4 thousand (2010: loss of EUR 0.4 thousand).

Geographical network
In 2011, the Bank performed its activities in the Slovak Republic through its network of four branches in Banská Bystrica, Brezno, and Bratislava (two branches) and eight retail offices for non-cash operations in Nitra, Košice, Dunajska Streda, Žilina, Trenčín, Prešov, Trnava and Prievidza. In 2011, 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 2011 are as follows:

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

Supervisory Board
The members of the Bank's Supervisory Board since 29 April 2011 are as follows:

Elected by the General Meeting:		
1. Ing. Jozef Špirko	- Chairman	- Appointed on 29 April 2011
2. Ing. Lenka Madleňáková	- Vice-Chairman	- Appointed on 29 April 2011
Elected by the employees:		
3. RNDr. Miron Zelina	- Member	- Appointed on 23 August 2007

The members of the Bank's Supervisory Board until 29 April 2011 were 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
Elected by the employees:		
4. RNDr. Miron Zelina	- Member	- Appointed on 23 August 2007
5. 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 Bank's financial statements (hereinafter the "financial statements") for 2011 and comparative data for 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Standards and interpretations valid in the current reporting period

The Bank adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) at the IASB that have been endorsed for use in the European Union effective for reporting periods beginning on 1 January 2011 and that are relevant to the Bank's operations. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 24 "Related Party Disclosures"** – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011)

- **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 February 2010)

- **Amendments to IFRS 1 "First-time Adoption of IFRS" –** Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010)

- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation)

- **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, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011)

- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments**", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010)

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

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

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

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

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2011:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015)

  On 28 September 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. The standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss.

- **IFRS 10 "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);

- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013);

- **IFRS 12 "Disclosures of Involvement with Other Entities"** (effective for annual periods beginning on or after 1 January 2013);

- **IFRS 13 "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013);

- **IAS 27 (revised in 2011) "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);

- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);

- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IAS 32 “Financial Instruments: Presentation” -** Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);

- **Amendments to IAS 1 “Presentation of Financial Statements”** – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);

- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);

- **Amendments to IAS 19 “Employee Benefits”** – Improvements to Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013);

- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”** (effective for annual periods beginning on or after 1 January 2013).

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

Pursuant to Article 22 (12) of Act No. 431/2002 Coll. on Accounting as amended, the Bank does not prepare consolidated financial statements for the year ended 31 December 2011, since the subsidiary Privatfin, s.r.o. does not have a significant impact on Privatbanka’s consolidated group. The judgment on the financial position, expenses, revenues and results of operations of Privatbanka’s consolidated group has not been significantly affected by preparing only the Bank’s separate financial statements.

On 29 April 2011, the Bank's General Meeting approved the Bank’s financial statements prepared in accordance with IFRS as at 31 December 2010.

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

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

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

Financial assets at fair value through profit or loss and 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 Bank will continue operating as a going concern for the foreseeable future.

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

(2.4) Significant accounting judgements and estimates

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

Significant areas of judgment include the following:

- The ongoing financial crisis and its resulting impact on financial markets and the economic environment have resulted in material adjustments to the valuation of the Bank's assets. The management of the Bank has considered all relevant factors in making prudent and reasonable valuation estimates in the circumstances. The financial markets continue to be affected by market liquidity issues and high price volatility. There is also a continued increased level of uncertainty about future economic developments. These factors could result in future changes in the valuation of assets and such changes could be material.

- Provisions for liabilities are based on the management's judgments and represent the best estimate of the expenditures required to settle a liability of an uncertain timing or amount resulting from an obligation.

- The Bank regularly (on a quarterly basis) monitors the loan portfolio and performs an individual or portfolio assessment of receivables from loan transactions in order to identify loss events. Subsequently, the Bank quantifies the impact of a loss event on the recognised financial assets while taking into account estimated income from received collateral. In the case of an impairment of the underlying financial asset, the Bank creates a provision in the amount of a difference between the face value of the assets and the estimated impairment of the assets, and reclassifies the financial asset. For portfolio-recognised financial assets, the Bank tests the impact of objectively-demonstrated events on the recognised financial assets. Considering the current economic conditions, the final outcome of these estimates could differ from the amounts of impairment losses recognised as at 31 December 2011.

- Income tax rules and regulations have undergone significant changes in recent years and there is little historical precedent and few interpretative rulings with respect to the extensive and complex issues affecting the banking industry. Moreover, tax authorities have extensive powers in interpreting the application of the tax laws and regulations in the course of its tax examination of taxpayers. Accordingly, there is a high level of inherent uncertainty about the ultimate outcomes of examinations by the tax authorities.

(2.5) Summary of significant accounting policies

(1) Foreign currency translation

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

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

(3) Financial instruments – recognition and measurement

(i) Date of initial recognition
Purchases or sales of financial assets that require the delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised as at the date of settlement. Derivatives are recognised as at the trade date.

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

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

(iv) Loans and advances to banks and Loans and advances to customers
“Loans and advances to banks” and “Loans and advances to customers” are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as “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 “Provisions for impairment losses on loans, net, write-off and assignment of receivables”.

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

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

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

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

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

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

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

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

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

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

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

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

(vi) Available-for-sale securities
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 Bank holds more than one investment in the same financial asset, they are deemed to be disposed of on an average price basis. Interest earned while holding available-for-sale financial investments is reported using the effective interest rate as interest income in the Income Statement in "Interest income and similar income". Dividends earned while holding financial investments are recognised in the Income Statement as "Trading profit", when the right of the payment has been established. Losses arising from the impairment of such investments are recognised in the Income Statement in "Provisions for securities", 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 Bank 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 Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; or
- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(ii) Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and recognition of a new liability, and the difference in the relevant carrying amounts is recognised in the Income Statement.

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

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

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

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

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

Level 1: Quoted prices from active markets for identical assets or liabilities

Level 2: Inputs other than "Level 1" quoted prices, which can be obtained for assets or liabilities either directly (eg prices) or indirectly (derived from interest rates etc)

Level 3: Input data for assets or liabilities, which cannot be derived from market data

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

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

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

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

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

(8) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is reduced if, and only if, there is objective evidence of impairment as a result of one or more events that 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 Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset and such asset shows common indications characteristic for individual portfolios created by the Bank, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment.

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

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

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

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

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

In the current year, the management considered the indications of losses resulting from the impact of the financial crisis on projects related to land development and real estate construction. The management concluded that there is a possibility that there could already be losses incurred in this portfolio that have not yet been identified at a specific customer level. As a result, the Bank identified two portfolios of significant loans with similar credit risk characteristics. This includes the portfolio of loans provided to corporate customers for real estate project financing or to corporate customers performing activities related to the real estate operation and/or lease. Two other portfolios of significant loans relate to the financing of photovoltaic power plants or new investment projects. Common characteristics are as follows:

- Projects are financed in the start-up phase;
- Collateral is in the form of real estate or technology; and
- Recovery of the loan is dependent on the final sale of the real estate or investment project development.

The Bank does not have a sufficiently-long time series for the calculation of an historical default rate for the loan portfolios. The portfolio provision is created based on management estimates, considering the current stagnation of 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 3.5% (2010: 3% - 3.5%) of the total amount of the loans included in the portfolio of loans for real estate project financing and 2.5% (2010: 2.5%) of the total amount of the loans included in the portfolio of loans for clients engaged in the real estate lease and operations sector (refer also to Note 6 and 7). The Bank recorded a provision in the amount of 2.0% of the total amount of the loans for the portfolio of loans provided to finance new investment projects. Based on the assessment of the development of loans provided to finance photovoltaic power plants, the Bank concluded that no portfolio provision is currently required for this loan portfolio. It is expected that as future events and uncertainties develop, the management will be able to improve its estimates of incurred losses that will result in future adjustments to impairment losses.

Provisioning for incurred credit losses and identified contingencies involve uncertainties resulting from the aforementioned risks and require the management of the Bank to make subjective judgments in estimating the loss amounts. There are significant uncertainties connected mainly with the ultimate implementation of the real estate development projects that is outside the control of management. On the other hand, it should be noted that in 2011 the Bank significantly decreased the amounts in such portfolios owing to its exit from the projects, in the amount of EUR 47 372 thousand, ie by 61.8%.

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

(ii) Held-to-maturity financial investments

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

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

(iii) Available-for-sale financial investments

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

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

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

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

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

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

Buildings and structures	20 to 40 years, linear
Software	Up to 5 years, linear
Other assets	4 to12 years, linear

Land and assets under construction are not depreciated.

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

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

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

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

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

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

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

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

(14) Recognition of income and expenses

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

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

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

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

(ii) Fee and commission income and expenses
Fees earned for the administration of loans and other received and paid fees are recorded in the Income Statement when the service is provided or received.

(iii) Income tax
Income tax includes current tax and deferred tax.

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

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

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

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

(15) Subsidiaries and other equity investments

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

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

Subsidiaries are valued at cost less provisions for impairment.

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

(16) Transactions with securities for clients

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

(17) Regulatory requirements

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

3. SEGMENT REPORTING

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

An operating segment is a component of the reporting entity:

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

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

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

Classification by geographical areas as at 31 December 2011:

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

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

Classification by geographical areas as at 31 December 2010:

EUR '000	Cash and balances with central banks	Loans and advances to banks	Loans and advances to customers	Securities available for sale	Securities at fair value through profit or loss	Securities held to maturity	Investments in subsidiaries
Australia	-	-	-	2 074	-	-	-
Cyprus	-	-	17 919	-	-	-	-
Czech Republic	187	5 244	9 154	17 765	4	-	-
Finland	-	-	-	1 097	-	-	-
France	-	-	-	5 483	-	-	-
Holland	-	-	46	10 316	-	-	-
Croatia	-	-	-	3 719	-	-	-
Ireland	-	-	-	5 507	-	-	-
South Korea	-	-	-	1 097	-	-	-
Canada	-	-	-	1 052	-	-	-
Luxembourg	-	-	-	-	20	-	-
Hungary	-	-	522	4 811	-	-	-
Germany	-	235	-	1 184	-	-	-
Poland	-	2 852	-	36 564	24	5 675	-
Portugal	-	-	-	2 915	-	-	-
Austria	-	3	-	6 199	722	-	-
Slovak Republic	24 040	362	157 221	144 130	4 054	-	7
USA	238	2 191	-	24 254	786	-	-
Spain	-	-	-	2 072	-	-	-
Switzerland	60	-	-	4 992	-	-	-
Sweden	-	-	-	1 413	-	-	-
Italy	-	-	-	2 498	-	-	-
Great Britain	66	-	-	7 848	-	-	-
Total gross	24 591	10 887	184 862	286 990	5 610	5 675	7
Provisions (Note 7)	-	-	(5 339)	(70)	-	-	-
Total net	24 591	10 887	179 523	286 920	5 610	5 675	7

The Bank did not recognise the balances of tangible and intangible assets and other assets as at 31 December 2010 by geographical segment owing to the immateriality of those amounts for the segment reporting.

4. CASH AND BALANCES WITH CENTRAL BANKS

EUR '000	2011	2010
Cash on hand	2 053	2 355
Time deposits in NBS	-	20 000
Minimum reserve deposits at NBS	10 709	2 236
Total cash and balances with central banks	**12 762**	**24 591**

Receivables from central banks are not secured by any collateral.

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

5. LOANS AND ADVANCES TO BANKS

EUR '000	2011	2010
Current accounts	2 595	1 170
Time deposits	30 472	9 710
Other receivables due from banks	146	7
Total loans and advances to banks	**33 213**	**10 887**

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	2011	2010
Loans and advances to		
entrepreneurs and corporate entities	183 829	167 084
individuals	19 042	17 778
Total loans and advances to customers, gross	**202 871**	**184 862**
Provisions for receivables from customers (Note 7)	(5 809)	(5 339)
Total loans and advances to customers, net	**197 062**	**179 523**

As at 31 December 2011, the 15 largest customers accounted for 43.9% of the gross loan portfolio, which amounted to EUR 89 158 thousand (2010: 48.4%, EUR 89 428 thousand).

Further details on credit risk are described in Note 41.

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

EUR '000	2011	2010
Residents		
Financial institutions	7 355	2 294
Non-financial institutions	134 530	138 765
Non-profit organisations	1 993	1 456
Public administration	10	93
Self-employed	1 452	3 511
Individuals	17 550	11 102
Non-residents		
Non-financial institutions	26 080	24 477
Individuals	13 901	3 164
Total loans and advances to customers, gross	**202 871**	**184 862**
Provisions for amounts due from customers (Note 7)	(5 809)	(5 339)
Total loans and advances to customers, net	**197 062**	**179 523**

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

EUR '000	2011	Share in %	2010	Share in %
Short-term loans	**57 057**		**54 450**	
Of which: project financing	12 899		20 880	
Operating	6 896	3,40	3 266	1,77
Consumer	4	0,00	124	0,07
Real estate loans	14 552	7,17	22 369	12,10
Overdrafts	11 810	5,82	9 055	4,90
Other	23 795	11,73	19 636	10,62
Long-term loans	**145 814**		**130 412**	
Of which: project financing	5 874		27 277	
Investment	17 351	8,55	13 031	7,05
Consumer	320	0,16	282	0,15
Real estate loans	16 876	8,32	41 651	22,53
Photovoltaic power plants	13 258	6,54	9 390	5,08
New investment projects	11 112	5,48	7 090	3,84
Other	86 897	42,83	58 968	31,89
Total loans and advances to customers, gross	**202 871**	**100,00**	**184 862**	**100,00**
Provisions for amounts due from customers (Note 7)	(5 809)		(5 339)	
Total loans and advances to customers, net	**197 062**		**179 523**	

The share of project financing loans to the gross receivables from customers at the end of 2011 represents 9.3% (2010: 26.1%).

(d) Risk categorisation of loans to customers

The table below details the breakdown of loans to customers according to the type of exposure and the level of risk identified within the Bank's portfolio of loans and advances as at 31 December 2011. 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	**60 977**	**1 144**	**1,88%**	**58 167**	**97,27%**
Individuals	8 737	39	0,45%	6 719	77,35%
Of which: defaults	-	-	-	-	-
Entrepreneurs and corporate entities	52 240	1 105	2,12%	51 448	100,60%
Of which: defaults	-	-	-	-	-
Individual provisions	**141 894**	**4 665**	**3,29%**	**121 671**	**89,04%**
Not impaired exposures	122 887	-	-	107 732	87,67%
Impaired exposures	19 007	4 665	24,54%	13 939	97,88%
Subtotal, balance-sheet credit risks	**202 871**	**5 809**	**2,86%**	**179 838**	**91,51%**
Off-balance sheet Retail Asset Class	2 296	-	-		
Off-balance sheet Corporate Asset Class	22 132	-	-		
Subtotal, off-balance sheet credit risks	**24 428**	**-**	**-**		
Total	**227 299**	**5 809**	**2,56%**		

In 2011 the interest income on impaired loans to customer amounted to EUR 756 thousand (2010: EUR 611 thousand).

The table below details the breakdown of loans to customers according the type of exposure and the level of credit risk identified within the Bank's portfolio of loans and advances as at 31 December 2010. 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	**80 257**	**2 281**	**2,84%**	**78 011**	**100,04%**
Individuals	3 627	-	-	3 141	86,60%
Of which: defaults	-	-	-	-	-
Entrepreneurs and corporate entities	76 630	2 281	2,98%	74 870	100,68%
Of which: defaults	-	-	-	-	-
Individual provisions	**104 605**	**3 058**	**2,92%**	**91 775**	**90,66%**
Not impaired exposures	96 392	-	-	84 593	87,76%
Impaired exposures	8 213	3 058	37,23%	7 182	124,68%
Subtotal, balance-sheet credit risks	**184 862**	**5 339**	**2,89%**	**169 786**	**94,73%**
Off-balance sheet Retail Asset Class	2 468	-	-		
Off-balance sheet Corporate Asset Class	23 091	-	-		
Subtotal, off-balance sheet credit risks	**25 559**	**-**	**-**		
Total	**210 421**	**5 339**	**2,54%**		

7. PROVISIONS FOR IMPAIRMENT LOSSES

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

EUR'000	1 Jan 2010	(Additions)	Release	Exchange rate gain/loss	31 Dec 2010
Loans and advances to customers (Note 6)	(3 720)	(3 826)	2 207	-	(5 339)
Other assets (Note 15)	(1)	(5)	3	-	(3)
Total provisions for receivables	(3 721)	(3 831)	2 210	-	(5 342)
Securities available for sale (Note 8)	(70)	-	-	-	(70)
Total impairment losses	**(3 791)**	**(3 831)**	**2 210**	**-**	**(5 412)**

8. SECURITIES AVAILABLE FOR SALE

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

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

Breakdown of securities available for sale per type of security and issuer's country as at 31 December 2010:

EUR '000	STB	State Bonds	Bank Bonds	Corporate Bonds	Shares	Warrants	**Total**
Australia	-	-	-	2 074	-	-	**2 074**
Czech Republic	-	6 018	-	11 747	-	-	**17 765**
Finland	-	-	-	1 097	-	-	**1 097**
France	-	-	2 004	3 425	-	54	**5 483**
Holland	-	-	1 057	9 259	-	-	**10 316**
Croatia	-	3 719	-	-	-	-	**3 719**
Ireland	2 960	-	-	2 547	-	-	**5 507**
South Korea	-	-	-	1 097	-	-	**1 097**
Canada	-	-	-	1 052	-	-	**1 052**
Hungary	-	3 006	-	1 805	-	-	**4 811**
Germany	-	-	-	1 029	-	155	**1 184**
Poland	-	36 564	-	-	-	-	**36 564**
Portugal	2 915	-	-	-	-	-	**2 915**
Austria	-	-	4 020	2 164	15	-	**6 199**
Slovak Republic	19 869	109 692	14 388	59	122	-	**144 130**
USA	-	-	19 517	4 737	-	-	**24 254**
Spain	-	-	-	2 072	-	-	**2 072**
Switzerland	-	-	4 992	-	-	-	**4 992**
Sweden	-	-	-	1 413	-	-	**1 413**
Italy	-	-	940	1 558	-	-	**2 498**
Great Britain	-	-	6 096	1 752	-	-	**7 848**
Total gross	**25 744**	**158 999**	**53 014**	**48 887**	**137**	**209**	**286 990**
Provisions (Note 7)	-	-	-	-	(70)	-	**(70)**
Total, net	25 744	158 999	53 014	48 887	67	209	**286 920**

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

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

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

As at 31 December 2011, the Bank recognised in the available for sale portfolio state treasury bills domestic at the fair value of EUR 248 thousand and state bonds domestic at the fair value of EUR 1 652 thousand (31 December 2010: EUR 1 622 thousand) provided as collateral for the deposits from customers.

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

EUR '000	2011	2010
State treasury bills domestic	19 333	19 869
State treasury bills foreign	-	2 960
State bonds domestic	18 113	93 893
State bonds foreign	3 796	12 475
Bank bonds domestic	-	12 563
Bank bonds foreign	1 952	15 606
Corporate bonds foreign	3 121	5 259
Total	**46 315**	**162 625**

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

As at 31 December 2011, the Bank's portfolio of available-for-sale securities included foreign state bonds at the fair value of EUR 5 881 thousand (31 December 2010: EUR 13 438 thousand), foreign bank bonds at the fair value of EUR 0 thousand (31 December 2010: EUR 3 210 thousand), and foreign corporate bonds at the fair value of EUR 8 803 thousand (31 December 2010: EUR 14 050 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 Bank 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 proceedings the participation will be fully written off.

Corporate bonds foreign include bonds in which the Bank identified an impairment in 2011 due to the increased level of uncertainty with respect to the issuer's ability to repay liabilities in full. The Bank recorded a provision in the amount of EUR 469 thousand in the amount of the difference between the acquisition cost and estimated future cash flows determined based on management estimates.

9. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

Breakdown of securities at fair value through profit or loss per type of security and issuer's country as at 31 December 2010:

EUR '000	State Bonds	Bank Bonds	Corporate Bonds	**Total**
Czech Republic	4	-	-	**4**
Luxembourg	-	20	-	**20**
Poland	24	-	-	**24**
Austria	-	-	722	**722**
Slovak Republic	496	3 270	288	**4 054**
USA	-	786	-	**786**
Total	**524**	**4 076**	**1 010**	**5 610**

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

As at 31 December 2011, the Bank's portfolio of securities at fair value through profit or loss included domestic bank bonds at the fair value of EUR 1 395 thousand (31 December 2010: EUR 1 396 thousand) provided to the NBS as collateral for pooling.

10. SECURITIES HELD TO MATURITY

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

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

Breakdown of securities held to maturity per type of security and issuer's country as at 31 December 2010:

EUR '000	State Bonds	**Total**
Poland	5 675	**5 675**
Total	**5 675**	**5 675**

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

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

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

EUR'000	2011	2010
State bonds domestic	24 489	-
State bonds foreign	28 181	-
Bank bonds domestic	3 013	-
Bank bonds foreign	8 414	-
Total	**64 097**	**-**

11. INVESTMENTS IN SUBSIDIARIES

Name	Registered office	Share on equity EUR '000	Share on reserve fund EUR '000	Share on equity (%)	Carrying amount EUR '000
At 31 Dec 2011					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7
At 31 Dec 2010					
Privatfin, s.r.o.	Bratislava	6,7	0,3	100	7

12. TANGIBLE AND INTANGIBLE ASSETS

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

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

b) Changes in tangible and intangible assets as at 31 December 2010

EUR '000	Tangible assets: Buildings	Tangible assets: Furniture, fittings and equipment	Tangible assets: Motor vehicles	Tangible assets: Acquisition of tangible assets	Tangible assets: Prepayment and acquisition of tangible assets	Intangible assets: Software	Intangible assets: Patents and licences	Intangible assets: Acquisition of intangible assets	Intangible assets: Prepayment and acquisition of intangible assets	**Total**
Cost										
At 1 Jan 2010	521	2 316	171	9	2	3 374	33	332	1	**6 759**
Additions	35	181	69	277	11	376	2	165	7	**1 123**
Disposals	-	(136)	(22)	(286)	(13)	(21)	-	(379)	(8)	**(865)**
At 31 Dec 2010	556	2 361	218	-	-	3 729	35	118	-	**7 017**
Accumulated depreciation										
At 1 Jan 2010	(39)	(1 378)	(96)	-	-	(2 937)	(31)	-	-	**(4 481)**
Depreciation and amortisation	(23)	(310)	(42)	-	-	(253)	(4)	-	-	**(632)**
Disposals	-	136	22	-	-	21	-	-	-	**179**
At 31 Dec 2010	(62)	(1 552)	(116)	-	-	(3 169)	(35)	-	-	**(4 934)**
Net book value										
At 31 Dec 2010	**494**	**809**	**102**	**-**	**-**	**560**	**-**	**118**	**-**	**2 083**

c) Insurance of assets

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

13. TAX PREPAYMENTS/CURRENT INCOME TAX LIABILITY

EUR '000	2011	2010
Tax prepayments	1 262	1 028
Current tax	(1 167)	(1 270)
Total	**95**	**(242)**

14. DEFERRED TAX ASSET/DEFERRED TAX LIABILITY

Deferred income tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
EUR '000	2011	2010	2011	2010	2011	2010
Tangible and intangible assets	-	-	(37)	(44)	(37)	(44)
Securities - revaluation in equity	156	-	-	(158)	156	(158)
Total	**156**	**-**	**(37)**	**(202)**	**119**	**(202)**

The deferred income tax assets and liabilities have been calculated using the corporate income tax rate of 19% (2010: 19%).

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

The Bank does not expect to realise benefits from tax non-deductible impairment losses in the future. Therefore, as at 31 December 2011 the Bank did not recognise deferred income tax asset of EUR 1 096 thousand, arising from tax non-deductible impairment losses (2010: EUR 884 thousand).

As at 31 December 2011, the Bank does not recognise a deferred income tax asset relating to provisions for benefits for the Bank's employees and management in the amount of EUR 116 thousand (2010: EUR 130 thousand).

15. OTHER ASSETS

EUR '000	2011	2010
Other debtors	681	454
Advance payments made	21	19
Inventory	24	47
Deferred expenses	76	163
Accrued income	132	193
Receivables from collection	-	1
Receivables from securities market	-	-
Other receivables from customers	14	2
Other	-	25
Total other assets, gross	**948**	**904**
Provisions for other debtors (Note 7)	(181)	(3)
Total other assets, net	**767**	**901**

16. DEPOSITS FROM BANKS

EUR '000	2011	2010
Loans from the ECB	70 019	-
Time deposits of banks	-	9 991
Other liabilities to banks	-	1
Total deposits from banks	**70 019**	**9 992**

A loan received from the ECB as at 31 December 2011 represents a loan in the amount of EUR 70 000 thousand, falling due on 29 January 2015. The loan is secured by securities at the fair value of EUR 47 710 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 64 097 thousand, which are disclosed in the Statement of Financial Position as “Securities held to maturity".

All payables due to banks are within maturity.

17. DEPOSITS FROM CUSTOMERS

(a) Breakdown of deposits from customers per type

EUR '000	2011	2010
Current accounts	89 253	39 516
Time deposits	390 382	382 028
Saving deposits	840	1 246
Received loans	247	-
Other	415	495
Total deposits from customers	**481 137**	**423 285**

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

As at 31 December 2011, the 15 largest clients accounted for 35.3% of the total deposits from customers, which represents the amount of EUR 169 909 thousand (2010: 45.5%, EUR 192 416 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 2011 represented 25.8%, totalling EUR 124 247 thousand (2010: 42.4%, EUR 179 353 thousand). Additional information on exposures to related parties is described in Note 36.

All deposits from customers are within maturity.

(b) Breakdown of deposits from customers by sector

EUR '000	2011	2010
Residents		
Financial institutions	6 180	15 285
Non-financial institutions	145 477	63 618
Mutual funds	797	5 651
Insurance companies	4 631	565
Government	1 432	27
Non-profit companies	4 419	2 911
Self-employed	409	1 350
Individuals	242 157	178 999
Non-residents		
Financial institutions	-	502
Non-financial institutions	74 727	149 915
Non-profit companies	7	1 334
Individuals	901	3 128
Total deposits from customers	**481 137**	**423 285**

18. DEBT SECURITIES ISSUED

(a) Breakdown of debt securities issued according to type

EUR '000	2011	2010
Bills of exchange	8 677	12 661
Bonds without coupons	6 991	12 648
Bonds	25 954	14 508
Total debt securities issued	**41 622**	**39 817**

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 2011	Face value 2010
Bond 03 - FRN 20111207	12/2006	12/2011	3M EURIBOR + 0,25%	-	3 336
Bond 05 - 20110601	06/2009	06/2011	-	-	6 000
Bond 06 - 20120114	01/2010	01/2012	-	7 000	6 995
Bond 07 - 3.50% 20120630	06/2010	06/2012	3,50%	6 000	5 719
Bond 08 - 3.50% 20120913	09/2010	09/2012	3,50%	7 000	5 441
Bond 09 - 3.50% 20130317	03/2011	03/2013	3,50%	7 000	-
Bond 10 - 4.25% 20140914	09/2011	09/2014	4,25%	3 208	-
Bond 11 - 3.60% 20130916	09/2011	09/2013	3,60%	2 715	-
Total face value				**32 923**	**27 491**
Acrued interest				34	13
Acrued discount				424	465
Total discount (difference between face value and selling price)				(436)	(813)
Total liabilities from debt securites				**32 945**	**27 156**

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

On 1 June 2011, the Bank repaid the face value of 6 000 units Privatbanka 05 bonds (ISIN: SK4120006669) amounting to EUR 6 000 thousand.

On 7 December 2011, the Bank repaid the face value of 1 020 units Privatbanka 03 bonds (ISIN: SK4120005224) amounting to EUR 3 386 thousand.

On 17 March 2011, the Bank issued Privatbanka 09 bonds (ISIN: SK4120007808) with a face value of EUR 1 000, with the total issue amounting to EUR 7 000 thousand. Yields on bonds are paid on a quarterly basis and are set at a fixed interest rate of 3.50% p.a. of the bond’s face value. Bonds are due on 17 March 2013.

On 14 September 2011, the Bank issued Privatbanka 10 bonds (ISIN: SK4120008053) with a face value of EUR 1 000, with the total issue amounting to EUR 5 000 thousand. Yields on bonds are paid on a quarterly basis and are set at a fixed interest rate of 4.25% p.a. of the bond’s face value. Bonds are due on 14 September 2014. As at 31 December 2011, the Bank sold 3 208 units of Privatbanka 10 bonds in the total face value of EUR 3 208 thousand.

On 16 September 2011, the Bank issued Privatbanka 11 bonds (ISIN: SK4120008087) with a face value of EUR 1 000, with the total issue amounting to EUR 5 000 thousand. Yields on bonds are paid on a quarterly basis and are set at a fixed interest rate of 3.60% p.a. of the bond’s face value. Bonds are due on 16 September 2013. As at 31 December 2011, the Bank sold 2 715 units of Privatbanka 11 bonds in the total face value of EUR 2 715 thousand.

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

(c) Breakdown of debt securities issued per sectors of creditors

EUR '000	2011	2010
Residents		
Non-financial institutions	13 609	14 483
Government	-	53
Non-profit companies	1 362	1 611
Self-employed	164	136
Individuals	21 963	16 939
Non-residents		
Non-financial institutions	3 595	5 574
Individuals	929	1 021
Total liabilities from debt securities	**41 622**	**39 817**

19. OTHER LIABILITIES

EUR '000	2011	2010
Negative fair value of derivatives for trading (Note 25)	807	338
Negative fair value of derivatives for hedging (Note 25)	364	655
Payables to creditors	234	220
Settlement with employees	242	228
Social fund	9	1
Payables to State budget	1 394	598
Payables to social and health insurance companies	114	112
Deferred income	9	17
Accrued expenses	934	989
Payables to securities market	-	4 052
Payables from collection	-	1
Other amounts due to customers	2 300	284
Total other liabilities	**6 407**	**7 495**

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

Share capital

EUR '000	2011	2010
Issued and fully paid share capital:		
756,874 ordinary shares (ISIN SK1110001619 with nominal values of EUR 33.19 each)	**25 121**	**25 121**

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

The structure of the Bank's shareholders as at 31 December 2011 and 31 December 2010:

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**

Legal reserve fund

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

Revaluation reserves on securities available for sale including deferred tax

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

21. PROPOSAL FOR DISTRIBUTION OF 2011 PROFIT

EUR '000	2011
Allotment to legal reserve fund	374
Allotment to retained earnings	3 368
Net profit for current accounting period	**3 742**

22. TAX REVENUE/(EXPENSE)

EUR '000	2011	2010
Current income tax		
Adjusted income tax	(1 167)	(1 270)
Use of tax losses from previous years carried forward	-	-
Deferred tax		
Due to temporary non-taxable revenues and expense	7	2
Total	**(1 160)**	**(1 268)**

23. RECONCILIATION OF THEORETICAL AND RECORDED TAX

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

	2010		
	Balance (EUR '000)	Applicable rate	Impact on tax
Theoretical tax base	4 732	19%	899
Permanent non-deductible differences	136	19%	26
Permanent deductible differences	(2)	19%	-
Effect of use of tax losses carried forward- previously unrecognised deferred tax asset	-	19%	-
Unrecognised deferred income tax asset - other	124	19%	24
Unrecognised deferred income tax asset owing to temporary differences for which realisation of future tax benefits is uncertain	1 679	19%	319
Adjusted tax			1 268
Effective tax			1 268

24. OFF-BALANCE SHEET ITEMS

EUR '000 Off balance sheet assets	2011	2010
1. Receivables from spot operations:	-	3 624
a) With interest rate instruments	-	-
b) With FX instruments	-	3 624
2. Receivables from forwards, futures and swaps:	1 069	5 439
a) With interest rate instruments	1 069	1 697
b) With FX instruments	-	3 742
3. Received collaterals:	196 612	178 039
a) Immovables	95 525	94 547
b) Cash	35 081	8 350
c) Securites	41 063	45 556
d) Other	24 943	29 586

EUR '000 Off balance sheet liabilities	2011	2010
1. Undrawn loan facilities	21 497	24 541
2. Provided guarantees	2 931	1 018
3. Liabilities from spot transactions:	-	3 600
a) With interest rate instruments	-	-
b) With FX instruments	-	3 600
4.Liabilities from futures, forwards and swaps:	2 240	6 432
a) With interest rate instruments	2 240	2 593
b) With FX instruments	-	3 839
5. Securities provided as collaterals	115 661	167 579
6. Consigned values	347 344	327 959

25. FINANCIAL DERIVATIVES

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

The Bank performed the following cash flow hedge transactions to hedge the interest rate risk generated by the fixed interest rate of the purchased bonds classified as securities available for sale. The Bank 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 Bank receives a floating rate and pays a fixed rate.

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

During 2010 and 2011, the Bank fulfilled all efficiency conditions of hedging derivatives as according to IAS 39.

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

2010 EUR '000	Face value in off-balance sheet Receivable	 Payable	Fair value Positive	 Negative	Net fair value
Interest rate swaps for hedging	27 800	27 800	-	(655)	(655)
Interest rate swaps for trading	5 000	5 000	-	(241)	(241)
Currrency swaps for trading	3 742	3 839	-	(97)	(97)
Total financial derivatives	**36 542**	**36 639**	**-**	**(993)**	**(993)**

In 2011, the negative fair value of derivatives amounting to EUR 1 171 thousand (2010: EUR 993 thousand) is recognised in line “Other liabilities” (Note 19).

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

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

The breakdown of the face value of financial derivatives by residual maturity as at the end of 2010 is as follows:

EUR '000	Within 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps for hedging	-	-	1 750	26 050	-	**27 800**
Interest rate swaps for trading	-	-	-	5 000	-	**5 000**
Currency swaps for trading	3 742	-	-	-	-	**3 742**
Total receivables	**3 742**	**-**	**1 750**	**31 050**	**-**	**36 542**
Interest rate swaps for hedging	-	-	1 750	26 050	-	**27 800**
Interest rate swaps for trading	-	-	-	5 000	-	**5 000**
Currency swaps for trading	3 839	-	-	-	-	**3 839**
Total payables	**3 839**	**-**	**1 750**	**31 050**	**-**	**36 639**

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	2011	2010
Hedging instrument (interest rate swaps) - fair value	(45)	(379)
Hedging instrument (interest rate swaps) - interest expense - payments	(354)	(454)
Hedging instrument (interest rate swaps) - interest income - payments	187	169
Hedged item (bonds) - interest income - accrued interest	808	1 454
Hedged item (bonds) - interest income - change in fair value owing to interest rate risk	48	530
Total	**644**	**1 320**

26. INTEREST INCOME AND SIMILAR INCOME

EUR '000	2011	2010
Interest income from amounts due from banks and central bank	842	477
Interest income from clients' current accounts	605	369
Interest income from clients' loans	11 742	9 051
Interest income from securities available for sale	7 029	8 113
Interest income from securities at fair value through profit or loss	155	181
Interest income from securities held to maturity	1 591	327
Interest rate swaps	429	205
Other	13	11
Total interest income and similar income	**22 406**	**18 734**

27. INTEREST EXPENSE AND SIMILAR EXPENSE

EUR '000	2011	2010
Interest expense from amounts due to banks	222	1 015
Interest expense from clients' current accounts	191	78
Interest expense from clients' time deposits	9 172	5 720
Interest expense from clients' savings deposits	11	13
Interest expense from debt securities	1 163	873
Interest rate swaps	811	937
Other	74	30
Total interest expense and similar expense	**11 644**	**8 666**

28. FEE AND COMMISSION INCOME

EUR '000	2011	2010
Income from fees and commissions:		
Loans	254	90
Payments	73	77
Itemised fees	139	124
Securities trading	2 653	2 737
Portfolio management	933	865
Other	88	23
Total fee and commission income	**4 140**	**3 916**

29. FEE AND COMMISSION EXPENSE

EUR '000	2011	2010
For the following areas:		
Payments	208	318
Interbank transactions	29	29
Securities trading	282	150
Intermediation	298	397
Other	-	1
Total fee and commission expense	**817**	**895**

30. TRADING PROFIT

EUR '000	2011	2010
Realised profit/loss from debt securities transactions (available for sale)	357	1 014
Profit/loss from debt securities transactions (at fair value through profit or loss)	(8)	49
Profit/loss from shares and units (available for sale)	58	19
Profit/loss from derivative transactions	(93)	(87)
Profit/loss from forex transactions	352	711
Profit/loss from other transactions	4	-
Total trading profit	**670**	**1 706**

31. GENERAL OPERATING EXPENSES

EUR '000	2011	2010
Personnel costs	4 933	4 620
Other general operating expenses	3 137	3 197
Of which: Expenses for audit of financial statements	91	96
Other services of audit company	-	2
Contribution to Deposits Protection Fund	430	293
Rent	673	636
Energy	148	136
Advertising costs	205	458
IT systems	218	197
Training and education	9	117
Car maintenance and fuel	42	41
Membership fees	162	146
Other services	750	443
Other operating expenses	409	632
Total general operating expenses	**8 070**	**7 817**

The average number of employees in 2011 was 142 (2010: 134). The average number of members of management in 2011 was 27 (2010: 26).

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

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

EUR '000	2011	2010
Creation of provisions for impairment losses (Note 7)	(4 259)	(3 831)
Release of provisions for impairment losses (Note 7)	3 607	2 210
Net book value of written-off receivables	(37)	-
Expenses from assignment of receivables	(8)	-
Total	**(697)**	**(1 621)**

33. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

EUR '000	2011	2010
Profit before income taxes	4 902	4 732
Adjustments for non-cash items:		
Interest income	(22 406)	(18 734)
Interest expense	11 644	8 666
Depreciation/amortisation of tangible and intangible assets	606	632
Provisions for receivables, write-off and assignment of receivables	697	1 621
Provisions for securities	469	-
Provisions for liabilities	15	-
Net book value of tangible assets disposed	-	1
Income from sale of tangible assets	-	(4)
Total before interest received / (paid)	**(4 073)**	**(3 086)**
Interest received	18 548	19 224
Interest paid	(12 405)	(8 409)
Profit before changes in operating assets and liabilities	**2 070**	**7 729**

34. CASH AND CASH EQUIVALENTS

EUR '000	2011	2010
Cash on hand (Note 4)	2 053	2 355
Time deposits in NBS (Note 4)	-	20 000
Loans and advances to banks (Note 5)	33 213	10 887
Cash and cash equivalents	**35 266**	**33 242**

35. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Legal disputes

The Bank conducted a review of legal proceedings pending against the Bank as at 31 December 2011 and 31 December 2010. Pursuant to the review of risk of losses from major lawsuits and litigated amounts, the Bank has recorded no provision for these legal claims as at 31 December 2011 and 31 December 2010.

b) Commitments arising from issue of guarantees

Commitments from guarantees include issued guarantees that represent an irrevocable commitment that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Based on the risk assessment as at 31 December 2011 and 31 December 2010, the Bank did not create any provisions to cover losses included in balances of undrawn loan commitments and guarantees, which are recognised in off-balance sheet accounts.

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

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

36. RELATED PARTY TRANSACTIONS

Related parties as defined by IAS 24 include:

a) A person or a close family member of that person is related to the Bank if that person:
- Has control or joint control over the Bank;
- Has significant influence over the Bank; or
- Is a member of the key management personnel of the Bank or a parent company of the Bank.

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

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

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

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

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

EUR '000	31 Dec 2010 balance	31 Dec 2010 accruals	Total	Interest income/ Interest expense 2010	Fee and commision income 2010	Trading profit 2010	General operating expenses 2010	(Creation)/ release of provisions 2010
Receivables from parent company								
Other assets	154	-	154	-	479	796	-	-
Payables to parent company								
Deposits from customers	83 143	-	83 143	(182)	12	-	-	-
Liabilities from debt securities	2 590	-	2 590	(92)	-	-	-	-
Receivables from parent's related parties								
Loans and advances to customers	5 909	-	5 909	329	22	-	-	(24)
Other assets	122	-	122	-	1 969	116	-	-
Payables to parent's related parties								
Deposits from customers	94 975	73	95 048	(413)	32	-	-	-
Debt securities issued	207	-	207	(55)	-	-	-	-
Other liabilities	29	-	29	-	-	-	(492)	-
Undrawn credit facilities	232	-	232	-	-	-	-	-
Provided guarantees	-	-	-	15	-	-	-	-
Received collateral	5 704	-	5 704	-	-	-	-	-

EUR '000	31 Dec 2010 balance	31 Dec 2010 accruals	Total	income/ Interest expense 2010	Fee and commision income 2010	Trading profit 2010	General operating expenses 2010	(Creation)/ release of provisions 2010
Receivables from subsidiaries								
Investments in subsidiaries	7	-	7	-	-	-	-	-
Payables to subsidiaries								
Deposits from customers	9	-	9	-	-	-	-	-
Receivables from management members and their related parties								
Loans and advances to customers	243	-	243	10	1	-	-	-
Other assets	5	-	5	-	9	1	-	-
Payables due to management members and their related parties								
Deposits from customers	1 150	3	1 153	(14)	2	-	-	-
Debt securities issued	265	-	265	(8)	-	-	-	-
Other liabilities	284	-	284	-	-	-	(553)	-
Undrawn loan facilities	88	-	88	-	-	-	-	-
Provided guarantees	144	-	144	2	-	-	-	-
Received collateral	361	-	361	-	-	-	-	-

The remuneration and salaries of statutory representatives and members of the Supervisory Board (gross values) were in the amount of EUR 542 thousand as of 31 December 2011 (2010: EUR 506 thousand). Members of the Bank’s bodies in 2011 and 2010 did not receive any non-cash remuneration.

37. FINANCIAL INSTRUMENTS – MARKET RISK

In carrying out its activities, the Bank 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.

During the reporting period, the volatility in prices mainly of capital market instruments was increased. This resulted from movements in credit margins of individual issuers depending on their creditworthiness. Given the optimisation of the debt securities classification in the Bank's portfolios, the volatility did not have a significant impact on the value of the Bank's regulatory capital and results of operations.

(a) Interest rate risk

Interest rate risk is the risk of a change in the value of the Bank's portfolios as a result of changes in market interest rates. To measure the interest rate sensitivity of assets and liabilities, the Bank uses interest gap analysis. Assets and liabilities are classified into time segments depending on the time of revaluation of the instrument or its reinvestment. The size of the interest gap represents the 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 Bank has set a limit for the maximum interest rate exposure defined by the maximum theoretical change of net interest income within one year starting from the moment of the valuation of the Bank's positions.

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

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

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

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

EUR '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	**Total**
Cash and balances with central banks	1,25%	10 709	-	-	-	-	2 053	**12 762**
Loans to banks	2,60%	33 213	-	-	-	-	-	**33 213**
Loans to customers	6,06%	45 748	87 721	28 543	31 501	379	3 170	**197 062**
Securities available for sale	2,81%	754	8 963	74 508	28 496	-	96	**112 817**
Securities at fair value through profit or loss	2,35%	6	3 373	681	835	-	28	**4 923**
Securities held to maturity	3,33%	17 251	39 236	29 576	178 043	9 276	-	**273 382**
Investments in subsidiaries	-	-	-	-	-	-	7	**7**
Total assets		**107 681**	**139 293**	**133 308**	**238 875**	**9 655**	**5 354**	**634 166**
Deposits from banks	1,00%	-	-	-	70 019	-	-	**70 019**
Deposits from customers	1,98%	150 775	62 651	113 976	139 467	14 265	3	**481 137**
Debt securities issued	3,10%	13 406	1 046	13 980	13 190	-	-	**41 622**
Total liabilities		**164 181**	**63 697**	**127 956**	**222 676**	**14 265**	**3**	**592 778**
Difference		**(56 500)**	**75 596**	**5 352**	**16 199**	**(4 610)**	**5 351**	**41 388**
Cumulative difference		**(56 500)**	**19 096**	**24 448**	**40 647**	**36 037**	**41 388**	

The average effective interest rates of assets and liabilities as at 31 December 2010 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	0,25%	22 236	-	-	-	-	2 355	**24 591**
Loans to banks	1,37%	10 887	-	-	-	-	-	**10 887**
Loans to customers	5,96%	30 420	96 935	24 962	21 793	5 625	(212)	**179 523**
Securities available for sale	2,64%	24 997	50 936	93 479	110 980	6 252	276	**286 920**
Securities at fair value through profit or loss	1,58%	6	3 213	1 523	868	-	-	**5 610**
Securities held to maturity	3,24%	-	267	-	5 408	-	-	**5 675**
Investments in subsidiaries	-	-	-	-	-	-	7	**7**
Total assets		**88 546**	**151 351**	**119 964**	**139 049**	**11 877**	**2 426**	**513 213**
Deposits from banks	1,00%	9 992	-	-	-	-	-	**9 992**
Deposits from customers	1,70%	203 663	36 337	52 097	130 100	1 088	-	**423 285**
Debt securities issued	2,71%	6 550	3 659	10 819	18 789	-	-	**39 817**
Total liabilities		**220 205**	**39 996**	**62 916**	**148 889**	**1 088**	**-**	**473 094**
Difference		**(131 659)**	**111 355**	**57 048**	**(9 840)**	**10 789**	**2 426**	**40 119**
Cumulative difference		**(131 659)**	**(20 304)**	**36 744**	**26 904**	**37 693**	**40 119**	

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

EUR '000	Impact on net profit	Impact on equity
2011		
+ 0,5% for all currencies	(10)	(147)
- 0,5% for all currencies	11	147
2010		
+ 0,5% for all currencies	(17)	(974)
- 0,5% for all currencies	17	988

(b) Currency risk

Currency risk is the risk of a change in the value of the Bank's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Bank manages currency risk by determining and daily monitoring of maximum limits of open positions of the banking book for individual currencies. 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 2011 and 2010.

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

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

As at 31 December 2010, the Bank reported the following structure of financial assets and liabilities in individual currencies:

EUR '000	EUR	CZK	USD	Other FX	**Total**
Cash and balances with central banks	24 040	187	237	127	**24 591**
Loans to banks	372	5 243	2 191	3 081	**10 887**
Loans to customers	176 182	3 341	-	-	**179 523**
Securities available for sale	284 755	2 165	-	-	**286 920**
Securities at fair value through profit or loss	4 888	722	-	-	**5 610**
Securities held to maturity	5 675	-	-	-	**5 675**
Investments in subsidiaries	7	-	-	-	**7**
Total assets	**495 919**	**11 658**	**2 428**	**3 208**	**513 213**
Deposits from banks	9 991	-	1	-	**9 992**
Deposits from customers	407 827	10 710	4 364	384	**423 285**
Debt securities issued	34 736	557	1 794	2 730	**39 817**
Total liabilities	**452 554**	**11 267**	**6 159**	**3 114**	**473 094**
Net FX position	**43 365**	**391**	**(3 731)**	**94**	**40 119**

The table below is a summary of the currencies in which the Bank has significant open positions as at 31 December 2011 and 31 December 2010. The sensitivity analysis calculates the effect of possible changes in the exchange rate against the selected currencies on the Income Statement. A positive amount reflects a net potential gain and a negative amount reflects net potential loss on the Income Statement.

EUR '000	Change in exchange rate	Impact on net profit
2011		
CHF	+35,94%	(26)
GBP	+18,28%	(20)
USD	+25,90%	(2)
CZK	+14,13%	(45)
2010		
CHF	+ 20,66%	15
GBP	+ 22,04%	(21)
USD	+ 26,33%	(24)
CZK	+ 12,63%	11

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

38. MANAGEMENT OF CAPITAL

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

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

The Bank also applies 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 risk, but also requirements for risks not covered by Pillar 1, which are set by the Bank based on the assessment of its risk profile and appetite for risk. The Bank has complied with all requirements for economic capital.

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

The structure of the Bank's regulatory capital as at the year-end of 2011 (unaudited) and 2010 is as follows:

EUR '000	2011	2010
The Bank's original own funds	**33 329**	**30 310**
Items creating original own funds	**34 492**	**31 028**
Paid up registered capital	25 121	25 121
Reserve fund and other profit funds	2 975	2 629
Retained earnings	6 396	3 278
(-) Items creating original own funds	**1 163**	**718**
(-) Accumulated losses from previous years	-	-
(-) Intangible assets	496	678
(-) Negative financial investments revaluation reserves from the AFS portfolio	667	40
Additional own funds	**-**	**-**
Subordinated debts	-	-
Positive financial investments revaluation reserves from the AFS portfolio	-	-
(-) Items deductible from the Bank's original and additional own funds	**7**	**7**
(-) From the Bank's original own funds	7	7
(-) From additional own funds	-	-
Supplementary own funds	**-**	**-**
Total regulatory capital	**33 322**	**30 303**

The indicators of the Bank's capital adequacy as at 31 December 2011 (unaudited) and 31 December 2010 are provided in the table below:

EUR '000	2011	2010
Adequacy of regulatory capital (%)	**12,20%**	**11,41%**
Regulatory capital	**33 322**	**30 303**
Risk-weighted assets (RWA)	**273 175**	**265 488**
RWA from receivables recorded in the Banking Book	240 825	236 313
RWA from positions recorded in the Trading Book	8 375	8 525
RWA from operating risk	23 975	20 650
Other RWA (foreign exchange risk)	-	-

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

In the reporting periods, the Bank’s regulatory capital exceeded the minimum requirement level at 8%; thus, the Bank complied with the regulatory authority’s capital requirement.

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows the structure of the Bank's assets and liabilities according to whether they are expected to be recovered or settled within one year or later than one year after 31 December 2011:

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

The table below shows the structure of the Bank'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 2010:

EUR '000	Up to 7 days	From 7 days to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspecified	Total
Cash and balances with central banks	24 591	-	-	-	-	-	**24 591**
Loans and advances to banks	10 887	-	-	-	-	-	**10 887**
Loans and advances to customers	59	16 204	80 290	74 280	8 833	(143)	**179 523**
Securities available for sale	3	28 652	92 013	156 039	9 937	276	**286 920**
Securities at fair value through profit or loss	-	35	1 370	4 205	-	-	**5 610**
Securities held to maturity	-	267	-	5 408	-	-	**5 675**
Investments in subsidiaries	-	-	-	-	-	7	**7**
Tangible and intangible assets	-	-	-	-	-	2 083	**2 083**
Other assets	2	-	32	67	-	800	**901**
Total assets	**35 542**	**45 158**	**173 705**	**239 999**	**18 770**	**3 023**	**516 197**
Deposits from banks	1	9 991	-	-	-	-	**9 992**
Deposits from customers	187 498	64 840	52 424	117 435	1 088	-	**423 285**
Debt securities issued	3 567	3 308	14 152	18 790	-	-	**39 817**
Current income tax liability	-	242	-	-	-	-	**242**
Deferred tax liability	-	-	-	-	-	202	**202**
Other liabilities	4 716	550	4	10	-	2 215	**7 495**
Total liabilities	**195 782**	**78 931**	**66 580**	**136 235**	**1 088**	**2 417**	**481 033**
Difference	**(160 240)**	**(33 773)**	**107 125**	**103 764**	**17 682**	**606**	**35 164**
Cummulative difference	**(160 240)**	**(194 013)**	**(86 888)**	**16 876**	**34 558**	**35 164**	

The amount in column "Not specified" in "Loans and advances to customers" includes the net amount of receivables overdue more than 90 days, net amount of defaulted receivables, and accrued fees related to the whole volume of loans and advances to customers, who enter the effective interest rate.

40. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

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

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

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

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2010:

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	-	9 999	-	-	-	-	**9 999**
Deposits from customers	40 762	215 021	49 339	127 927	1 405	-	**434 454**
Debt securities issued	-	6 973	15 390	19 402	-	-	**41 765**
Total liabilities	**40 762**	**231 993**	**64 729**	**147 329**	**1 405**	**-**	**486 218**

41. FINANCIAL INSTRUMENTS – CREDIT RISK

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

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

Factors leading to the creation of impairment losses for financial assets assessed individually in 2011:

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

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

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

Portfolios of significant financial assets include portfolios of loans provided to corporate customers to finance real estate development projects and activities in real estate lease and operations, to finance photovoltaic power plants and new investment projects where the recoverability of a loan is linked to generating future cash flows. Given the changes in the market environment, the Bank anticipated changes in the quality of financial assets allocated to the real estate projects 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	2011	2010
Total credit exposure	**202 871**	**184 862**
Value of received collaterals accepted by the Bank	295 646	260 951
Secured portion of credit exposure	179 838	169 786
Unsecured portion of credit exposure	23 033	15 076

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

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

The most frequently-used collateral types:

- Project funding: real estate, current and future receivables resulting from sale agreements and other contracts 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, personal guarantees.

Assumptions in estimates of collateral realisable value

The value of collateral is determined as follows:

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

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

The value of 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 Bank will require additional security for the credit transaction or will realise other measures to reduce the credit risk.

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

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

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

Clients - transaction rating - 2010	Receivables (EUR '000)	Share (%)
Rating A - very good	30 645	17,35
Rating B - good	54 306	30,74
Rating C - below average	58 234	32,97
Rating D - bad	19 811	11,22
Retail	13 653	7,72
Total	**176 649**	**100,00**

Based on the balances as at 31 December 2011 and 31 December 2010, there are no clients with accredited external ratings in the Bank's loan portfolio.

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

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

Out of the securities with no Moody's Investors Service rating, the securities at fair value of EUR 34 700 thousand have Standard & Poor’s A- rating.

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

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

Out of the securities with no Moody's Investors Service rating, the securities at amortised cost of EUR 3 784 thousand have Standard & Poor’s BB+ rating.

The summary of external ratings of securities (Moody's Investors Service) that are not recognised as overdue or impaired as at 31 December 2010:

Available-for-sale securities	(EUR '000)	Share (%)
Aaa	2 066	0,72
Aa2	2 963	1,03
Aa3	18 245	6,36
A1	128 924	44,93
A2	49 626	17,30
A3	12 819	4,47
Baa1	4 862	1,69
Baa2	4 736	1,65
Baa3	8 289	2,89
No rating	54 390	18,96
Total	**286 920**	**100,00**

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

Securities recognised at fair value through profit or loss	(EUR '000)	Share (%)
A1	706	12,58
A2	374	6,67
A3	230	4,10
No rating	4 300	76,65
Total	**5 610**	**100,00**

Securities held to maturity	(EUR '000)	Share (%)
A2	5 675	100,00
Total	**5 675**	**100,00**

Method of determining transaction ratings

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

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

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

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

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

The resulting value of the collateral to determine the extent of credit risk represents 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 Bank's financial asset quality.

The Bank is monitoring the development of the financial and non-financial situations of clients and updates the respective ratings on a regular quarterly basis. The Bank 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 on-going basis, upon identifying circumstances that have an impact on the recognised value of the collateral.

Ageing structure of financial assets overdue, recognised as unimpaired

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

As at 31 December 2010, the Bank recognised overdue loan receivables, which were classified as unimpaired in the total amount of EUR 31 thousand, of which principal in the amount of EUR 15 thousand overdue from 1 to 103 days, plus interest and charges in the amount of EUR 16 thousand overdue 1 day. The total amount of outstanding interest overdue was paid within 39 days after the maturity; the outstanding principal overdue was settled within 27 days.

Restructured assets

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

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

In 2010, the Bank mainly extended the maturity of financial assets – loan receivables in the total amount of EUR 27 076 thousand, whose operating financing was EUR 6 994 thousand, investment loans was EUR 6 437 thousand, and project financing was EUR 13 645 thousand.

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

Major credit risk exposures

(a) Concentrations to national economy sectors

EUR '000	2011	2010
Non-banking financial services	4 970	5 910
Manufacturing	31 586	16 974
Of which: photovoltaic power plants	*13 258*	*9 390*
Construction	12 485	3 371
Agriculture and forestry	3 571	1 263
Commercial real estate - cash flow based	8 653	27 429
Commercial real estate - collateral based	21 889	54 292
Commerce and services	50 276	24 460
Other	4 321	1 610
Individuals	31 451	14 266
Healthcare services	22 748	24 449
Leisure, cultural and sports activities	10 921	10 838
Total	**202 871**	**184 862**

(b) Concentrations to significant connected groups of debtors

The Bank does not recognise significant exposures to connected groups. As at 31 December 2011, the maximum rate of exposure to a debtor or an economically connected group is capped at EUR 8 334 thousand owing to the amount of the Bank's capital (2010: EUR 7 582 thousand).

Maximum credit exposure

EUR '000	2011	2010
Cash and balances with central bank	12 762	24 591
Loans and advances to banks	33 213	10 887
Loans and advances to customers	197 062	179 523
Securities available for sale	112 817	286 920
Securities at fair value through profit or loss	4 923	5 610
Securities held to maturity	273 382	5 675
Investments in subsidiaries	7	7
Tax prepayments	95	-
Deferred tax asset	119	-
Other assets	767	901
Total	**635 147**	**514 114**
Undrawn loan facilities	21 497	24 541
Provided guarantees	2 931	1 018
Total	**24 428**	**25 559**
Total credit risk exposure	**659 575**	**539 673**

42. OPERATIONAL, LEGAL AND OTHER RISKS

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

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

43. FAIR VALUES

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

EUR '000	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Financial assets				
Cash and balances with central banks	12 762	12 762	24 591	24 591
Loans and advances to banks	33 213	33 213	10 887	10 887
Loans and advances to customers	197 062	202 123	179 523	184 117
Securities available for sale	112 817	112 817	286 920	286 920
Securities at fair value through profit or loss	4 923	4 923	5 610	5 610
Securities held to maturity	273 382	270 075	5 675	5 663
Investments in subsidiaries	7	7	7	7
Financial liabilites				
Deposits from banks	70 019	69 345	9 992	9 992
Deposits from customers	481 137	481 674	423 285	422 416
Debt securities issued	41 622	41 730	39 817	39 902

The method used to determine the fair values of selected financial assets as at 31 December 2011:

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

The method used to determine the fair values of selected financial assets as at 31 December 2010:

EUR '000	Market value	Own model with reference to market rates	Own model without reference to market rates	**Total**
Loans and advances to customers	-	184 117	-	**184 117**
Securities available for sale	124 366	156 215	6 339	**286 920**
Securities at fair value through profit or loss	775	4 835	-	**5 610**
Securities held to maturity	5 663	-	-	**5 663**
Investments in subsidiaries	-	-	7	**7**

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

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

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

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

Investments in subsidiaries
Net value of assets approximates fair value.

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

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

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

44. SIGNIFICANT SUBSEQUENT EVENTS

As of 1 January 2012, banks and branches of foreign banks in Slovakia are obliged to pay a special levy (the so-called bank tax). Banks and branches of foreign banks are obliged to pay the levy in four quarterly instalments in the amount of one fourth of the annual rate (annual rate: 0.4%) of the amount of selected liabilities of the Bank defined in line with Act No. 384/2011 Coll. on Special Levy of Selected Financial Institutions, Amending and Supplementing Certain Acts.

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 2011.

45. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were signed and authorised by the Board of Directors on 14 March 2012.

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. Radovan Fiala
Person responsible for preparation of financial
statements

Ing. Rastislav Blišák
Person responsible for bookkeeping

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