Tatra banka

Annual Report 2010

Slovakia

Member of Raiffeisen Bank International

TATRA BANKA

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TATRA BANKA
Member of Raiffeisen Bank International

Mission, Vision, Values

Mission of Tatra banka

We're shifting the boundaries of the banking business.

- We bring exceptional personal and financial comfort to clients that care who manages their money and how
- Each one of us creates an inspiring environment, where we like to work, realise our own personal objectives, and try to be better
- We have long been achieving above-average advancement of the firm's values

Vision of Tatra banka

We are perceived as the strongest and most attractive bank, with services that are noticeably of the highest quality.

Tatra banka is a prestigious employer, the best place to work, and a place we enjoy being.

Values of Tatra banka

Demanding Approach

We do things the best we possibly can, not satisfied with the average.

Fair Play

We act fairly and respectfully to everyone, and we insist on transparency in everything we do.

Enthusiasm

We try to encourage people, and to exceed their expectations.

Creativity

We bring new solutions, and support bold and innovative thinking.

Responsibility

We care about the success of our clients, employees, and the society we live in. We feel responsible for everything we do.

Team work

We realise the power of the team of which we are part. We willingly cooperate and respect each other.

Statement by the Chairman of the Board of Directors

Dear Shareholders, Clients and Business Partners,

Another year is behind us, and just like the one before, it was a year that was marked by the economic crisis and which was certainly not easy from the perspective of the business environment. The forecasts of analysts basically proved right, that the current crisis is not some short-term affair, but that it would have a more lasting long-term impact. This in turn reflected not just in our realistically set plans, but also in the results, which followed our expectations.

At the same time, I would draw attention to four facts about the year – talk started on the euro crisis and on the possible collapse of the eurozone in respect of the economic problems suffered by certain member states of the European Monetary Union; a merger took place involving the principal business areas of Raiffeisen Zentralbank Österreich (RZB) and Raiffeisen International (RI) - resulting in Raiffeisen Bank International (RBI); in practice our bank once more proved clearly to be the most innovative bank on the Slovak banking market, and even in the face of the crisis our commercial operations were more active than they were in 2009. I would like to mention that on 1 January 2011 a change was made to the Board of Directors, with member Peter Novák transferring to the post of Managing Director, International Operations, at the parent company Raiffeisen Bank International headquarters in Vienna. He was replaced by the experienced Natália Major, who till now was leading the Electronic distribution channels section and who has done great work to date. I see her arrival to the Board of Directors as an excellent choice and I am confident that the work of Natália Major in the Board of Directors will prove in practice to be a new dynamic impulse for the future development of the bank.

The dominant players in the banking sector include our majority shareholder Raiffeisen Bank International, which is strongly involved in the countries of Central and Eastern Europe. Last year, as I already pointed out, a merger took place of the principal business areas of Raiffeisen Zentralbank Österreich (RZB) and Raiffeisen International (RI) to produce the new entity - Raiffeisen Bank International (RBI). The transaction was a long-prepared step with the aim of simplifying access to the equity and capital market, and at the same time, with the aim of optimising the structure of the group and individual competences. Last year RBI achieved some interesting results when it achieved consolidated profit of EUR 1.087 milion. This means growth of 142 percent on the previous year.

I am personally pleased by the fact that we emerged as the most innovative bank in Slovakia also in the past year. We were first to put various innovations on the market, which for clients mean improved banking services and greater comfort. In February, as part of our Internet banking we made the unique functionality Spending Report available to clients, letting those who use the Tatra Personal service package assign their monthly expenses into clear categories. The introduction of the Tatra Personal service package itself, which we designed according to the wishes of our clients, proved to be a good idea and we will endeavour to improve it continually. That is why last year we came up with the innovation of a married couple's discount, thanks to which partners can use two Tatra Personal service packages for the price of one, whereby as part of the Reward programme they can cut this by an additional 50% or 100%. It is precisely because of the said beneficial rewards system linked to the Tatra Personal package that we managed to increase the interest of clients in the use of debit payment cards to a much greater extent also for making payments in shops, and not just for taking money out of an ATM. We also set up the Child Account for children aged 7 and up, so that they can learn from an early age how to deal with finances. We also add popular cards with pictures of the cartoon characters Tweety and Spider-Man.

As the first and only bank in Slovakia, we cancelled the fee for cash deposits to accounts of private individuals, even though this is one of the most costly cash handling operations and one which generated profit for the bank. We are aware of the fact, however, that clients really have no other way of depositing cash into their accounts than physically at the bank. That is why we saw this as a fair step towards clients, who we so much appreciate.

On the subject of innovations, we could not neglect to mention that we were the first bank to make internet banking accessible to our clients via the special internet banking application developed for iPhone. This followed on from our step from 2009 when we provided clients with an optimised version of Internet banking for all mobile devices that have any version of internet browser installed. With the new iPhone internet banking application we give clients the comfort of having the most commonly used banking services available directly from their mobile phone. This means that as soon as they launch the application, clients can check the balance of their accounts, credit card transactions, payments made, and securely send payment orders, no matter where they are. This application was met with a hugely positive response and clients particularly appreciate the comfort that it gives them.

In co-operation with the international card company Visa, in October we started issuing payment cards to clients with contactless technology, which is seven times faster than making payments using a PIN code, and twice as fast as payments in cash. This is one of the most modern technologies used in “western banking”. We are continually expanding the network of shops where contactless payments can be made. With adoption of the Act on Payment Services, we were the fist bank in Slovakia to put clients first by waiving the EUR 100 co-payment of clients prescribed by law provided they report a lost or stolen card on time.

We are also active in other areas that have a social or human dimension. We were the first bank, for instance, to equip our ATMs with voice commands through an earphone, allowing the visually impaired and the blind to operate ATMs independently and so fully utilise the majority of its key functions.

As the summary of our innovative steps indicates, we endeavour to provide our clients with products of the highest quality and innovative solutions with the highest possible added value. We take care to ensure that the use of our products, services and solutions is improved by innovations and clients are served with unique functionalities. I can therefore say with pride that we introduce more innovations to the Slovak market than any other bank, and that we create products with excellent properties, which assures us the long-term trust of our clients.

I also mentioned how despite the crisis the market started to recover compared to 2009, and the situation is gradually stabilising. It is also true that several negative aspects from the previous period started to set in, such as secondary insolvency and other factors. Thanks to our analyses, we prepared for the consequences that could be anticipated in a real way. I would like to just outline them:

The balance sheet total of Tatra banka for last year came to EUR 8.73 billion, which was a drop of 2.7% compared to 2009, caused by optimisation of the structure of assets and liabilities. Where assets are concerned, after a slight drop in 2009 we returned to growth regarding loans to clients, which were up 5.4%, and in the case of deposits we grew by 1.3%. We managed to exceed slightly the net profit from last year by 0.6%, which in absolute terms means a net profit of EUR 91.3 million. A one-off factor that increased the comparative base last year was the sale of a subsidiary, which caused a year-on-year outage in the Net profit (loss) from shares in subsidiaries and affiliates by EUR 11.6 million. Excluding this one-off effect in 2009, the year-on-year growth in net profit would have been 15%.

On the side of expenses, after a sharp drop in 2009 by 11.7% we managed to maintain them at a stable level with a growth of 0.6%.

Thanks to the better structure of revenues, positively affected by double-figure year-on-year growth in interest income and also revenues from fees and commissions, upon a minimum increase in costs, we posted significant improvement in the cost/income ratio from 57.7% to 55.7%. The drop in net profit from financial instruments was EUR 26.6 million lower year on year that influenced also net profit. A responsible risk policy meant lower provisions for non-performing loans, which last year came to EUR 43.9 million, a drop of 16.4%. The Bank continued to preserve a very good ratio between provided loans and received deposits on the level of 84.4%, which greatly contributes to ensuring adequate liquidity.

From the perspective of risk management, following the demanding year of 2009 the loan portfolio not only stabilised in 2010, but also thanks to experiences gained from the crisis, internal processes were optimised and further advanced tools for measuring and managing risk and capital adequacy were gradually put in place. In the area of credit risk, the regulatory bodies approved the use of internal ratings for us to calculate capital adequacy also in terms of the retail portfolio. It is also thanks to these tools that we are capable of predicting our risk profile over the long-term, and in this respect we are capable of planning the use of tools for mitigating risks and of ensuring that a corresponding level of capital is preserved. At the same time, these tools ensure the consistent development of financing in those economic sectors where the supposition of financial stability and return on investment has been established, which then has a positive effect on eliminating systemic risks in the sector.

Considering the prudence of how we do business, throughout the whole of 2010 we maintained a sufficient volume of internal capital required to cover risks that we took on by way of our commercial activities (Basel II. Pillar 2 - ICAAP). As part of this prudent approach, we carried out integrated stress tests, which showed that in the event of a further wave of recession we would be able to bear the negative impact without a threat to our stability.

In the past year we continued with activities that produced more effective and faster clearance of payment orders for clients. One of the changes arising out of our affiliation to the strong group of Raiffeisen Bank International was a shorter term for processing cross-border transactions made to the accounts of RBI group clients. Once again we supported the European initiative aimed at the establishment of the Single Euro Payments Area. The main benefit of this is to remove the differences between domestic and cross-border payments, and the unification of standards, rules and procedures for the payment systems of all eurozone countries.

One of the outcomes of these activities is the introduction of a new banking product – SEPA Direct Debit, which provides an alternative way of making cross-border payments within the European Economic Area. Our interest in the development of new products and involvement in European initiatives helped us reinforce our strong position on the Slovak banking market and maintain the growing trend in the number of processed payment transactions. In domestic payments we recorded a growth in the number of client payments by 4% over the previous year, while the dynamic of growth in the area of cross-border payments was even more distinct, reaching the level of 12%. We are pleased to see a strong interest of clients in using foremost our electronic banking services, both for domestic and cross-border transactions, with almost 90% of the total number of transfers being made through electronic distribution channels. It is in our interest to support and develop further this form of banking through already established and prepared innovations.

In respect of trade financing, export financing, agri financing, factoring, bank guarantees and letters of credit, in all these areas Tatra banka was number one in Slovakia according to the magazine Global Finance. This prestigious international economic magazine once again awarded us the title of The Best Trade Finance Bank. For the region of Slovakia, in 2011 Tatra banka successfully defended this title for the second time (also in the category of Best Consumer Internet Bank for our Internet banking). The past year confirmed the correctness of the decision to create an independent specialised unit for dealing with financing in the agriculture sector. Despite the end of the boom in euro-projects, we still strengthened our position as one of the leaders in the agribusiness with a market share heading towards 25%, while also successfully raising the Agrofinancovanie™ brand. Factoring and receivable financing saw strong growth last year. The volume of the average balance sheet total increased from almost EUR 60 million in 2009 to EUR 83.5 million in 2010. This represents a growth of over 39%. The profitability of factoring and receivable financing products shot up almost 40% year-on-year.

Mandate granted by the Debt and Liquidity Management Agency (ARDAL) to lead syndicated issue of government bonds of the Slovak Republic in cooperation with three other banks was a huge success we achieved in the field of investment banking. We closely cooperated on this issue with our parent bank, RBI. The issue was extremely successful and government bonds of the Slovak Republic in total volume of EUR 2 bn. with maturity of 15 years were placed in the financial market on 6 October 2010. The issue was significant not only for Tatra banka but also for the entire RBI group, since it has been the very first mandate for issue of government bonds granted to one of the Raiffeisen group banks. This, also, is a reason for awarding the issue the “RBI Group – Deal of the year“ award by RBI Credit Market Awards.

We also have successful results in other areas, however. We traditionally held the number one position among Slovak banks in the field of Private banking. Our subsidiaries from the Tatra banka Group, namely Tatra Leasing, Tatra Asset Management, and DDS Tatra banky, can also report very pleasing results.

Just as in the previous period, we continued to be active in social areas. We are a bank that by way of its Foundation supports art and education. In November, for the fifteenth time we presented the Nadacia Tatra banky awards for art to those artists that had been chosen by an expert panel in individual categories. In co-operation with the University of Economics in Bratislava and the non-profit organisation Virtual Scientific Laboratories, we continued with our Nobel Prize Lecture Series also in 2010, which gave Slovak students and the public the chance to hear lectures by two Nobel Prize winners for the area of economy, namely Professor Robert Mundell (he received the prize in 1999 for analysis of the monetary and fiscal policy under different exchange rate regimes and for his analysis of optimum currency areas) and Professor Edmund Phelps (he won the prize in 2006 for his clarification of the causality between the inflation rate and unemployment). The standard of education in our society is important to us, which is why we support, and will continue to support, students studying at prestigious universities abroad as part of the grant programme Študenti do sveta (Students to the world).

In concluding my brief summary of the past year, I would like to say that just as the new centre-right government that won the June 2010 elections is facing the challenge of reviving the business environment and public finances, which its voters expect from it, we also stand before the challenge of reinforcing our leading position in those areas in which we dominate and push more in those where the competition is ahead of us. Only healthy and respectful competition and market mechanisms can push forward not just the threshold of banking in itself, but also the quality of services. Even though we enjoy successes in this and other areas, we want to keep working on the reserves we have, improve even more and provide clients with services that are not just standard, but which have clear added value. We have adequate human potential to do this, something that Tatra banka has always excelled in. I am therefore confident that we will build on the positives from this year with the aim of becoming the bank that is distinguishable by the highest quality of services.

Allow me in conclusion of my summary of last year to thank all our clients for the trust they have put in us, and also the shareholders for their support, partners for their co-operation and my co-workers for their hard work and input, and also to wish all of you a highly successful 2011.

Ing. Igor Vida
Chairman of the Board of Managing Directors and General Director

Statement by the Supervisory Board President

Ladies and Gentlemen,

Although most banking executives remember 2009 as an incredibly intensive year, 2010 raised the bar again for intensity. This time, however, the bulk of our efforts were internal, as we were working on a major reorganization of our Group. Raiffeisen International, the former parent company of Tatra banka, was merged with the principal business areas of Raiffeisen Zentralbank (RZB) to form Raiffeisen Bank International (RBI), which was entered in the commercial register in October. One of the goals of the merger was to combine the dense network of Raiffeisen International in CEE with RZB's product development expertise in the field of corporate and investment banking, thereby generating added value for both our customers and shareholders. In addition, RBI now benefits from even better refinancing opportunities – where Raiffeisen International previously accessed the equities market and RZB used the debt market, the new RBI can now access both.

2010 was also the year in which our home market Central and Eastern Europe (CEE) showed the first signs of improvement, after the outflow of liquidity at year-end 2008 and the resulting economic downturn. The sharp declines in growth in 2009 were replaced by a return to real gains in economic performance. Besides the growing stabilization in CEE, economists expect that these markets will return to a higher level of growth than in the eurozone. We expect economic growth in CEE to be around 2 percentage points greater than in the western European economies. The driver for this trend is the continuing high potential for catch-up in the region, which should re-emerge in the long term as Europe's growth zone. Despite the merger and resulting expansion of our area of activity, CEE will continue to be the central focus of our strategy.

Our result for 2010 shows that we took the right countermeasures during the crisis. Despite the continuing slight rise in nonperforming loans, which we expect to finally peak in the course of 2011, the RBI Group achieved a consolidated profit of EUR 1.087 million. This represents growth of 142 per cent on the previous year, which is a strong performance even by international comparison. The emerging economic recovery, the measures initiated in the current year to improve our efficiency and competitiveness as well as the trust shown by our customers and shareholders give me confidence for our whole group for 2011.

Herbert Stepic
CEO of Raiffeisen Bank International

Statement by Miroslav Uličný

The client at the centre of attention again in 2011

In 2010 the economic crisis started manifesting fully in the segment of small and medium-sized clients, after they had depleted their financial reserves in the previous year. The share of problem loans in the segment culminated in the first half of the year. Companies practically halted their investment activities, suffered a drop in orders, and cut costs, with demand for loans freezing and the loan portfolio declining as a result. Despite this situation, Tatra banka managed to increase its share on the market of corporate loans slightly. We concentrated primarily on optimising and automating the processes of client credit and services, as well as on preparations for implementation of the new system of Client Relationship Management.

The focus of our activities in 2011 will once again be on clients and their needs, with products that react to the current situation on the market, such as with regard to the projected growth in interest rates.

Based on a survey of client preferences and expectations, we are making a fundamental change to the processing of loan applications of clients that is founded on increased competence and comprehensiveness of the client service through relationship managers at Corporate Centres. This change will also allow us to concentrate more attention on the most important clients and clients with the greatest potential.

We want to preserve our leading position in the financing of corporate clients also by acquiring small and medium-sized enterprises in regions. Gaining new clients will not be based on an aggressive price policy, however, but instead on the ability of the bank to be a quality advisor and escort for these companies in their financial management. We want to seek optimal and reliable ways of financing for them, including alternative solutions for supplementing their own sources in investment financing.

Miroslav Uličný
Vice-chairman of the Board of Directors and Deputy General Director, Directorate III

Statement by Marcel Kaščák

The year 2010 was a year of stabilisation

Companies still being affected by the resonating crisis approached their investment activities very cautiously, which in turn reflected in stagnating demand for loans. A certain market revival was not visible until the second half of the year.

From the perspective of risk, the situation stabilised in general and during the course of the year no significant growth was seen in problem loans, except in those sectors where the crisis didn't hit in till later. On the other hand, many problem loans were successfully resolved. Overall, the share of problem loans ended much lower than the average for the whole Slovak banking market.

In 2011 we expect a more distinct revival in trade and demand, and later a gradual return to the pre-crisis level.

Marcel Kaščák,
Member of the Board of Directors, Directorate VII

Statement by Michal Liday

Retail banking in 2010 saw the "delivery" of prepared innovations to our clients and non-clients

In the course of 2010 probably every one of us experienced a fairly difficult period in their life. Although the business environment at the beginning of 2010 was weakened and stagnated thanks to the overall economic climate, I personally feel that our success lay in restarting the granting of credit to the business segment in Tatra banka. The growing trend of corporate loans contributed to improving the financial situation not just of entrepreneurs, but also private individuals. The demands of last year strongly motivated us not just toward increasing the activity of creative teams in preparing innovations, but it also saw our clients receive the latest hot offers directly by way of our employees, whether in branches, at the contact centre DIALOG, or by way of electronic communication services. I continue to regard Tatra banka as the clear leader in this respect. With the launch of the intuitive iPhone application for users of Internet banking, we are giving the general public the chance to use fully the potential of comfortable touch control. We also provided all Internet banking users with a tool for making their credits and debits clearer by way of the product Spending report.

The network of branches and ATMs were also not neglected when it came to innovations. Many of you appreciated the faster service at branches and the higher level of security in identifying clients thanks to document scanners. We were the first bank in Slovakia to provide blind and visually-impaired clients with easy access to their funds by way of special "speaking" ATMs. In 2009 we started providing the current account with the well-conceived and unique service package TatraPersonal for individual clients (or TatraBusiness for entrepreneurs), which for us means opening up the door for other new innovations. In the course of last year, as part of the service package TatraPersonal we offered a pleasant motivation for married couples with two separate accounts, by giving them a special discount offer on fees (Tatra Personal Spousal account). We now provide a contactless chip card automatically with each current account that is accompanied by a service package. Existing clients can also receive one and try out its benefits: simplicity and speed of payments, or the dismantling of small payments by "petty" cash. We made sure also not to forget about our children clients. We hope to educate the financial literacy of children in a targeted way by the Children's Account with attractive Tweety or Spider cards. In this way parents can give their children partial financial freedom and independence through our bank, while still being able to monitor and manage their children's "financial" life. We declared our responsible approach to managing finances also on the level of investments, whether it be through the unique SmartFund, or by providing the possibility to invest into the Socially responsible fund. Success was also enjoyed by Gift card with its exclusive design, which many used to present a gift to loved ones and so enable them to achieve a "secret" wish.

It is true that last year we no longer intensively expanded our branch and ATM networks as much as in previous years. The reasons for this are prosaic. We currently regard the whole territory of Slovakia as being covered optimally by branches and ATMs, but at the same time, if we wanted to present our clients with a large number of freshly prepared innovations, we had to focus our energy foremost on internal development of the current distribution network.

We have no plans at all to stop introducing innovations that make the life of our clients more pleasant and easier. We will work tirelessly and with pleasure on our visions during the upcoming period, because the satisfaction and trust of our clients is the engine that drives the whole of Tatra banka forward.

Michal Liday
Member of the Board of Directors, Directorate IV

Statement by Martin Pytlik

Tatra banka risk management will support further growth with state-of-the-art risk infrastructure

2010 was the first year after the deepest and longest economic crisis of our time. Tatra banka emerged very well from the crisis thanks to a conservative risk approach. The year was challenging in the sense that the aftermath of the crisis was still very dominant in our corporate portfolio whereas we saw a significant and somehow rather unexpected relief in our retail portfolio. 2010 was also the year in which Tatra banka got the approval from the Slovak banking supervision within the NBS to use the advanced IRB approch for our retail portfolio. Fulfilling the conditions accompanied with this approval was one of the biggest challenges in the last year. We consequently enhanced and updated our systems for recovering outstanding loans and our early warning systems which are key elements of our risk infrastructure.

In 2011 we will continue to build up and improve infrastructure elements such as fraud detection engine, loan application and decision processing systems, and tools for risk parameter estimations. This will be all done in the light of new regulations known as Basel III in order to prepare Tatra banka for the upcoming changes. One lesson learned from the economic crisis is that any successful market participant as Tatra banka will be constantly confronted with changes and therefore our implemented change management system for all key risk processes will guarantee swift and consequent implementation of regulatory and legislative changes. Last but not least we will constantly update and enhance our portfolio management system in order to even better manage the overall risk position of Tatra banka. Our risk team is convinced that knowing the magnitude and costs of all risk types within Tatra banka is the cornerstone of our successful business model.

Martin Pytlik
member of the Board of DIrectors, Directorate IV

Statement by Natália Major

Effective cost management at the forefront in 2010

Operations, deals with support activities for the other parts of the Bank, not just by way of process management, organisational and procedural units, but also via units dealing with the non-personnel costs of the Bank and facility and service management. The establishment of the Processing Centre in Prešov was completed in 2010 by the shift of processing claims, restructuring, payment transactions and the TAM back office agenda. The outcome of this move, in combination with automation projects focusing on the process of mortgage loans and the processing of payment orders, was greater operational efficiency, reflecting in almost a 30% reduction in costs for processing a single transaction at Operations. An example of the success of our processing staff is, firstly, how they coped with a greater number of applications during retail product campaigns (mortgages, consumer loans, credit cards, loans restructuring) in the course of the year and secondly, the huge interest in presentation visits from the side of RBI and RZB. Regarding the Transaction processing unit, the Middle Offices were centralised, leading to the establishment of the Credit Office. In July 2010 a Customer satisfaction department was created at headquarters. The main task of this department is to analyse the causes of how complaints arise (or claims and other initiatives) from the side of clients, and subsequently an improvement in bank processes aimed at their elimination.

In an effort to ensure effective cost management in the Bank in 2010, under the management of the staff at the Central procurement section the “Corporate Saving program” was launched, aiming to identify and minimise unnecessary non-personnel costs at individual units of the Bank. The result of these activities exceeded expectations and it produced a saving of almost € 9 million in operating costs and € 2 million in investment costs. In terms of setting procurement processes within the bank, the launch of a new application, which includes automatic matching of invoices, was a major benefit. The section itself underwent re-organisation in 2010, the successful coping of which reflects in the co-operation with procurement sections abroad within the Group and in co-operation upon transformation of the procurement section in AVAL bank.

For the Operations the year 2011 will carry the spirit of new management. The new direction will mean organisational changes, which are intended to increase effectiveness, and simplify management and the communication of our units with others, especially the business units of the bank. The prepared projects will concentrate mostly on process automation (for mortgages, garnishments, processes of the car fleet management and so on), which represent a huge challenge for the bank. The successful management of this will be a major benefit not just for bank employees, but in particular for clients in the end, as we will be able to provide them much faster and more effectively with the product that they came to the bank for.

Natália Major
Member of the Board of Directors, Directorate VIII

Statement by Vladimír Matouš

The aim of IT is to allow Tatra banka to maintain its position as leading innovator

In the area of IT, in 2010 we continued with the transformation changes launched in 2009, which will ensure that we maintain a high standard of services for Tatra banka clients, while also increasing our productivity, which is growing by almost 15% year-on-year.

Our main objective, however, is to make sure Tatra banka retains its permanent position as leading innovator on the Slovak market. Innovations that were put on the market in 2010, such as the service package Tatra Personal, Internet banking for iPhone or the contactless payment card, all prove that we are fulfilling this objective well. Likewise, the successful completion of implementation of the modern CRM (Customer Relationship Management) system means Tatra banka can now provide its clients with even better services than before.

The IT of Tatra banka has the ambition to be a dynamic organisational unit based on current methods of managing the operation of information systems and the development of applications, holding its own among the competition of other IT solution providers on the Slovak market. To achieve this we utilise state-of-the-art technology available on the market today, as well as progressive methods of work, such as agile programming (SCRUM) or optimisation of our processes with the use of LEAN or Six Sigma methods.

Vladimír Matouš
member of the Board of Directors, Directorate V

Survey of Key Data

Survey of key data according to International Financial Reporting Standards

(v EUR thousands)	2010	2009	Change
Consolidated Statement of Comprehensive Income			
Net interest income	267 885	242 348	10.5%
Provisions for impairment losses	(43 948)	(52 574)	(16.4)%
Net fees and commission income	102 194	89 550	14.1%
Net profit (loss) from trading instruments	14 277	40 808	(65.0)%
General administrative expenses	(210 872)	(208 110)	1.3%
Profit before income taxes	124 067	121 822	1.8%
Comprehensive consolidated profit after tax	94 165	94 884	(0.8)%
Earnings per ordinary share (nominal value per share: 800 EUR)	1 387	1 525	(9.0)%
Earnings per ordinary share (nominal value per share: 4 000 EUR)	6 934	7 627	(9.0)%
Consolidated Statement of Financial Position			
Loans and advances to banks	530 486	1 066 737	50.3%
Loans and advances to customers, gross	5 769 270	5 484 549	5.2%
Deposits from banks	61 582	103 448	(40.5)%
Deposits from customers	6 801 644	6 716 322	1.3%
Equity (including consolidated profit)	849 450	808 233	5.1%
Balance sheet total	8 762 114	9 013 941	(2.8)%
Performance			
Return on equity (ROE) before tax	15.9%	17.7%	(10.4)%
Cost/income ratio	55.95%	55.40%	1.0%
Return on assets (ROA) before tax	1.4%	1.2%	16.3%
Resources			
Number of staff on balance sheet date	3 492	3 521	(0.8)%
Branches on balance sheet date 1)	154	148	4.1%

Ratings	Long-term	Outlook	Short-term	Bank Financial Strength
Moody´s Investors Service	A2	negative	Prime-1	C-

1) *Inclusive of Corporate centres, "Centrum bývania" branches and the Investment centre*

Tatra banka - Strong Member of a Strong Group

Tatra banka is a subsidiary of Raiffeisen Bank International AG (RBI), a leading universal bank in Central and Eastern Europe (CEE) and one of the foremost providers of corporate and investment banking services in Austria. RBI originated from the merger of the spun-off business areas of Raiffeisen Zentralbank Österreich AG (RZB) with Raiffeisen International Bank-Holding AG. The transaction was legally completed in October 2010. RBI is a fully-consolidated subsidiary of RZB, which owns 78.5 per cent of the bank's common stock. The remainder is in free float, with the shares listed on the Vienna Stock Exchange.

RBI offers corporate and investment banking for Austrian and international companies, an extensive banking and leasing network in CEE for both corporate and retail customers, as well as corporate and investment banking services in Asia and the world's principal financial centres. The group's subsidiary banks are present in the following Central and Eastern European markets:

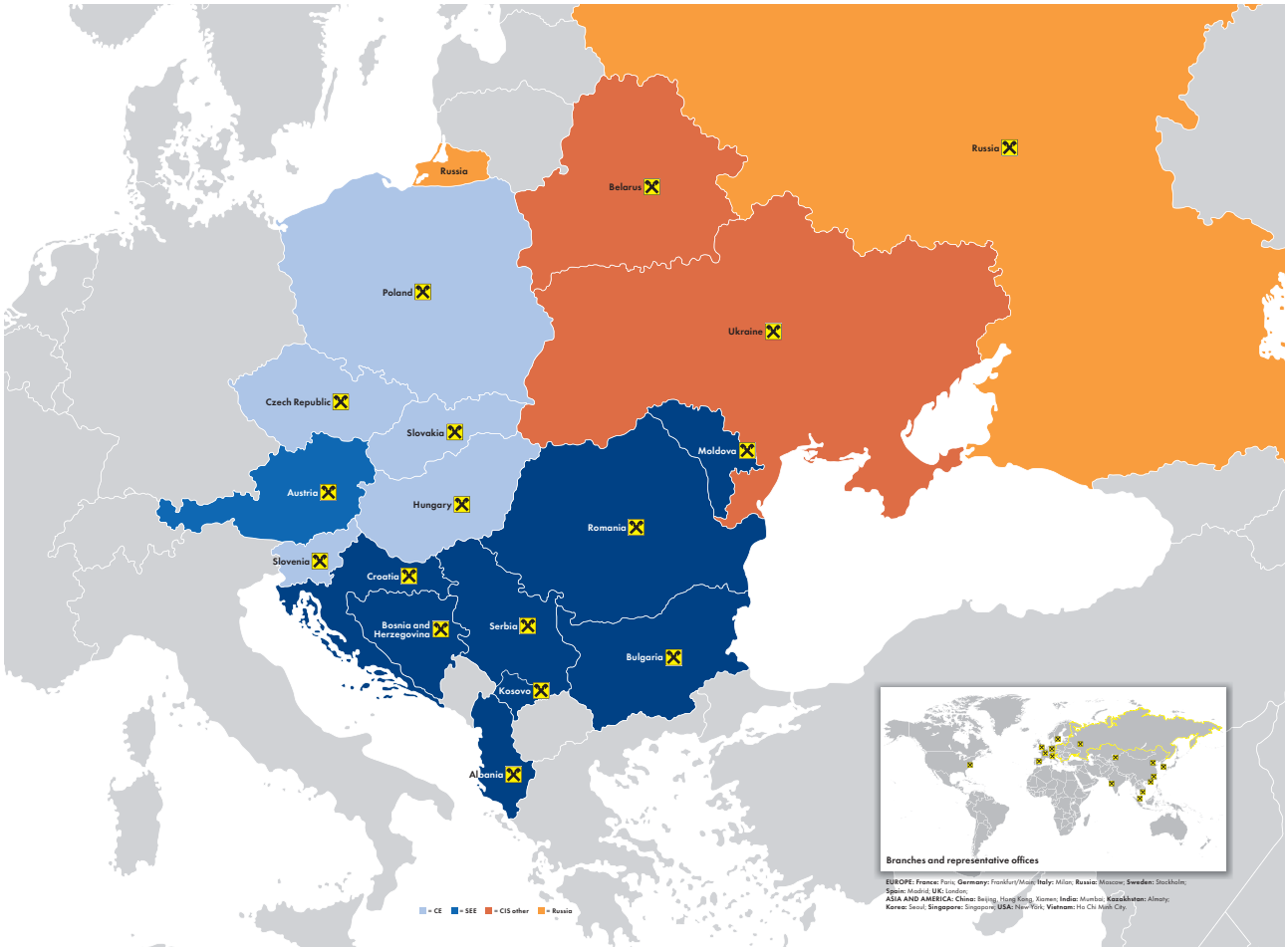
- Albania — *Raiffeisen Bank Sh.a.*
- Belarus — *Priorbank, OAO*
- Bosnia and Herzegovina — *Raiffeisen Bank d.d. Bosna i Hercegovina*
- Bulgaria — *Raiffeisenbank (Bulgaria) EAD*
- Croatia — *Raiffeisenbank Austria d.d.*
- Czech Republic — *Raiffeisenbank a.s.*
- Hungary — *Raiffeisen Bank Zrt.*
- Kosovo — *Raiffeisen Bank Kosovo J.S.C.*
- Poland — *Raiffeisen Bank Polska S.A.*
- Romania — *Raiffeisen Bank S.A.*
- Russia — *ZAO Raiffeisenbank*
- Serbia — *Raiffeisen banka a.d.*
- Slovakia — *Tatra banka, a.s.*
- Slovenia — *Raiffeisen Banka d.d.*
- Ukraine — *VAT Raiffeisen Bank Aval*

The parent company of these banks is RBI, whose shareholding in them is at or near to 100 per cent in most cases. The Raiffeisen Bank International Group also includes many finance leasing companies (including one each in Kazakhstan and Moldova) and a number of other financial service providers.

In Western Europe and the USA, RBI operates a branch in London and representative offices in Frankfurt, Madrid, Milan, Paris, Stockholm, and New York. A finance company in New York and a subsidiary bank in Malta complement the scope of the bank's presence. In Asia, the Group's second geographical focus, RBI runs branches in Beijing, Xiamen and Singapore, a finance company in Hong Kong, as well as representative offices in Ho Chi Minh City, Hong Kong, Mumbai and Seoul. This strong presence clearly underlines the Group's emerging markets strategy.

In addition to its banking operations, RBI runs several specialist companies in CEE that offer solutions in a wide variety of areas, including M&A, equity investment, real estate development, project management and fund management.

The RBI Group's consistent commitment to quality is regularly reflected by a broad range of local and international awards, including by such leading finance industry publications as "The Banker", "Euromoney" and "Global Finance".



RZB and the Austrian Raiffeisen Banking Group

RBI is a subsidiary of Vienna-based RZB. Founded in 1927, RZB is the steering holding of the entire RZB Group and the central institution of the Austrian Raiffeisen Banking Group (RBG), the country's largest banking group.

RBG represents approximately a quarter of all banking business in Austria and comprises the country's largest banking network, with 535 independent banks and 1,689 branches (year-end 2009). As of year-end 2009, RBG's consolidated balance-sheet total amounted to € 260 billion. RBG's three-tiered structure consists of Raiffeisenbanks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. Raiffeisenbanks are private cooperative credit institutions, operating as general service retail banks. Each province's Raiffeisenbanks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 88 per cent of RZB's ordinary shares. The cooperative idea on which the Raiffeisen organisation is based reflects the principles and work of the German social reformer Friedrich Wilhelm Raiffeisen (1818-1888).

www.rbinternational.com
www.rzb.at

Raiffeisen-Glossary

Gable Cross

The international Raiffeisen logo is the Gable Cross. It consists of two stylized crossed horses' heads and can be traced back hundreds of years to European folk traditions. It is a symbol of defence against evil and life's dangers and can still be found on rural houses in Central Europe. According to their founder's objectives, Raiffeisen's members have safeguarded themselves against economic hazards by uniting within the cooperative and therefore chose the Gable Cross as an emblem of protection under a shared roof. The logo has developed into an internationally well-known and very positively associated trademark and is in use around the world.

Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria's largest banking group by total assets. As per year-end 2009, RBG's consolidated balance-sheet total amounted to more than €260 billion. It represents about a quarter of all domestic banking business and comprises the country's largest banking network with more than 2,200 business outlets and 23,000 employees. RBG consists of *Raiffeisen Banks* on the local level, *Regional Raiffeisen Banks* on the provincial level and *RZB* as central institution. RZB also acts as the "link" between the international operations of its group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as general service retail banks. Each province's Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 88 per cent of RZB's ordinary shares.

The Raiffeisen Banks go back to an initiative of the German social reformer *Friedrich Wilhelm Raiffeisen* (1818 – 1888), who, by founding the first cooperative banking association in 1862, has laid the cornerstone of the global organization of Raiffeisen cooperative societies. Only 10 years after the foundation of the first Austrian Raiffeisen banking cooperative in 1886, already 600 savings and loan banks were operating according to the Raiffeisen system throughout the country. According to Raiffeisen's fundamental principle of self-help, the promotion of their members' interests is a key objective of their business policies.

Raiffeisen Bank International

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (CEE), including Austria, as its home market and core region. In CEE, RBI operates as a universal bank through a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 countries. In Austria, RBI is one of the leading commercial and investment banks. It is also present in the world's financial centers and has branches and representative offices in Asia. As of year-end 2010, some 60,000 employees served around 14 million customers in about 3,000 business outlets. The group's total assets amounted to € 131.2 billion.

RBI resulted from the merger of Raiffeisen International Bank-Holding AG (RI) with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB) in autumn 2010. By securing its good access to retail and corporate customers and merging the product ranges of RI and RZB, RBI has strategically realigned itself as a universal banking group in its core CEE region. Up-to-date risk management and substantially improved access to the capital market and all of its products ensure that the bank is well-equipped for future growth and to meet future challenges.

RBI shares, which are included in the ATX, the DJ Euro Stoxx Banks and other major indices, are traded on the Vienna Stock Exchange. Approximately 21.5 per cent of the shares are held by international investors, mainly in the UK and the USA, as well as by Austrian private investors. The remaining shares (approximately 78.5 per cent) are held indirectly by RZB. With its long-term "A" (S&P, Fitch) and "A1" (Moody's) ratings, RBI is also a regular issuer of debt securities.

RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group centre for the entire RZB Group, including RBI. RZB functions as the key link between the Austrian Raiffeisen Banking Group and RBI, with its banking network in Central and Eastern Europe (CEE) and numerous other international operations.

RZB Group

The group owned and steered by RZB. Raiffeisen Bank International is the Group's largest unit.

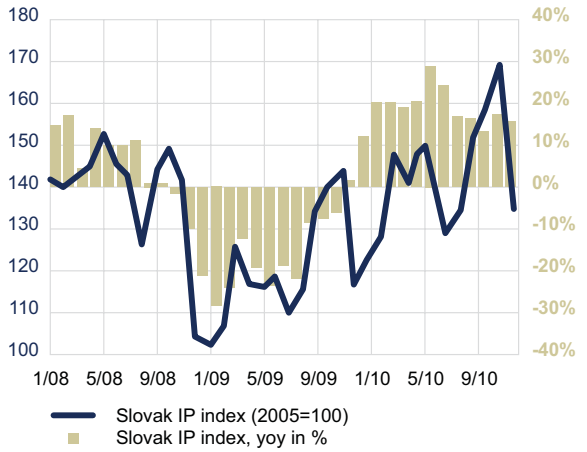
The Slovak Economy in 2010

Slovak industrial output has already overtaken its pre-crisis level, unemployment has stabilised and even wage levels in manufacturing companies have started rising. Governments have started dealing with public finance budgets in a responsible way and overall, economic development was far better than we had anticipated at the end of 2009. At the same time, however, many countries have been strongly hit by the problem of public finances, which will take some time yet before it is resolved.

According to the Statistical Office of the Slovak Republic, the Slovak economy did not lose the "drive" that it has been enjoying since the spring of 2009 even at the beginning of 2010. Industrial production grew from month to month and in June 2010 it essentially reached the pre-crisis level from June 2008. This revival of industry has continued surprisingly also into the second half of the year. Even though the growth has been driven forward mostly by production in the automotive sector, most other sectors have also been enjoying strong growth.

The volume of industrial production at the end of 2010 was about 35% higher than at the end of 2008, but the number of employed was still 14% lower. It is highly unlikely that companies would manage to generate an increase in labour productivity by 49% in the space of three years, which is why in the upcoming period we count with an increase in employment. Companies tried to cover growing production by the use of extra shifts, even at a higher cost of work (overtime and other payments). They opted for this because of the prevailing uncertainty over future orders. This explains why we witnessed a revival in production during the year, with the growth reflecting in employee wages rather than in the actual number of employed. At the end of the year the number of new orders was still very positive, and so we anticipate companies to take on new employees once again in the near future. The number of workers in this sector increased steadily by almost 13,000 from the end of 2009 till December 2010. Even though the total workforce in industrial production was still 109,000 less than the highest ever level from the beginning of 2008, industry was the only sector in 2010 to show a clear revival in terms of the employment growth trend. The other sectors of the economy were still more prone to stagnation or falling numbers of employees.

Slovak industrial production



Source: Statistical office of SR

Whereas industry hit its low point long ago, as per expectations the construction sector experienced falling output for most of 2010, and it only started to climb slowly again in October and November. If the overall development of the economy in 2011 does not differ so much from our current forecasts, and if the delayed motorway construction plans are not put back further, the beginning of 2011 should prove that the construction sector also already hit bottom in the second half of 2010.

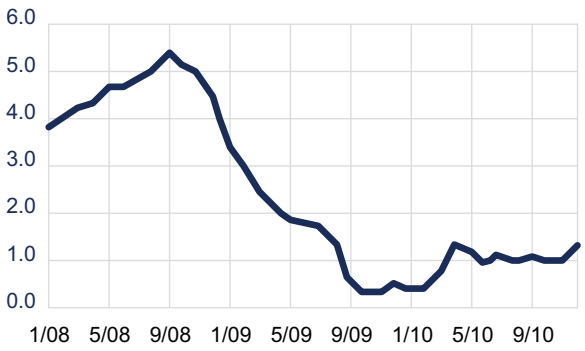
The re-ignition of industry was visible also in certain segments of services, with revenue statistics showing how transport and storage services were already profiting from revived production. Conversely, and surprisingly, wholesale only registered a mild growth in revenues from the previous year and was not benefiting from the development of industry as in previous years. Services linked to the purchasing power of the population are still in decline. The weak consumer demand reflected in the second year of falling retail sales. Unfortunately, not even data from the final months of 2010 showed a turnaround in the trend, despite record low inflation, mild growth in real wages, as well as double-digit growth in personal loans. A factor that probably held back consumer demand strongly was the hardly positive development of the unemployment rate.

The overall registered unemployment rate as published by the Ministry of Labour, Social Affairs and Family moved in the narrow range of 12.2 - 12.5% from May to December 2010. At the beginning of 2010 unemployment stood at 12.9%, rounding off the year at 12.5%, which shows only a slight improvement. For the whole year, unemployment dropped 2.3%, but on a quarterly comparison we can see it stabilising and improving from the second quarter already. Although this might only be symbolic improvement, it is pleasing to see a turnaround after six quarters of decline in a row. The growth in wages was pleasantly surprising, with the wages in industrial production, for instance, enjoying a year-on-year growth of as much as 6.6%. Other sectors, especially the public sector, had to suffice with only weak growth and so the average growth of the whole economy was pulled down to the level of 3.6%. Taking to account the low level of inflation, real wages increased by 2.6%. As the growth in productivity was as high as 5.7%, this overturned the development from 2009 when productivity fell 2.5% upon a 1.4% growth in real wages.

Industrial growth was obviously driven by exports, and so both these statistics increased sharply alongside each other. On a year-on-year basis, however, the foreign trade balance was around EUR 730 million worse off, and yet the overall balance remained positive with a figure of EUR 209 million. This deterioration could be put down to a revival in imports of investment goods and higher prices of oil and gas in the second half of the year.

For the whole of 2010 consumer inflation was unusually low by Slovak standards – prices grew by an average of 1%. The main reason for the almost stagnating price levels was, for the second year in a row, the extremely weak demand pressures and weak growth of regulated prices at the beginning of 2010, which sprung from low oil prices. Within individual categories of goods, the strongest growth was seen in food prices, which increased gradually from January 2010. By the end of the year, their year-on-year growth had reached as much as 6.2% and considering a global bad harvest we expect these to continue rising also in the coming months of 2011.

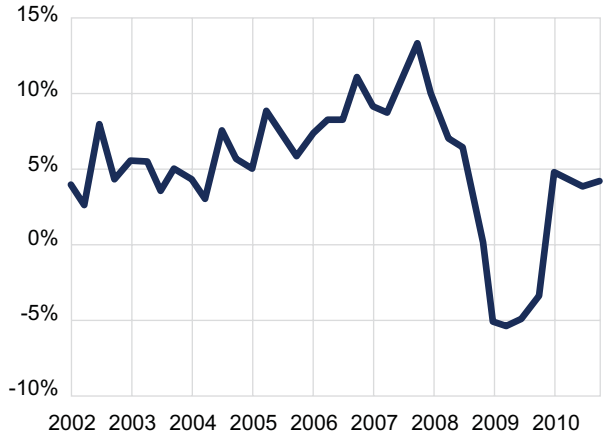
Headline inflation
(in %, national methodology)



Source: Statistical office of SR

From the beginning of the year, the development of public finances was on the negative track. Despite an ambitious plan adopted to slash the public finance deficit from 7.8% of the GDP in 2009 to 5.5% of the GDP in 2010, weaker collection of taxes and levies and the unwillingness of the former government to change the expenditure side of the budget in election year, means the final deficit will more likely be around the level of 7.8% of GDP once again. A continuation of this development in a period when investors are being exceptionally cautious when assessing how governments handle their finances, would be unacceptable. That is why the new centre-right government that emerged from the June elections adopted various measures on both the income and expenditure sides, which are intended to revert this status. The financial markets are confident that the government will manage to achieve its objective and that the deficit will be pushed under 5% of the GDP in 2011. It is precisely because of the trust in the government, the relatively low level of total debt (35% of the GDP) and the overall macroeconomic stability of the country, that Slovakia did not register any substantial growth in its spread in relation to German bonds in 2010, despite the escalating situation surrounding public finances in several countries.

Slovak GDP growth



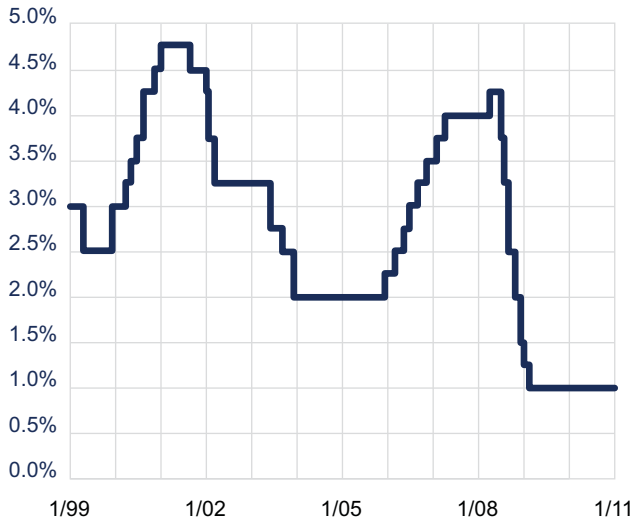
Source: Statistical office of the SR

What characterises the development of the eurozone economy in 2010, or even that of the whole European Union, is that the differences in development seen in individual countries are so large that to speak about some average development for the whole territory could be fairly misleading.

GDP growth in Germany for 2010 came to 3.6%, which is the highest level of economic growth over the long term. On the other side of the scale, countries like Greece, Ireland or Spain remained sunk in recession. The share of Germany in the GDP of the Eurozone is 27%, but its share in GDP growth of the Eurozone exceeded 50%.

In the spring of 2010 the prognosis for development of the key rates of the ECB was clear – central banks Fed and ECB – will have to resolve the speed of withdrawing excess liquidity that they put into the sector in the course of 2009-2010 without threatening operation of the money market. The situation in Greece turned prognoses upside down and the central banks started to apply further monetary easing. The ECB started buying up government bonds, which in Europe is still considered a very controversial step. The volume of purchased bonds is not that large yet (EUR 76 billion) and the ECB is withdrawing this liquidity in 1-week tenders. That is why this step alone does not increase the currency base as much as it could (and so does not threaten inflation development either).

Key ECB rate



Source: ECB

In December 2010 inflation in the Eurozone was at 2.2%, which is slightly above the inflation target of the ECB and forecast for whole year is above the 2% as well. One of the main reasons for higher inflation in the Eurozone was the hike in indirect taxes in some countries as a way of cutting their budget deficits. Due to uncertain situation regarding the future development of the public finances problem of countries will continue for a fairly long time, we had expected the ECB rates to remain at 1.00% until the end of 2011. But the ECB rate setting meeting in March was unexpectedly surprising and open the possibility of rate hike in first half of this year. Also the yield from government bonds react on this signal a head for higher levels.

The yields of 10-year German government bonds in the first months of 2010 were in the range around 3.2%, which was a record low level till then. Over time, though, as the situation regarding the potential default of Greece and possibly other countries in South Europe escalated, investors started giving preference to the purchase of secure German bonds. Furthermore, it started to become clear that an increase in the ECB rates was nowhere on the horizon. That is why yields fell to a record level of 2.1% in the summer of 2010. Since then the yields have gone back up and were practically on the same levels as at the beginning of the year (3.0%). From the start of the year Slovak bonds copied the development of German ones with a spread of around 100 points, increasing to 150 points as the Greek problems escalated. The election of a pro-reform government and adoption of a Consolidation Plan kept up the trust of investors and the spread at the end of the year had dropped back to 120 points. The total yield from a Slovak 10-year bond in December was 4.2%, which is a fairly attractive appreciation considering the record low inflation.

Risk management and Basel II

A well organised and consolidated system of risk management plays a very crucial role for the long-term effective functioning of the Bank. This role is perceived very responsibly in Tatra banka, also in the context of its systemic importance for the whole banking sector. As part of this, the Bank thoroughly satisfies the requirements of European directives implementing the rules known as Basel II, whereby their application is based on respective local legislative norms, while it is also actively preparing for the introduction of new regulatory rules known as Basel III. During the process of negotiating and approving the respective local legislative norms, the Bank actively participates in the activities of the Slovak Banking Association and its individual committees and working groups. The Bank plays just as important a role also in multilateral meetings with regulatory authorities and other organisations.

The concept, methodology and documentation for activities concerning risk management and Basel II are prepared in close co-operation with RBI, while respecting the local specifics of the Bank and the whole banking environment. Respective methodological concepts and process procedures then become an integrated part of the process of managing individual fields in the Bank, and are regularly updated in line with legislative or internal changes and strictly controlled by internal audit.

The aim of activities carried out in the field of risk management and Basel II is foremost to ensure as best as possible the most accurate evaluation, quality management and mitigation/elimination of credit, market and operating risks. Achieving this goal depends chiefly on

- ensuring the quality collation and preservation of relevant and potentially-relevant data,
- in order to produce a reliable methodology for measuring individual types of risk,
- to ensure effective and quality processes for prudent management of individual types of risk,
- to ensure quality and secure IT systems for automating processes, the collection and analysis of data,
- calculations and the provision of outputs.

These processes, also considering the changes in the economic environment, are becoming a key element for ensuring the long-term stability of the Bank's risk profile and its capital requirements, as well as the return from its own sources.

Likewise, pursuant to legislative requirements the Bank regularly publishes information about its activities, working procedures and results in great detail, which ensures transparency in relation to regulators, business partners and clients, also in the area of risk management.

Credit risk

To quantify risk-balanced assets and regulatory capital requirements for credit risk, which accounts for the biggest part of bank risks, from 1.1.2008 the Bank has been using a Standardised procedure, the aim of which was, and is, to switch to using the Internal Rating Based approach (IRB approach) as soon as possible. This is based on the use of internal rating models and internal estimates of risk parameters for the management, quantification and reporting of individual types of credit-related risks in line with its Implementation plan.

From 1.1.2009 the Bank has calculated the capital requirement in terms of the approved IRB approach for a large part of the non-retail portfolio (i.e. for sovereign entities, institutions, corporate entities, project financing, insurance companies, investment in funds and purchased receivables). Based on the approved IRB approach, the Bank is authorised to quantify capital adequacy for the aforementioned organisations through its own estimates of the projected likelihood of the counterparty defaulting, making the quantification of credit risk much more risk-sensitive, and also the capital requirement corresponds to the assumed risk much more in real time. Especially during the previous economic crisis, this approach made it possible for the Bank to include in its capital requirement the influence that the period of economic decline had on its portfolio.

Based on the Implementation Plan, the Bank also approved the use of the IRB approach from 1 April 2010 also for the retail part of its portfolio, which allows the Bank to calculate also the risk profile of this portfolio based on its own estimates of all significant risk parameters, foremost regarding the likelihood of retail clients defaulting and their exposures, losses in the case of default and credit conversion factors for off-balance sheet exposition and then to utilise these estimates for comprehensive portfolio risk management.

An essential part of the activities of 2010 comprised continuation in the implementation of complex change management also with regard to key retail and non-retail risk processes with the aim of achieving their long-term stability and trustworthiness.

The basic principles of managing the credit risk of non-retail clients are set out in the Credit Manual of the RBI Group, which is binding for the whole group. The direction of the Bank in managing non-retail credit risk is elaborated in more detail in the Credit Policy of Tatra banka, which is pre-approved each year by the Supervisory Board. For the upcoming period, the Credit Policy defines target, restricted and excluded sectors of financing, the minimum requirements for a credit transaction with each client (rating, value of collateral, requested margin), and also the target structure of the loan portfolio. The Bank is very conservative in the formation of provisions, and apart from individual provisions it forms also portfolio provisions for the non-retail loan portfolio.

Regarding retail risk, in 2010 the Bank continued to concentrate primarily on stabilising the quality of the loan portfolio and the development of infrastructure, also in line with the approved IRB approach. The process of regularly developing and updating scorecards greatly helps also to have reliable and consistently managed portfolios. The goal of building up infrastructure is to create a reliable solution that makes flexible reaction to external changes possible. A fundamental part of this is to define targets for individual components of credit risk management, and also for employees themselves. The mentioned process can be characterised as a comprehensive approach comprising thorough preparation and subsequent application of the principles of credit risk, credit policy and guidelines, as well as effective management tools.

Market risk

The situation in respect of market risks partially stabilised in 2010. Even so, the Bank continues to monitor all types of market risk very carefully. The methods and models used for monitoring market risk are therefore still subject to strict supervision and the parameters affecting the outputs are regularly re-appraised so as to reflect the situation on the financial and capital markets as accurately as possible. The limits protecting the Bank against turbulences on the markets are set prudently and conservatively in order to constrain losses in the event of negative development.

The liquidity of the Bank continues to be regarded as a top priority in terms of the healthy functioning of the Bank. This is another reason why models for monitoring the state of liquidity are set very conservatively, so as not to endanger the functioning of the Bank even in the event of stress scenarios that can occur on the market.

Operating risk

Calculation of own sources to cover operating risk is done in the Bank by the standardised approach method. As the Bank is well aware of the seriousness and possible impact of operating incidents on the profit and value of the Bank, it uses a set of qualitative and quantitative methods for identifying and managing operating risks. By applying this approach, in 2010 the Bank managed as part of the annual Risk Assessment to identify various risk areas in the processes and procedures of the Bank from the perspective of operating risk and then take steps leading to mitigation or complete elimination of the identified risks.

The most significant risk and the risk with the greatest impact in terms of operating risks is the risk of external credit frauds and payment card frauds, with related losses. Despite this, their total volume is comparable to the volume seen in previous years. The Bank gives priority to efforts leading to their maximum elimination.

Basel II, Pillar 2 and economic capital

The Bank has implemented and is continually modifying and supplementing the methodology and process procedures also for the internal process of determining capital adequacy (so-called Pillar 2). As part of this process, all relevant risks are evaluated regularly in the Bank in line with the risk profile, their quantification and evaluation in the context of the risk appetite that the Bank is willing to undergo and the projected formation of capital and subsequent reporting for the Bank management.

In the course of 2010 the Bank covered identified risks with a safe reserve using internal capital.

The process of capital allocation is an integral part of this, as it is closely linked to the budgeting process. As part of this process, by using an approved allocation key individual commercial units of the Bank are assigned an expected level of the performance indicator Return on risk adjusted capital (RORAC). This indicator expresses the level of yield in relation to risk, which individual transactions, portfolio and business units should achieve in order to satisfy the anticipated goals of the shareholder at an acceptable level of risk. A risk-adjusted view of the Bank's performance will continue to be a priority also in the upcoming year 2011.

Forecasting and stress testing capital adequacy

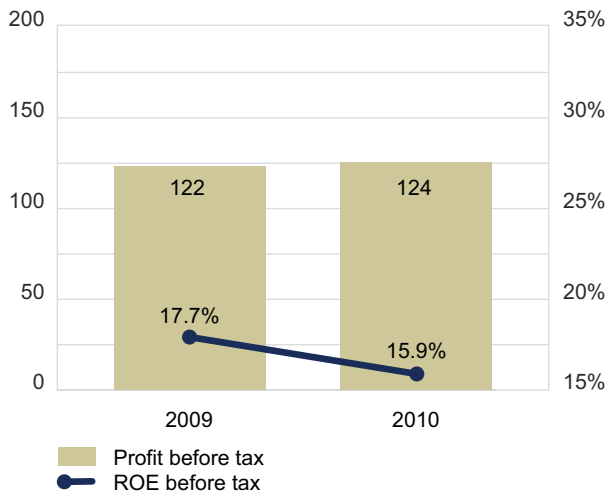
Due to the transition to more advanced ways of measuring risk and capital adequacy, together with changes in the economic environment, a crucial aspect of risk management is the thorough prediction of capital adequacy, as well as stress testing, with the aim of eliminating the impact of unforeseeable events and for the sake of effective capital planning. Information about individual risks facing the Bank and about capital are taken into account in the actual running of the Bank and in its sales strategies so as to achieve an optimum compromise between reducing individual types of risk and increasing market share, profit and return on capital. The risk-sensitive quantification of regulatory capital requirements and economic capital constitute the basis of an objective decision-making process.

In 2010 the Bank continued to develop its stress testing of capital adequacy for credit risk based on internal estimates of risk parameters, this in relation to potential changes to estimated risk parameters, the migration of clients and receivables as part of rating levels, a drop in the values of security, the state of economic recession and other changes for all material sub-portfolios of the Bank. Integrated results of stress testing were presented to the Bank management, and their results showed that the Bank has sufficient internal capital to cover losses arising out of stress scenarios.

Summary of Consolidated Performance

The consolidated pre-tax profit of Tatra banka Group increased 1.8%, year-on-year, i.e. by € 2.25 million to € 124.07 million and the consolidated profit after tax reached € 94.17 million. This result can be credited to the growth in net interest income by 10.5%, i.e. by € 25.53 million, and in net income from fees and commissions by 14.1%, higher in absolute terms by € 12.64 million. These positive trends did not display into a higher final profit due to a drop in net profit from financial instruments for trading, which was down € 26.5 million year-on-year. Likewise, other operating profit (loss), which last year included the sale of a subsidiary, posts a year-on-year drop of € 10.4 million. These circumstances caused a slight deterioration in the indicator of the cost-income ratio at 55.95% from last year's level of 55.40%.

Development of profit and return on equity
mil. EUR

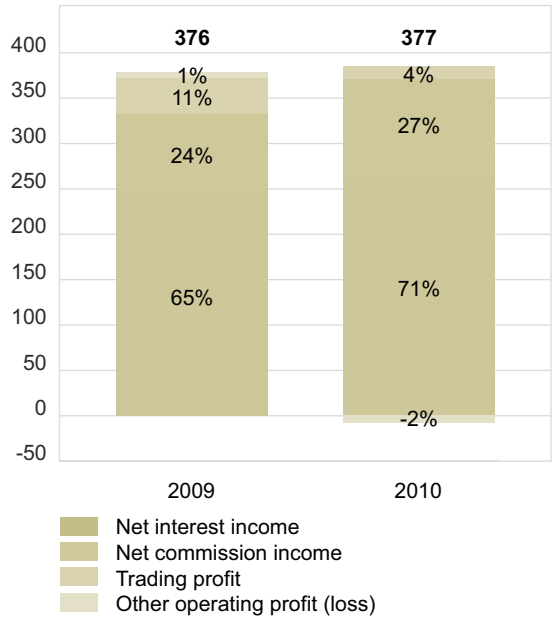


Where costs are concerned, we managed to maintain the level of the previous year, with a year-on-year growth of just 1.3%, which is a reflection of the increased effort to achieve more effective use of sources. The outcome of a responsible risk policy is lower allocation to provisions for impairment losses, which represented € 43.95 million in 2010, a drop of 16.41%. The balance sheet amount of the Tatra banka Group to the end of the year came to € 8.76 billion, which is a drop of 2.79% compared to 2009, thanks to optimisation of the structure of assets and liabilities. On the assets side, after a slight drop in 2009 we returned to growth in the loans to customers by 5.2% and in deposits from customers by 1.3%.

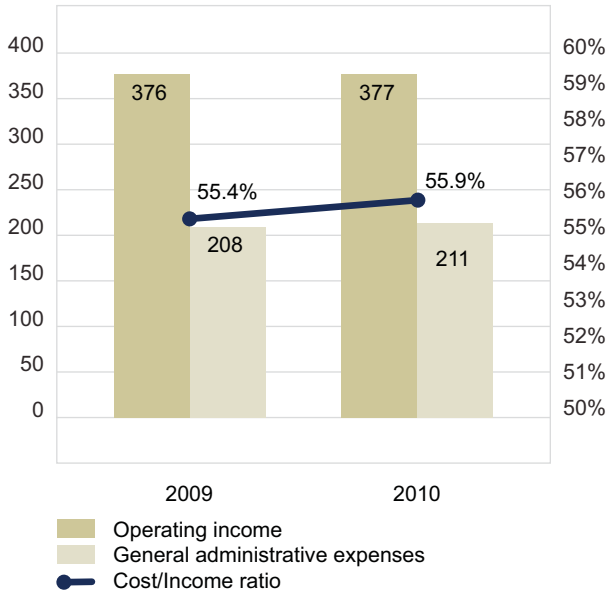
Development of income and expenses

Development of Net interest income was affected by lower interest expenses due to the development of market rates, especially in term deposits, and lower amount of mortgage bonds. The lower market rates led also to lower interest yields, but the overall effect of these movements works in favour of a higher Net interest income, which was up by € 25.53 million. The retail segment (including small corporate clients) remains the biggest contributor to Net interest income, i.e. 70% of generated net interest yields come from this segment. The share of the net interest income in the structure of consolidated operating income increased 6.50 percentage points year-on-year to reach 71%.

Structure of profits
mil. EUR



Development of Cost/Income ratio
mil. EUR



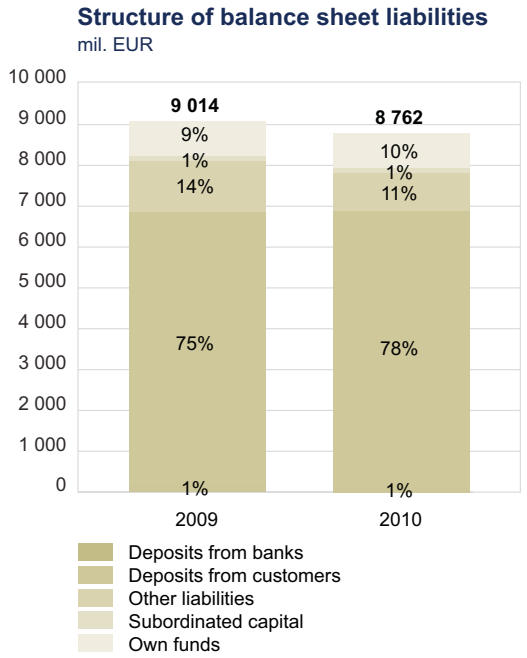
Net income from fees and commissions, which accounts for 27% of total operating income, grew 14.1% year-on-year to € 102.19 million. The growth was produced by a revival in housing loans, greater revenues from administration of accounts and loans and the growth in fees from subsidiaries.

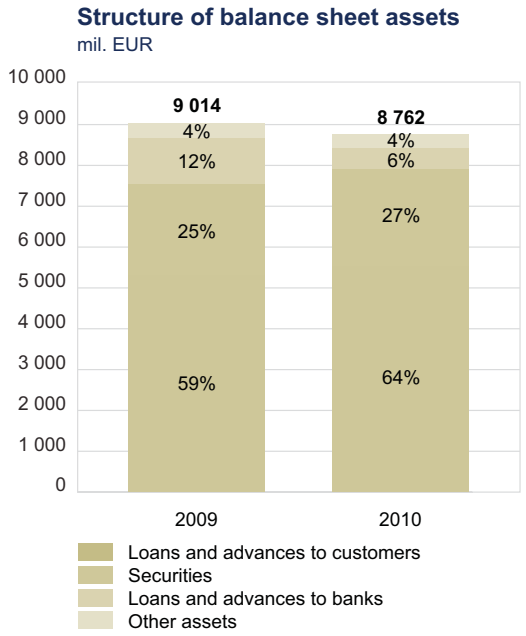
The share of profit from trading in the structure of consolidated operating income fell to 3.8%, with this year-on-year drop strongly affecting the value of total income. The slump was due chiefly to the revaluation of interest and currency derivatives in respect of interest rate shifts.

General administrative costs were held on a stable level, the year-on-year growth by 1.3% to € 210.87 million being practically on the level of inflation, which merely demonstrates the increased effort to use sources more effectively. Number of employees fell by 29 FTE in 2010.

Balance sheet development

The consolidated assets of the bank dropped 2.8% year-on-year to € 8.76 billion to the end of 2010, being caused by optimisation of the structure of assets and liabilities. The volume of the loan portfolio of Tatra Banka Group came to € 5.77 billion, which is 5.2% more year-on-year. The share of non-performing loans in the Tatra banka portfolio was up year-on-year to 5.24% as of 31.12.2010, but in the second half of the year this indicator stabilised and is moving within a narrow band.





The growth in the client loan portfolio was produced by both the retail and corporate segments. Housing loans (i.e. housing loans, mortgages and home equity loans) to the end of 2010 accounted for more than 31% of the total loan portfolio.

Client deposits increased by 1.3% year-on-year, by € 85.32 million in absolute terms, to reach € 6.80 billion. During the year clients re-allocated part of deposits from term deposits and savings accounts to current accounts, which is a reflection of lower interest rates on the market and the resulting weaker attractiveness of term deposits. The loans deposits ratio on a consolidated base as of 31.12.2010 was 84.82%, and so deposits adequately covered the credit operations of the bank.

The capital adequacy indicator was on the level of 10.37% as of 31.12.2010 and Tatra banka has continually and with a sufficient margin fulfilled the measures of the National Bank of Slovakia on capital adequacy.

Objectives for 2011

When setting the objectives for 2011 Tatra banka considered above all its established mission, vision and values. The main element of the mission is to push the threshold of banking, to achieve this goal and to follow up several successful innovations from 2010. Increasing client comfort is the way in which the Bank wants to provide clients not just with standard products and services, but foremost those with added value. That is one of the reasons why the Bank plans to continue enhancing its service package **Tatra Personal**TBand to support the use of its unique functionalities. The actual product and its Program **odmeňovania**TB (Reward programme) met with a positive response from clients, as did the innovations **Tatra Personal**TBManželské konto (Spousal account) and **Tatra Personal**TBDetské konto (Children´s account). This is why as far as the Bank is concerned, enhancing further its functionalities is the right alternative for the good of the client.

The innovation of service packages is not the only objective of Tatra banka on how to improve services for retail clients. In terms of prepared steps, it is possible to mention the area of payment cards, where we will continue to implement the most modern innovative technologies with the aim of providing clients with the stated new added value, comfort and security. In 2011 we will complete the migration of the whole portfolio of Tatra banka payment cards to the secure technology Chip & PIN. Just as in the past, the Bank is once again preparing the issue of new limited edition designs for credit cards devoted to the works of Slovak personalities, and it is again extending the range of designs for debit cards. The Bank also plans another issue of its **Darčeková** kartaTB (Gift card), which still enjoy great popularity among clients, this time with new more attractive and personalised covers.

A very important area that is set to see innovations is the area of Internet banking. The most important of these include the completion of the new look of Internet banking and implementation of the first functionalities defined as part of the Multi-channel project. With the launch of the new Internet banking, Tatra banka plans to implement functionalities that provide support to the service and sale of products through alternative distribution channels, i.e. mostly electronic. Tatra banka has already stopped issuing GRID cards and by the end of this year it plans to switch exclusively to using the Card & Reader device as part of Internet banking services. After the initial fairly confused attitudes of clients about the Card & Reader device, now we can talk more and more about positive responses to its use, with clients appreciating the high level of security that it offers, currently top in the world among all other available technologies. Proof that the right path was chosen can also be seen in how in the past year the Bank has not registered any serious attempt to illegally misuse its Internet banking. Today the Internet banking of Tatra banka clearly has the highest degree of security of all other banks operating in Slovakia, and it plans to keep this up, because the security of the savings and deposits of our clients have always been paramount among Tatra banka priorities, no matter what the increased costs.

Where the area of large corporate clients is concerned, the objectives include the re-start and growth of active loan deals. This is linked to the continuation of strict monitoring of the loan portfolio. Tatra banka plans to focus also on the restart of acquisition activities, the building up of a unique and qualitatively distinct concept of caring for large corporate clients, as well as on implementation of the CRM and APS system.

The subsidiaries of the Tatra banka Group also have their own objectives. In Tatra leasing, for instance, we can mention the objective to implement the new core system, to continue in the development and deepening of x-sell co-operation with the parent bank and strengthening commercial activities in target segments of the market. The objective of Tatra Asset Management and DDS Tatra banka is to enhance client tools and innovative solutions. When it comes to being innovative, the Bank will endeavour to follow on from the many successful projects from the past, such as the first **Protiifnlačný** vkladTB (Anti-inflation deposit), the first **Riadený** vkladTB (the first Managed deposit), Spoločensky **zodpovedný fond**TB (the Socially responsible fund) and others.

We must mention that following the events of demanding recent years, in world banking there has been increased talk of reinforcing banking regulation and capital adequacy. By way of new standards under the Basel 3, in the next few years various new criteria will be introduced, which to a large extent will reinforce the banking sector, ensure increased trust from both a microeconomic and macroeconomic perspective and make the risk profile of individual banks clearer.

Tatra banka as a strong and systemically important bank evaluates this step positively and at present it is intensively preparing to meet these criteria. At the same time as boosting capital stability, the Bank plans to continue building up its risk management policy on an individual and a portfolio level with the aim of optimising further the relationship between yield and risk, especially from a long-term perspective.

There is a real supposition that the conservative and thought-out strategy of Tatra banka from the past, which helped us bypass what was a highly demanding period for the whole financial sector, will reflect in long-term, constant and strong growth on the banking market.

Statement for Corporate Governance

The corporate governance system of Tatra banka is regulated by the Code of Corporate Governance in Slovakia, which is an integral part of the Stock Exchange rules for the acceptance of securities on the regulated market (hereinafter "Codex"). It is publicly available on-line at http://www.bcpb.sk/.

Specifically, the applied governance methods are based on the Codex and on regulations laid down in the internal guidelines of the Bank and its subsidiaries, such as competency guidelines, branch procedures, the organisation and management of the operation.

Internal controls applied in Tatra banka, a.s. constitute a control system covering all levels of the organisational structure and job positions, which includes process control, both direct and indirect control, as well as out of process control.

Internal controls are designed to ensure the safety and protection of assets and individuals, to guarantee the reliability and accuracy of bookkeeping, to support compliance with and communication of the strategy and goals, to enhance effectiveness and compliance with applicable regulations, and to minimise risks.

Direct control refers to all forms of continuous control measures, procedures and mechanisms in individual units of the Bank or its branches, which are a direct and immediate part of business processes on a daily basis and without which the working process cannot be deemed complete. Direct process control is conducted by employees or the organisational units that are directly involved in specific processes.

Indirect control means all forms of ongoing control measures, procedures and mechanisms in individual units of the Bank or its branches, which are an indirect part of the processes. Indirect process control is carried out by the managers of individual Bank units or branches who are responsible for the controlled processes and for the results of controls, or by employees authorised by them.

Out of process control is independent of operational and business procedures. Out of process control is conducted by a separate and independent internal control and internal audit unit as a regular review of the functionality of the internal control system and evaluation of its efficiency.

Organisationally the unit is divided into the Internal control and internal audit retail department, the Headquarters' and subsidiaries' internal control and internal audit department and the Internal control and internal audit security and information system security department.

Within the organisational structure of Tatra banka, a.s., the Internal control and internal audit unit reports to the Board of Managing Directors and the Supervisory Board. The findings of its audit and internal control activities are communicated to the Supervisory Board in semi-annual summary reports. The Board of Managing Directors is informed about conducted audits and controls in progressive audit and control reports. The Director of the Internal control and internal audit unit informs the Board of Managing Directors and the Supervisory Board about all significant events that occur in the Bank.

As part of risk management, the Bank (the Group) monitors, evaluates and ultimately manages the following types of risks in particular: credit risk, market risks and operational risk.

Credit risk, i.e. the risk that some counterparty will not be able to repay full amounts owed upon maturity, is monitored on a regular basis, and the financial position of each client is reviewed and assessed at least once a year. Exposure to any single debtor is constrained by limits of capital exposure, which are evaluated daily and reported to the NBS on a monthly basis. Retail debtors are assessed using scoring models developed for individual products; SME and corporate clients are assessed using the rating models.

The Group is exposed to market risks in connection with its activity from open positions chiefly from transactions with interest rate, cross-currency and equity products. To determine the level of market risk of its positions, the Group applies internal procedures and models for individual types of risks that the Group is exposed to. These limits are monitored daily.

Operational risk is governed by a standard procedure defined by the parent company, as well as by internally developed methods and procedures. To identify operational risk, the Bank (the Group) uses a three-dimensional model consisting of three components: risk categories, business functions and business lines. The Bank (the Group) puts emphasis on improving process quality and on actions aimed at mitigating operational risks.

More information on individual risks that the Bank (the Group) is exposed to can be found in the notes to the financial statements ending 31 December 2010, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, comprising an integral part of the Annual Report for 2010.

The highest body of the Company is the General Meeting. The General Meeting takes decisions on issues that fall under its jurisdiction pursuant to the Commercial Code. In 2010 the Annual General Meeting of the Company was convened on 27 April. The right to attend the General Meeting and exercise other rights was used by 92.08% of owners of ordinary shares. Among other issues, the shareholders approved the individual and consolidated financial statements and the Annual Report for 2009, decided on the distribution of profit and the payment of directors' fees, approved a change to the Article, the acquisition of own shares and lien over own shares. The shareholders were paid dividends to the amount approved by the General Meeting at the ratio of their respective shares in the share capital.

The Board of Managing Directors is the statutory body of the Company. Members of the Board are elected and recalled by the Bank's Supervisory Board. The Supervisory Board appoints and recalls the chairperson and vice-chairpersons of the Board of Managing Directors. In 2010 the Board of Managing Directors comprised seven members. The Board of Managing Directors convenes usually once a week. The Board makes decisions on all issues related to the Company except for those issues falling under the jurisdiction of the General Meeting or Supervisory Board. At the General Meeting's authorisation, once a year the Board of Managing Directors is authorised to decide on the issue of preference shares up to the total approved amount of the share capital, which is EUR 60,380,000.

The share capital of the company is EUR 55,358,460. It is split into 50,216 ordinary shares with a par value of EUR 800 per share, which accounts for 72.57% of the share capital, 2,095 ordinary shares with a par value of EUR 4,000, accounting for 15.14% of the share capital, and 1,701,415 preferred shares with a par value EUR 4, which accounts for 12.29% of the share capital.

A share in the share capital of the Company corresponding to a qualifying share (minimum of 10%) is held by Raiffeisen BankInternational, AG and Tatra Holding, GmbH, both based in Austria.

Each holder of ordinary shares is a company's shareholder. Each shareholder enjoys fundamental shareholder rights as laid down by the Commercial Code and the company's Article, in particular: the right to share in the company's profit, based on the proportion of total face value of their shares to the share capital; the right to attend the General Meeting, vote at the General Meeting, request information and explanations at the meeting, and raise motions at it, whereby the voting right is determined by the proportion of total face value of shares to the share capital, and also the right to share in the liquidation balance.

Each holder of preferred shares enjoys similar rights; the only difference being that preferred shares are not accompanied by the right to vote at the General Meeting, except in cases where the law acknowledges voting rights also to such shares. In such cases the voting right is based on the proportion of total face value of their shares to share capital. Preferred shares are assigned a preferential right applicable to dividends, i.e. if the Company generates a minimum net profit equal to the number of issued preferred shares, a minimum dividend of EUR 0.03 per preferred share will be paid to the holders of preferred shares.

The negotiability of ordinary shares is not limited. The company has pre-emption rights to preference shares at the price determined according to the principles set out in the company's Articles. Preference shares can be transferred to a party other than the Company or pledged in favour of a party other than the Company only if approved by the Board of Managing Directors. The Board of Managing Directors can refuse to grant approval if the preference shares were not offered firstly for sale to the Company.

The General Meeting decides on changes to the Articles by a two thirds majority of the votes of present shareholders. The consent of the National Bank of Slovakia is required for a change to the Articles to acquire force and effect.

Relations between the Bank (the Group) and members of its bodies or employees in connection with termination of employment and/or resigning from a post for any reason are governed in accordance with the applicable Labour Code.

Management

Supervisory Board

Dkfm. Rainer Franz
Chairman of the Supervisory Board
Raiffeisen Bank International AG
Vienna

Dr. Herbert Stepic
Vice-chairman of the Supervisory Board
CEO
Raiffeisen Bank International AG,
Vienna

Ing. prof. Peter Baláž, PhD.
Supervisory Board member
Professor of the University of Economics
Bratislava

Mag. Renate Kattinger
Supervisory Board member (until 5.11.2010)
Head of RBI Group controlling
Raiffeisen Bank International AG
Vienna

Ing. Ján Neubauer, CSc.
Supervisory Board member
Financial director of FIT PLUS, s. r. o.
Bratislava

Ing. Pavol Feitscher
Supervisory Board member
Head of Project Management department
Tatra banka, a.s.
Bratislava

Mag. Reinhard Karl
Supervisory Board member
Executive director
Raiffeisenlandesbank Niederösterreich-Wien AG
Vienna

Aris Bogdaneris
Supervisory Board member
Member of the Board of Directors of
Raiffeisen Bank International AG
Vienna

Mag. Dr. Hubert Figl,
Supervisory Board member (since 5.11.2010)
Head of the RBI division Work Out
Raiffeisen Bank International AG
Vienna

Bank Management

Board of Managing Directors

Ing. Igor Vida
Chairman of the Board of Managing Directors
and General Director

Ing. Miroslav Uličný
Vice-chairman of the Board of Managing Directors
and Deputy General Director

Ing. Marcel Kaščák
Member of the Board of Directors

Mgr. Michal Liday
Member of the Board of Directors

Mgr. Natália Major
Member of the Board of Directors
(since 1. 1. 2011)

Ing. Vladimír Matouš
Member of the Board of Directors
(since 1. 2. 2010)

Dr. Martin Pytlik
Member of the Board of Directors

Ing. Peter Novák
Member of the Board of Directors
(until 31. 12. 2010)

Confidential clerks

Ing. Zuzana Koštialová

Mgr. Natália Major (until 31. 12. 2010)

Business Location Network

city	branches	Centrum bývania	Centrum investovania	Corporate centres
Bratislava	42	3	1	4
Košice	8	1		1
Banská Bystrica	4	1		1
Prešov	4			1
Žilina	4			1
Nitra	3	1		1
Prievidza	3			1
Trenčín	3			1
Trnava	3			1
Martin	2			1
Piešťany	2			
Poprad	2			1
Zvolen	2			
Bánovce nad Bebravou	1			
Bardejov	1			
Brezno	1			
Čadca	1			
Dolný Kubín	1			
Dubnica nad Váhom	1			
Dunajská Streda	1			
Galanta	1			
Hlohovec	1			
Humenné	1			1
Kežmarok	1			
Komárno	1			
Kysucké Nové Mesto	1			
Levice	1			
Liptovský Mikuláš	1			
Lučenec	1			1
Malacky	1			
Michalovce	1			
Modra	1			
Myjava	1			
Námestovo	1			

city	branches	Centrum bývania	Centrum investovania	Corporate centres
Nové Mesto nad Váhom	1			
Nové Zámky	1			1
Partizánske	1			
Pezinok	1			
Považská Bystrica	1			
Púchov	1			
Rimavská Sobota	1			
Rožňava	1			
Ružomberok	1			
Senec	1			
Senica	1			
Sereď	1			
Skalica	1			
Snina	1			
Spišská Nová Ves	1			
Stará Ľubovňa	1			
Stupava	1			
Šaľa	1			
Šamorín	1			
Štúrovo	1			
Topoľčany	1			
Trebišov	1			
Vráble	1			
Vranov nad Topľou	1			
Zlaté Moravce	1			
Žiar nad Hronom	1			
Žilina - Vlčince	1			
	130	**6**	**1**	**17**

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Segment Reports

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- Retail Clients
- Treasury
- Domestic and Foreign Payments
- Equity Participations
- Human Resources
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- Nadácia Tatra banky (Tatra banka Foundation)

TATRA BANKA
Member of Raiffeisen Bank International

Corporate Clients

	12/2010	12/2009	12/2008	12/2007	12/2006	12/2005
	in EUR thsnd	in EUR thsnd	in EUR thsnd	in EUR thsnd	in EUR thsnd	in EUR thsnd
Net interest income	72 636	68 141	60 180	48 111	38 991	32 345
Net provisioning	(33 318)	(23 186)	(19 990)	(7 428)	(10 046)	5 272
Net interest income after provisioning	39 318	44 955	40 190	40 683	28 945	37 617
Net income from commission and trading	19 252	17 636	35 601	33 565	28 375	26 740
Operating expenses	(31 832)	(33 774)	(37 073)	(32 883)	(29 606)	(25 364)
Profit before tax	**26 738**	**28 817**	**38 719**	**41 365**	**27 714**	**38 994**
Cost/Income ratio	34.64%	39.37%	38.71%	40.26%	43.95%	42.93%

Note: Large & Mid Market corporates

Tatra banka takes individual care of its corporate customers through relationship managers at our head office and nine Corporate Centres. These Corporate Centres are spread throughout the most important regions of Slovakia and together with representation offices make up the network of 17 contact points for clients in the SME segment. Caring for large corporate clients is concentrated at the Bratislava head office of the Bank. A professional service for companies from a wide variety of branches is guaranteed by a total of 164 employees – corporate business experts who are in direct contact with the client, and 100 product specialists, who are responsible for processing client requests in the Bank.

Large corporate clients

Results in the segment of large corporate clients were influenced by the prevailing impact of the financial crisis and the cautious approach of companies regarding new investments. Compared with the previous year, however, these partially revived, especially in the second half of the year.

With respect to assets, although we registered a mild decline, we continued to concentrate chiefly on maintaining the quality of the loan portfolio. New loans that were granted went primarily to the energy sector, infrastructure projects, extending existing credit lines and partially also into property financing.

A growth in deposits of 7% was seen in the segment of large corporate clients, with a partial change in their structure in favour of current accounts. Following adoption of the euro, the natural outflow of deposits and stronger concentration of cash management operations to the treasuries of head offices of parent companies abroad continued.

Revenues exceeded slightly the projected level (+1.4%). The greatest share in the structure of revenues came from net interest income, while the strongest growth was seen in fees and revenues from treasury operations.

Throughout the year particular attention was devoted to monitoring the loan portfolio, while we managed to maintain the level of quality in the segment. The overall volume of problem loans corresponded to projected development.

An overall improvement in the economic environment sparked new projects and business opportunities for incoming foreign investors, particularly in the automotive sector, renewable sources of energy and in agriculture.

SME segment

Small and Medium-sized Enterprises (SME) have long been afforded special attention in Tatra banka. The Bank provides products and services to the SME segment through its network of Corporate Centres, which thanks also to representation offices are spread throughout all regions of the country.

Despite a 5% or so drop in the number of employees in the SME segment compared with 2009, we still managed to increase sales revenues by 3.32% to more than EUR 71 million thanks to process rationalisation. We regard this status as positive, because the year 2010 was still fairly marked by uncertainty in the business sector and cautious decision-making when it came to new investments of businesses. In 2010 we managed to generate a 5% saving in costs, which was thanks to increasing the efficiency of processes and emphasising the personal responsibility of every employee for their spending.

Considering the gradual formation of post-crisis business standards of the Bank and further acquisition activity, we can positively evaluate even the slight drop in assets (by 3.60%) to the level of approx. EUR 1.25 billion. This fact goes to prove that the Bank concentrated on the quality of its loan portfolio and not on unbalanced growth. One of the key priorities continued to be in-depth monitoring and minimising of business risk. On the other hand, it is necessary to point out that client demand for loans was limited and no growth was seen until the second half of 2010. We noted a similar trend also on the side of deposits, where despite very strained liquidity on the side of SME we managed to maintain the balance value roughly on the level of 2009 (EUR 1.056 billion). In 2010 Corporate Centres registered a growth of 145 new clients, which served to confirm the strong position of the Bank in the SME segment.

Support for SME financing

Fast loans with a guarantee of the Slovenská záručná a rozvojová banka, a.s. (SZRB) worth EUR 55 million were granted through 781 loans in total (a growth of 9% over last year). Tatra banka signed a new credit line SLOVSEFF II from the special loan programme of the EBRD, which focuses on supporting the development of energy efficiency in the industrial sector, in renewable sources of energy and for energy efficiency projects in the residential sector. The whole credit line worth EUR 15 million was drawn. To the end of 2010 a credit line was also signed with the European Investment Bank for EUR 40 million, which will be drawn in 2011 and will be intended foremost for financing SME.

Project financing

In 2010 the portfolio of drawn loans for project financing increased only slightly. The reason for this was the prevailing crisis and so also lower demand for new property loans. It wasn't until the end of the year that we managed to conclude several larger transactions for the financing of shopping centres, which will produce a growth in loans next year as construction work moves forward in these projects.

In the course of 2010 we managed to continue on from the initial successes in the financing of renewable sources of energy from the previous year. In addition to power plants run on biomass, bio gas stations or small hydropower plants, in the second half of 2010 the financing of photovoltaic power plants also increased sharply. Overall, we are the leader on the banking market in terms of the financing of renewable sources of energy.

Trade financing

Tatra banka has a rich history in trade finance, and in 2010 it enjoyed about 15% growth in the number of clients in trade finance. It was a breaking year also in export financing, since this option of financing was used by more companies whose activities required expansion or the export of investment units abroad. According to the Slovak Banking Association, Tatra banka was the leader in Slovakia in the number of issued bank guarantees and issued and adviced letters of credit. At the same time, we now have a stable strong position in agri financing and eurofunds.

Thanks to its results in 2010, for the second time Tatra banka managed to defend its title of The Best Trade Finance Bank from the international economic magazine Global Finance for the region of Slovakia.

Trade and export financing

In 2010 Tatra banka continued its co-operation with Eximbanka and successfully culminated the year particularly with its support for Financing of investments abroad, making it the leader in the banking sector in terms of the volume of granted loans, which amounted to EUR 47.2 million. Tatra banka provides a comprehensive service to clients requiring export financing, while endeavouring to find ways to support their export.

Through our financing, we support the exports of clients in exotic territories like Venezuela, Cuba, Egypt, Belarus, Ukraine, Turkey, Algeria, Serbia, Russia and many more.

In total we supported export financing worth EUR 73 million. In 2011 we anticipate further growth in export financing, accounting for the positive economic development.

Agri financing and EU projects

In 2010 Tatra banka slightly improved its market share in the financing of agriculture to over 20%. Although the agricultural sector had to face a very difficult conditions, we managed to strengthen the **Agro**financovanie™ brand and the position of the Bank with strong support and presence in the agriculture sector, holding the position of leader in the banking sector in terms of credit in the agriculture and food industry.

Further reinforcing of the position as a strong and relevant partner in the agribusiness was the direct result of the establishment of a specialised team that deals solely with the financing of agricultural undertakings, and also thanks to the implementation of process management and a targeted focus on increasing the efficiency, quality and speed of the loan process.

As usual, the provision of credit went primarily to the area of subsidy pre-financing – direct payments, environmental support or other subsidies, the provision of investment loans and loans for the purchase of agricultural equipment and, last but not least, commodity financing.

One of the stable activities of the agricultural department is getting involved in discussions on the level of state authorities by active dialogue with the professional community, as well as by presenting in media and at professional conferences. Tatra banka is the traditional general partner for the NAJ awards for the best breeders and growers, this for the fifth time in 2010. In addition to participation in various smaller events, we became the sponsor of the Agroprogress conference accompanied by the gala awards ceremony Nadácie Slovak Gold.

Factoring

Factoring and financing of receivables enjoyed substantial growth in 2010. The volume of the average outstanding increased by 39% year-on-year and the profitability of factoring and receivable financing products increased by almost 40% year-on-year.

The total volume of refinanced receivables in the form of factoring in 2010 came to roughly EUR 218 million, which nevertheless is roughly a 19% year-on-year drop.

From the perspective of corporate segments, medium-sized companies accounted for the largest share in overall turnover, i.e. 54%, followed by the segment of large corporate clients with a 25% share, while small companies made up 21% of turnover.

In 2010 we successfully completed the pilot provision of reverse factoring.

Treasury

Treasury operations for corporate clients

The basic set of treasury products offered by Tatra banka comprise foreign exchange products (chiefly FX forwards and options), interest products (chiefly deposit products, interest rate swaps and options) and commodity products. The main objective of these products is to allow our corporate clients to manage the foreign exchange, interest and commodity risks that they encounter in their business activities.

Compared with the previous year, we enjoyed strong growth in turnover in foreign exchange deals, mostly thanks to the turnover in FX forwards (year-on-year growth of almost 40%) and FX options, which saw turnover practically double year-on-year. On the other hand, this growth was partially eliminated by the ongoing drop in turnover of spot FX deals, which were down 18% year-on-year, which we feel reflects the ongoing gradual changes in the corporate sector after adoption of the euro.

With interest products we registered a slight drop in client deposit deals, mostly because of the prevailing low nominal interest rates. Our internet client platform i:deal enjoys huge popularity among our clients, with almost two thirds of all client deposit deals transacted through it in 2010. Considering the aforementioned low interest rates, in the first half of the year client demand for products hedging interest (interest rate swaps and interest rate options) was relatively weak, while a growth in interest rates to the end of last year produced a certain improvement.

In the last quarter we provided our corporate clients that draw or plan to draw loans with floating interest rates the new chance to hedge the maximum interest rate of their loans. The key advantage of this product is that with consistently low interest rates the client can continue to reap the benefit of cheaper financing, but if interest rates rise, then the client has the maximum interest rate secured, regardless of market development.

Retail clients

	12/2010	12/2009	12/2008	12/2007	12/2006	12/2005
	in EUR thsnd	in EUR thsnd	in EUR thsnd	in EUR thsnd	in EUR thsnd	in EUR thsnd
Net interest income	187 436	176 312	166 295	140 503	117 218	106 690
Net provisioning	(11 096)	(28 626)	(23 356)	(10 981)	(6 371)	(14 327)
Net interest income after provisioning	176 340	147 686	142 940	129 521	110 847	92 362
Net income from commission and trading	85 540	73 961	112 464	100 020	84 062	82 775
Operating expenses	(157 010)	(153 977)	(171 446)	(153 331)	(127 801)	(126 241)
Profit before tax	**104 870**	**67 670**	**83 958**	**76 211**	**67 108**	**48 896**
Cost/Income ratio	57.52%	61.52%	61.50%	63.75%	63.49%	66.63%

Note: Private Individuals, Private banking, Micro companies, Small Enterprises and Special customers

Tatra banka has long been building up relations with its clients in the sense of being perceived as the strongest and most attractive bank in Slovakia, with distinguishably the highest quality of services. It is the only bank in Slovakia to provide highly qualified advice to all its retail clients by way of sophisticated tools.

In 2010 clients could utilise 130 branches throughout Slovakia. Tatra banka also has a network of **Centrum** bývania[TB] (Centres of living, Bratislava, Nitra, Banská Bystrica, Košice) to serve its clients, with the centres specialising in the provision of housing loans. In Bratislava it also co-operates with the real estate agent RK Centrum bývania s.r.o., which is a subsidiary of Tatra banka.

The **Centrum** investovania[TB] (Investment centre) in Bratislava provides clients with the possibility of purchasing all publicly traded securities, derivatives, equities and so on, or of having professional consultations with Investment specialists.

Financial health

Private individuals can receive an analysis of their financial health by way of the **Finančná**diagnostika[TB] (Financial diagnostics) tool. With this tool, the Bank assesses the incomes, expenses, assets and the security of the client. This produces an assessment of all areas in a comprehensible way, and points to those areas where the client should devote most attention. Our employees draw attention to the optimum ratio of incomes and expenses, provide recommendations on the maximum level of credit burden and the formation of short and long term reserves, evaluate the quality of risk coverage of the client and the optimum level of pension security. In 2010 almost 150,000 Financial diagnostics reports were issued.

In the affluent segment, personal bankers offer in-depth financial analyses to clients using the Premium book. The aim of this appraisal is to maximise the yield of the client while accepting their plans and the level of tolerance to risk. In 2010 a total of 5,900 Premium books were prepared.

In 2010 Tatra banka started providing the advisory tool also for the segment of Small businesses. Since 1 October 2010 clients have had the chance to use the Financial diagnostics product also for companies.

By assessing two or three completed accounting periods of the client, we can evaluate the state of their assets, sales revenues, current liquidity, inventory turnover, receivables turnover period, due dates of liabilities, operational cycle, indicator of debt service coverage, and the overall gearing. To the end of 2010 the possibility of having their financial status appraised was used by more than 1,500 companies.

Ever popular investment

Investing through the Tatra Asset Management (TAM) funds was once again a frequently used form of appreciating or saving funds also in 2010. The volume of invested funds increased by as much as 80% compared with the previous year. This substantial growth was caused also by a change to the fees policy: clients no longer have any entry fees charged to them and if they respect the investment horizon they also don't get charged any redemption fees. The rising interest in collective investment among the population led to the creation of new funds. In 2010 TAM introduced the following new funds: **Smart**Fund[TB], Spoločensky **zodpovedný fond**[TB] (Socially responsible fund) and Stredoeurópsky **akciový fond**[TB](Central European equity fund). The clients of Tatra banka therefore now have some 15 different open-end mutual funds available to them, of which nine have a managed investment strategy.

Savings programmes

The option of saving on a regular basis is offered by the Savings programmes. Pension assurance is provided by Tatra banka by way of its subsidiary, supplementary pension company DDS Tatra banky. Clients have the possibility of covering personal risks or risks linked to repayment of loans, and the option of insuring their property in the case of mortgage loans.

Legal entities

The year 2010 saw the start of fundamental changes in the segment of legal entities. The first step was to set the rules for caring for this segment and the division of clients into Premium clients and Mass clients. With this new segmentation, Tatra banka wants to increase the satisfaction and product usage of clients, as well as produce a growth in yields. Business advisors take targeted care of Premium clients at branches, using prepared standards of care and prepared complex solutions to client requirements, from business accounts with the Program **odmeňovania**[TB] (Rewards programme), electronic banking, through to the provision of credit. Credit options were extended by Tatra banka to include the new product **Business**Úver[TB]**Hypo** (Business loan) in the form of instalments. At the same time, during the year we prepared a campaign system for sales of fast pre-approved contact loans. Thanks to the above changes, we managed to generate growth on the side of revenues (GI), liabilities and the number of clients.

Premium Banking

In 2010 Tatra banka reaffirmed its ambition to prove itself as the premium bank on the Slovak banking market by a growth in the number of clients in the affluent segment by 10%, which took the total number of clients in this segment to approximately 40,000. The trust of these clients was expressed by a growth in the volume of primary deposits under the administration of Premium Banking by more than 52% during the course of last year.

Personal bankers, in terms of effective administration of client funds and professional advice in the area of investment and banking services, utilised the Premium book and Analysis of the investment profile of clients as their main tools. These tools were regularly updated with the aim of reacting to the current change of client needs or the risk profile of the client, adapting this to the optimum spread of assets and liabilities of Premium Banking clients.

In 2010 we extended the area of investment products to include, in addition to the standard offer of mortgage bond issues, also a unique deposit product – **Protiinflačný** vklad[TB] (Anti-inflation deposit**)**. The group of fund solutions administered by Tatra Asset Management was supplemented by a specialised form of fund solution called **Smart**Fund[TB] and Spoločensky **zodpovedný fond**[TB] (Socially responsible fund), and for affluent clients the**Realitný**Fond[TB] (Real estate fund) was supplemented by the Stredoeurópsky **akciový fond**[TB] (Central European equity fund).

Extending the acquisition tools in the hands of personal bankers in synergy with an advertising campaign at the end of the year manifested in an increased number of specially classified clients utilising the special offer products and services of Premium Banking.

Private banking

For Private banking the year 2010 was a year of consolidation, especially under the influence of the external environment, but also internal changes.

The volume of client assets being administered was on the level of EUR 1.47 billion, while the number of clients was 3,037. With these figures, the Private banking of Tatra banka confirms its position as leader in the segment of private banking in Slovakia.

From the perspective of the bond issues policy, the year 2010 saw a return to the norm. Tatra banka gave clients access to tens of new investment opportunities on the market and the number of titles in its client portfolios is approximating 2,000. This only serves to confirm the position as product leader with an open architecture of products in this area. The Private banking of Tatra banka continued successfully in primary issues of corporate bonds of the companies from the Tatra banka group, which were extended to include corporate and government bonds based on co-operation with Raiffeisen RESEARCH GmbH.

The core provider of private banking products in the area of fund investments was the company Tatra Asset Management. The volume of assets of clients in these funds reached the level of EUR 336 million. Investments into funds is also offered by Raiffeisen Capital Management, thus supplementing the offer of fund investments available to Private banking clients. In terms of volume, co-operation increased dynamically with Raiffeisen Zentralbank, a specialist in investment certificates from the RBI group.

During the whole year clients also purchased gold, whereby the counterparty of the client in the purchase of gold was Tatra banka, a.s. directly. The sales volume exceeded 600 kg.

A priority of Private banking in 2010 was to increase the quality of the provided service. We opened our new representative outlet in Nitra, and we introduced the principle of “seven-day access”, meaning private bankers are permanently accessible to clients. At weekends they are available at the **Centrum** investovania^{TB} in the Aupark shopping centre in Bratislava.

Once again in 2010 maximum attention was paid to the risk of client portfolios. Client portfolio risk is its primary characteristic, and the Bank endeavours to communicate continually with the client about this risk with the aim of balancing the client portfolio according to the client’s preferences.

Great attention was given also in 2010 to art directly at the premises of Private banking, where clients had the chance throughout the year to enjoy the works of various Slovak artists. On one hand the idea is to support Slovak fine art, and on the other hand to offer clients also this untraditional investment opportunity.

Deposit products, payment cards, loans

Current and term deposit accounts, client assets

In 2010 the key importance of primary deposits for the Bank was confirmed once again, just as it was in previous years. This corresponded also to the structure of offered products that the Bank prepared for its clients. Great emphasis was put on 'classic' deposit products, but the various structured deposit products were also of interest for clients.

Tatra banka has another successful year behind it in terms of stabilising primary deposits. The volume of retail primary deposits as of 31.12.2010 came to EUR 3.102 billion.

The total volume of liabilities on current accounts reached the level of EUR 1.888 billion. This volume was contributed to by funds deposited in the new service Sporiaci systém (Saving System), which Tatra banka provides together with the service package **Tatra Personal**TB.

The new fee types of the service package **Tatra Personal**TB enjoy great popularity among clients, i.e. **Tatra Personal**TBManželské konto (Spousal account) and **Tatra Personal**TB Detské konto (Child account). With their introduction Tatra banka has successfully covered the needs of its clients from childhood through to adulthood.

For time deposits the year 2010 was marked by projected drops in individual deposit terms. The drop in deposits was caused by low interest rates on the interbank market and also by the fact that a part of funds were moved to current accounts, which increased the share of current accounts in total primary deposits.

Based on client demand, from April 2010 Tatra banka allowed term accounts to be opened also for minors.

Term accounts together with savings books in Tatra banka produced a volume of retail deposits comprising EUR 1.109 billion.

Regarding structured deposits, at the beginning of March 2010 Tatra banka introduced a new product – the first **Protiinflačný** vkladTB (Anti-inflation deposit**)**. Together with the Guaranteed Investment II and the first **Riadený** vkladTB (Managed deposit), the volume of these deposits came to EUR 93.412 million.

Loans

The year 2010 enjoyed a revival in the market with retail loans, with mortgage loans making up the largest share, accounting for 85.63% of the portfolio.

In 2010 the Bank approved 4,765 mortgages worth EUR 322.98 million, 590 mortgages with state bonus for the young worth EUR 25.14 million and 2,813 home equity loans with a value of EUR 99.18 million.

Overall, the volume of approved personal loans in Tatra banka secured by real estate in 2010 increased by 62% over 2009, partly thanks to a successful media campaign from the end of the year.

In the case of **Bezúčelový** úverTBClassic (Loan for any purpose)**,** the overall volume of granted loans for 2010 soared to EUR 83.94 million by way of 18,530 loans. Thanks to activities aimed at the use of its own portfolio and the successful advertising campaign at the close of the year, the volume of granted loans rose by 43% compared to the previous year.

Bezúčelový úverTB Classic	2010	2009	Growth in %
Granted Loans (qty)	18 530	13 849	34.00%
Loans volume (in EUR mill.)	83.94	58.74	43.00%

In 2010 the Bank granted a total of 3,349 loans that were secured by financial means, worth a total of EUR 30.05 million. The mild year-on-year increase in sales was helped also by the introduction of a new form of security for this type of loan – mortgage bonds.

Bezúčelový úver[TB] Garant	2010	2009	Growth in %
Granted Loans (qty)	3 349	3 481	-
Loans volume (in EUR mill.)	30.05	29.39	2%

Payment cards

The year 2010 saw the started trend of increasing the security of payment cards continue. For the whole year the Bank continued replacing magnetic strip credit cards with those equipped with technologically advanced chips with dynamic authentication of data using the secure technology Chip & PIN. The replacement was not only carried out as part of the standard re-issue of cards, but also by way of premature replacements, i.e. free replacement of cards for a more secure version already after one year of validity. The portfolio of debit and credit cards is already SEPA compatible, whereby in advance of the mandates of card companies and the requirements of the migration plan Introduction of SEPA in the Slovak Republic, these cards meet the required and recommended standards.

Thanks to the increased security, Tatra banka managed successfully to reduce the losses from the use of payment cards by more than 30% compared to the previous year.

In the spring of 2010 we introduced the unique anonymous pre-paid gift card named **Darčeková** karta[TB] with exclusive design and values of EUR 50 and EUR 100. The card proved to be very popular among clients, which is why in the autumn a new edition was prepared, which the Bank supported also by the sale of any-purpose consumer loans. With a new loan, clients received also a gift card from Tatra banka for free.

From the summer, our clients' children could choose one of the great designed cards to accompany their Child account, depicting the popular cartoon characters Tweety and Spider-Man. The Bank therefore extended the popular and interesting range of design debit cards of VISA Electron, meaning that in addition to the private, premium and student segments, we covered also the child segment, spreading banking education also among children clients.

In November Tatra banka was the first bank in Slovakia, in co-operation with the company VISA, to provide clients with contactless payment cards PayWave –VISA and VISA Electron. By the end of the year almost 1,300 payment terminals were already accepting these cards, with this network of sales points expanding continually. Contactless payment is much faster than paying with a classic payment card, taking just five seconds with no need for the client to enter a PIN code or sign some receipt.

The Bank is progressively replacing all payment cards with contactless ones, and clients can receive their new contactless payment card for a limited time for free, and also select an easy-to-remember PIN code for their card.

In 2010 Tatra banka maintained a leading position on the credit cards market, managing to keep a long-term high share of over 40% in the volume of financial resources drawn using these cards.

Tatra banka maintained its portfolio and the number of all issued cards now comes to 1.5 million.

The total volume of transactions made by payment cards increased by 4.4% compared to last year and reached the level of EUR 2.8 billion, while the number of transactions increased by as much as 12%.

The growing trend continued especially in the use of payment cards for cashless payments. Cardholders made a total of 27 million cashless transactions (growth of 24%) worth a total of EUR 998 million (growth of 13%).

This reflected above all in the number of transactions made using debit cards, chiefly thanks to the link between the debit cards and the advantageous reward system included in the service package **Tatra Personal**TB. Clients started to use their cards much more often also for smaller purchases. The share of purchases in the total number of transactions made by debit cards increased sharply by as much as 62%, with growth also seen in the volume of these transactions.

The share of purchases by credit cards is pleasingly high and fairly stable, representing 94% in the number of transactions and 87% in terms of transaction volume.

Still the leader in acceptance of payment cards

After 2009, when there was only mild growth in turnovers at payment terminals of Tatra banka compared to the previous year (6.2%), in 2010 the turnover at our business partners became more dynamic again to reach EUR 1.398 billion. This represents an annual growth of as much as 18.47%. The volume of transactions came to EUR 39.374 million and continued to grow at a faster pace than actual turnover, by 24.35%. The average sum of a transaction continued in its long-term downward trend from EUR 39.92 to EUR 35.50. This is a reflection of the fact that payment cards are being used more and more also for petty purchases. The number of payment terminals increased to 11,111.

In September Tatra banka started installing payment terminals that would allow payment cards to be accepted in contactless form. It was the first bank in Slovakia to offer its clients payment terminals that support the standards of both the large international card associations VISA and MasterCard. To the end of 2010 over 10% of the total number of payment terminals of Tatra banka supported contactless payments. Contactless payments mean payments can be made really fast, as it is not standard to enter a PIN code or sign a receipt, and they also provide a higher level of security, both for the retailer and the cardholder.

In 2010 the number of Tatra banka ATMs increased to 329, while new localities were selected mostly among newly-opened shopping centres in Slovakia. The ATMs of Tatra banka were used for over 12.8 million cash withdrawals, which represents a year-on-year drop of 5.2%. The total volume of transactions, comprising over EUR 1.69 billion, represents a very slight growth (0.27%) compared with 2009.

In 2010 Tatra banka became the first bank in Slovakia to increase the security of its ATM network by securing them against misuse of payment cards and by protecting the ATMs themselves from theft. In the course of 2010 Tatra banka extended the range of options to recharge phone credit via its ATMs to serve also the clients of another mobile operator.

Tatra banka in co-operation with the Slovak Blind and Partially Sighted Union completed the project that saw 117 of its ATMs equipped with special audio outputs for earphones. Thanks to this, blind and partially sighted clients can handle their finances independently, because by way of voice commands the ATM guides them through individual screens. The ATMs with this voice function are marked by a metal plate with relief imprint TB AUDIO, making them easily distinguishable from other ATM.

Business loans

In 2010 Tatra banka launched the sale of the new product **Business**Úver[TB]**Hypo** (business loan), which extends the offer of products for the business segment within retail.

BusinessÚver[TB]**Hypo** for businesses is a loan for any purpose secured by real estate collateral, thanks to which it is possible to gain financial resources of up to EUR 200,000.

The very popular business loan **Business**Úver[TB]Expres fulfilled its expectations also in 2010. Compared with the previous year it registered a 30% growth in the volume of granted loans, both in the form of overdrafts and instalment system. **Business**Úver[TB]Expres was granted to over 1,750 clients with an overall loan volume of EUR 44 million.

Internet banking, DIALOG

Internet banking

In 2010 Internet banking continued on the path of exclusive innovations for clients from the perspective of retail banking in Slovakia, which is proven also by Tatra banka receiving the award of the magazine Global Finance as Best Consumer Internet Bank in Slovakia, which Tatra banka has received for the ninth time already. This year's four new versions of Internet banking provided clients with six new functionalities and ten changes, which increased the security and stability of the system and so made it possible for the Bank to make greater savings on costs. The position as the strongest distribution channel was confirmed by a 10% growth in domestic transactions – and a higher number of client logins, as they are starting to use this effective and swift way of accessing their products increasingly more frequently.

In February Tatra banka started offering all clients who have the service package **Tatra Personal**TB the possibility via Internet banking to activate to their account the **Spending** reportTB product, which lets clients categorise their expenses and then view them in their defined classes. At that time clients also gained the option of importing smaller batches of payments in collective payment orders, as well as the possibility to modify their standing payment orders. At the end of the year a new method of delivering changes to current account statements was made accessible – delivery via e-mail, where a change of address already takes place online without the need for manual processing.

In the course of 2010 Tatra banka stopped the issue of new and replacement GRID cards. Together with this step, clients were also given the possibility of using the Card & Reader for authenticating communication with the Bank by way of any electronic distribution channel (Telebanking, DIALOG). As part of the ongoing conversion, clients using the GRID card are gradually being migrated to this more secure form of authentication – the Card & Reader.

The largest innovation in 2010 for electronic banking in Slovakia was the introduction of the first Internet banking application developed and intended for a specific smartphone. After optimisation of the version of Internet banking for all mobile devices that are equipped with any internet browser in 2009, on 20 October Tatra banka introduced to the market its native application for iPhone. The new Internet banking service via iPhone means users can access their most frequently used banking services directly from their telephone. This means that as soon as the application is launched, clients can check their account balances, credit cards, securely send payment orders, check payments made or account balances and credit card movements, conveniently from anywhere. This simple, intuitive and visually attractive application also provides a list of branches and ATMs of Tatra banka, as well as an updated exchange rates listing. The popularity of it from the side of clients is proven by the 6,000 or so downloads already, and the ranking as TOP 1 at the Slovak AppStore in the first week. To the end of 2010 the Internet banking for iPhone was still in the TOP 50 most frequently downloaded applications for the Slovak market with a high rating of 4+ from 5. Tatra banka continues to work on perfecting this application.

DIALOG contact centre

In 2010 the DIALOG contact centre was among the most important distribution channels in the retail banking segment.

As part of the expansion of its services, in 2010 DIALOG started providing clients with a new service on request, in the shape of b-mail, which means the account balance can be sent at the client's request, which is given while waiting in the waiting queue of the call centre, this by way of an SMS text message.

With the aim of increasing security when making banking operations through the contact centre, last year the Bank launched the identification and authentication of its clients by the use of the new authentication tool Card & Reader.

The DIALOG contact centre also continues actively in its telemarketing activities. In addition to sales of credit cards, to a large extent it was involved in arranging meetings with clients with the aim of consulting with them about mortgages and any-purpose consumer loans.

Treasury

Investment products 2010

Structure of financial assets of private individuals (in EUR thsnd, year end)	2009	2010
Current accounts	1 461 098	1 555 207
Primary deposits without current accounts	1 474 363	1 293 559
Mutual funds TAM	1 047 713	1 111 315
Mortgage bonds	154 759	218 708
Other securities	301 254	307 799
TOTAL	**4 439 186**	**4 486 587**

The basic offer of investment products of Tatra banka consists of the mutual funds of Tatra Asset Management (TAM), mortgage bonds of Tatra banka and structured deposit products. Tatra banka introduced several important new elements to all those product categories in 2010.

On 1 January 2010 the Bank applied a fundamental change to the Slovak market of collective investments by cancelling the entry fees to TAM mutual funds. At the same time as cancelling the entry fees, redemption fees were also introduced, which only apply to those clients who remain in a fund for less than three years, or who cancel their programme of savings before five years have lapsed. The aim of these measures is to simplify investment into TAM mutual funds for a broader group of clients, while also strengthening the position of these basic investment products, which are suitable for stable and long-term investment of client savings.

In March 2010 the Bank introduced the first **Protiinflačný** vklad[TB] (Anti-inflation deposit) to the Slovak market. It is the first investment product for retail investors in Slovakia that ensures a fixed value of investment before inflation effects, no matter how high inflation is, while also offering real appreciation of invested funds. The first sale of the **Profiinflačný**vklad[TB] generated a total of € 47 million, which classes it among the most successful investment products ever sold in Tatra banka.

In May 2010, for the first time Tatra banka offered its retail clients the chance to invest in Tatra banka mortgage bonds. They became positioned as an investment product with fixed yield and total sales last year amassed to € 123 million. For the sale of mortgage bonds, Tatra banka established for its clients a special Investment account[TB], which is the only type of account on our market that can administer just about every kind of security, with the exception of mutual funds. This means that clients have all their investments recorded and upgraded in a single account, and so they don't need to open up separate records for domestic securities, for example, or for foreign securities and so on, as is the custom in other financial institutions. Alongside issues of standard mortgage bonds with fixed yield, Private Banking clients also had the chance to take part in the first issue in Slovakia of mortgage bonds with inflation-indexed yield.

With the TAM mutual funds, clients had three key new offers in 2010 – **Smart**Fund[TB], Stredoeurópsky **akciový fond**[TB] (Central European equity fund) and Spoločensky **zodpovedný fond**[TB] (Socially responsible fund).

SmartFund[TB] is an interesting diversification of investment over seven different classes of assets and with equal spread of risk among them (higher-risk assets are less present and vice-versa) and market timing (which means putting assets on and off considering the trends). It is a similar investment strategy to the one popularly used by renowned universities abroad for capitalising on equity. This fund generated total sales of € 24 million last year.

Stredoeurópsky **akciový fond**TB invests in equities in Central and Eastern Europe. A specific feature of this fund is the equal and balanced presence of individual countries in the portfolio, unlike similar funds of competitor asset managers, which have a large part of the portfolio unbalanced with just one or two main countries – usually Russia and Turkey. The total volume of sales in this fund last year amounted to € 3 million.

Spoločensky **zodpovedný fond**TB is the first fund of this kind to be offered on the Slovak market by a domestic asset manager. It is intended for investors who, in addition to the desired yield, care also about how the fund management company that they invested into administers the funds. The company Tatra Asset Management donates part of the fund management fee to the Nadácia Tatra Banky foundation. The total volume of sales of this fund came to € 15 million last year.

Probably the most significant success that the Bank achieved in investment banking was to be awarded the mandate, in co-operation with three other banks, to lead the syndicated issue of Slovak Republic government bonds from the Debt and Liquidity Management Agency (ARDAL).

The Bank co-operated closely in this issue with its parent bank RBI. The bond issue was highly successful and on 6 October 2010 some € 2 billion worth of Slovak Republic government bonds were placed on the market with a 15-year maturity.

This issue was exceptionally important not just for Tatra banka, but also for the whole RBI group as it was the first mandate ever for an issue of government bonds to be acquired by any of the banks from the Raiffeisen group. This is just another reason why this issue was awarded the “RBI Group – Deal of the year” as part of the RBI Credit Market Awards.

In addition to the issue of Slovak Republic government bonds for ARDAL, in 2010 a total of eleven issues of mortgage bonds and other bonds of Tatra banka were successfully executed and placed on the financial market, with a value of over € 284 million. The main investors were domestic institutional clients and retail clients of Tatra banka.

Domestic and Foreign Payments

In 2010 Tatra banka continued to follow those activities that provided clients with more effective and swifter processing of payment transactions. One of the changes arising out of affiliation to the strong banking group Raiffeisen Bank International (RBI) was to shorten the term for processing cross-border transfers credited to accounts of RBI clients.

Tatra banka continued also last year in its support for the European initiative aimed at establishing a Single Euro Payment Area (SEPA). The key benefit of this initiative is to remove the differences between domestic and foreign payments, and to have single standards, rules and procedures for payment systems in all the eurozone countries.

One of the results of these activities is the introduction of a new banking product – SEPA Direct Debit, which represents an alternative way to make cross-border payments within the European Economic Area. The bank gives the client the possibility to adjust the level of protection over their account depending on the individual need for a SEPA Direct Debit, this above the framework of the single SEPA standards.

Interest of the bank in the development of new products and its involvement in European initiatives has helped the bank reinforce its strong position on the Slovak banking market and to maintain the growth trend in the number of processed payment orders. In domestic payments we registered a 4% growth in the number of client payments compared with the previous year, while the dynamic of growth in cross-border payments was even stronger on the level of 12%.

In the case of domestic and cross-border payments there is clear interest of clients to make use foremost of electronic banking services – almost 90% of all transfers are made through electronic distribution channels. The bank has an interest in supporting and developing further this form of banking, using already adopted and newly prepared innovations.

Tatra Asset Management

	In SKK mill.	In SKK mill.	In SKK mill.	In EUR mill.	In EUR mill.
TAM	**2006**	**2007**	**2008**	**2009**	**2010**
Total revenues	507,9	698,8	641,5	12,9	14,0
Profit after tax	113,4	178,9	197,1	2,8	3,4
ROE	42,20 %	43,10 %	32,70 %	11,40 %	12,30 %

	In EUR mill.	In EUR mill.	In EUR mill.	In EUR mill.	In EUR mill.
TAM	**2006**	**2007**	**2008**	**2009**	**2010**
Total revenues	16,9	23,2	21,3	12,9	14,0
Profit after tax	3,8	5,9	6,5	2,8	3,4
ROE	42,20 %	43,10 %	32,70 %	11,40 %	12,30 %

The market of collective investments in Slovakia last year not only saw confirmation of the growth in the volume of managed assets seen in 2009, but even its acceleration, when net sales of open-end mutual funds for 2010 exceeded € 377 million, which compared with net sales of € 111 million in 2009 means an impressive growth of almost 340%.

Unlike 2009, when conservative money market funds dominated with a share of almost 92% in total net sales, in 2010 the greatest volume of net sales was registered in the category of bond funds (almost € 127 million) and in the category of balanced funds (almost € 116 million), while money market funds ended 2010 with negative net sales of € 27 million.

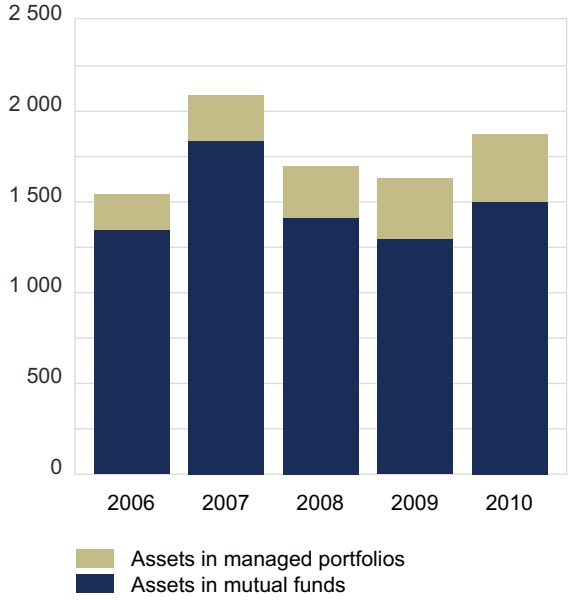
The volume of assets in open-end mutual funds to the end of 2010 grew to € 4.6 billion, in year-to-year comparison this grow represents € 424 million or 10.3%. The total volume of assets managed by asset management companies, including assets in managed portfolios and assets in funds for institutional investors, came to almost € 6.7 billion.

In 2010 Tatra Asset Management (TAM) strengthened its position as market leader in open-end mutual funds, when it managed to increase the high market share and so widen the lead it has over its main competitors. The reason for this was the high net sales of funds other than money market mutual funds, in particular the **Euro dlhopisový PLUS** fond[TB] (Euro bond PLUS fund) with € 97 million, capital protected funds in excess of € 13 million and also the introduction of three new mutual funds with innovative investment strategies, namely **Smart** Fund[TB], Spoločensky **zodpovedný fond**[TB] (Socially Responsible fund) and Stredoeurópsky **akciový fond**[TB] (the Central European Equity fund), when net sales of these three new mutual funds for 2010 reached € 62 million. In total TAM registered net sales of almost € 158 million, which represents almost half of net sales recorded on the whole market. From last year's 32% share to the end of 2009 on the market of open-end mutual funds, the market share of TAM thus increased by more than 1% to 33%.

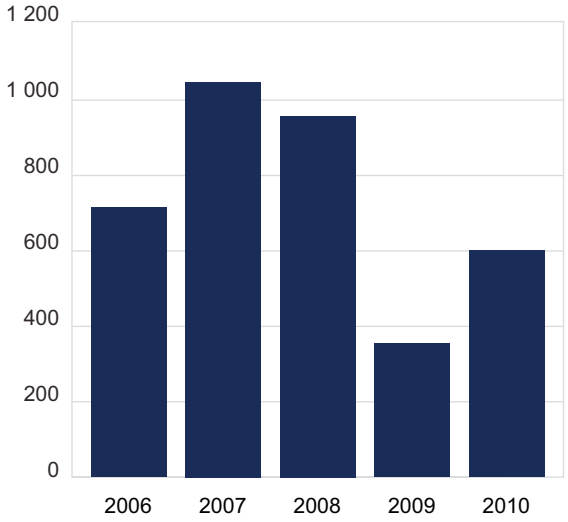
The total volume of gross sales of TAM mutual funds in 2010 was up 73% year-on-year to reach € 589 million compared with the € 339 million recorded in 2009. A strong positive influence on the growth in sales of TAM mutual funds came from the already mentioned sale of bond and capital protected funds as well as from the introduction of the three new products, which reflected the behaviour of investors looking for higher yields than those offered in 2010 by conservative banking products. A part was also played by replacing the entry fees with redemption fees since 1. 1. 2010, which removed the main barrier to the entry of investors to other than money market mutual funds. In 2010 the company recorded positive net sales of mutual funds (total sales minus redemption) worth € 158 million, which meant a positive turnaround compared to the previous year's negative net sales of € 165 million, which on a year-on-year comparison means an impressive growth of € 323 million.

The total volume of assets in TAM open-end mutual funds increased by 15% in 2010 as a result of the mentioned circumstances and reached € 1.51 million compared to € 1.31 million to the end of 2009. Total assets managed by the company, including managed portfolios, reached € 1.86 million to the end of 2010 compared with € 1.62 million in the previous year.

Development of assets managed by TAM
mil. EUR



Gross sales of TAM funds
mil. EUR



The positive net sales and growth in volume of managed assets in 2010 had an influence also on the revenues of the company, which increased year-on-year by 9% to € 14 million. A decisive portion of revenues came from mutual fund management fees (94.6%), which after replacing entry fees by redemption fees from 1.1.2010 became the dominant source of revenues for the company.

Total expenses of the company increased slightly by 4.5% year-on-year to reach € 9.8 million. The main part of expenses, just as in the previous year, was spent by the company on distribution expenditures of mutual fund sales (72%), which increased 11.4% year-on-year due to a growth in the volume of mutual funds managed by the company, and these were the main contributor to growth in overall expenses. Other expenses in 2010, comprising 28% of total expenses, were made up of operating expenses, which unlike distribution expenditures dropped by 9.6%, by which the company followed on from the consolidation of operating expenses carried out in 2009. Thanks to the growth in asset volume and the concurrent drop in operating costs, the ratio of operating costs and the average value of assets in the company dropped in 2010 on average to 0.192%.

The company generated an after-tax profit in 2010 of € 3.4 million, which represents a growth of 21.5% compared to the previous calendar year.

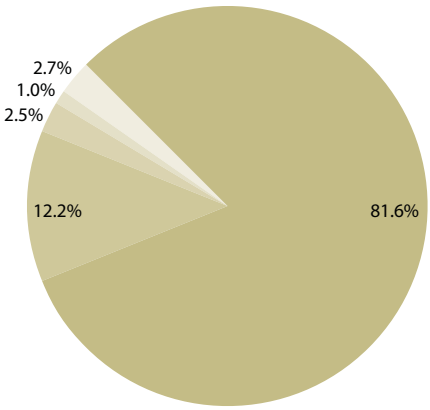
Supplementary pension company DDS Tatra banky

	In SKK mill.	In SKK mill.	In SKK mill.	In EUR mill.	In EUR mill.
DDS TB	**2006**	**2007**	**2008**	**2009**	**2010**
Total revenues	67,3	125,2	155,9	6,8	6,7
Profit after tax	8,5	39,3	54,3	2,3	0,9
ROE	13,40%	47,20%	41,80%	36,70%	13,80%

	In EUR mill.	In EUR mill.	In EUR mill.	In EUR mill.	In EUR mill.
DDS TB	**2006**	**2007**	**2008**	**2009**	**2010**
Total revenues	2,2	4,2	5,2	6,8	6,7
Profit after tax	0,3	1,3	1,8	2,3	0,9
ROE	13,40%	47,20%	41,80%	36,70%	13,80%

It was another year of legislative changes for the market of supplementary pension savings, as on 1.1.2010 the revision to the Act on Supplementary Pension Savings took effect, governing the conditions for the payout of certain allowances, the obligation to allow clients to switch to the new conditions by 30.6.2010, a new limits for management fees and introduction of performance fee, the maximum amount of remuneration for concluding a saving contract, as well as several other smaller modifications. In addition to the mentioned legislative changes, DDS Tatra banky was obliged also to adapt to the provisions of the new Act on Financial Intermediation and Financial Counselling. All of these activities affected the operation of supplementary pension companies throughout the year, and they had an impact also on their results for 2010. The total number of people participating in supplementary pension savings in all supplementary pension savings companies to the end of 2010 dropped slightly to 720,000. The total volume of assets managed in supplementary pension funds actually increased, however, coming to € 1.15 billion, which translates as a year-on-year growth of 9.3%.

As the market number two, Doplnková dôchodková spoločnosť Tatra banky (DDS Tatra banky) arranged again to increase its market share in the past year in terms of assets managed by supplementary pension companies by almost 1% to exactly 30% in 2010 from last year's 29% level. The total volume of assets in supplementary pension funds of DDS Tatra banky enjoyed a 13% year-on-year growth to reach € 344 million, with the biggest share of assets to be found in the Vyvážený príspevkový fond (Balanced Fund, 82%) and in the Rastový príspevkový fond (Growth Fund, 12%).



Net value of assets in funds as of 31.12.2010
mil. EUR

- Vyvážený p.d.d.f. (Balanced Fund)
- Rastový p.d.d.f. (Growth Fund)
- Zaistený p.d.d.f. 2017 (Guaranteed Fund)
- Konzervatívny p.d.d.f. (Conservative Fund)
- Dôchodkový v.d.d.f. (Pension Fund)

The total number of saving contracts dropped by 3% in the past year to produce a total of 197,000 saving contracts. The primary reason for the decline was an increased number of pension payout requests (especially pension accounts cancellations), which reflected how the financial crisis was impacting clients, and uncertainty surrounding the tax benefits of the third pension pillar, which arose as a result of the post-election effort to consolidate public finances, as well as the lower number of new contracts being concluded. The total number of employer contracts to the end of last year came to 7,480, meaning a 3% year-on-year growth.

	2006	2007	2008	2009	2010
Contracts with employers	6 366	6 610	6 965	7 264	7 480
Contracts with individuals	187 333	204 996	210 725	202 738	197 248
DDS contributions (in thsnds)	1 239 326 SKK	1 696 569 SKK	1 827 756 SKK	58 241 EUR	57 825 EUR
Paid out DDS pensions (in thsnds)	184 925 SKK	372 465 SKK	502 879 SKK	22 156 EUR	23 202 EUR

Revenues of DDS Tatra banky last year came to € 6.7 million, almost the same amount of € 6.8 million as in 2009, with the share of management fee revenues in total revenues comprising almost 89%. The reason for stagnation of revenues in 2010 compared to 2009 was a change of legislation, when with effect from 1.1.2010 the fee of the company for pension account cancellation was reduced from 20% of the amount in the personal account to just 5%. This reduction led to a drop in fee revenues from pension account cancellations by 60% from last year's level of € 1.38 million to this year's € 0.56 million. Total expenses of the company came to € 5.5 million, which represents a growth of 40% compared to last year's € 3.9 million. The structure of overall expenses was different from 2009. A decisive share of 62% in total expenses comprised expenses for distribution of supplementary pension savings, while operating expenses accounted for 38% of total expenses of the company for 2010. Operating costs dropped 9.9% year-on-year to € 2.1 million, meaning the company continued with the consolidation of operating expenses started in 2009, and so it increased its operational efficiency even further.

In 2010 the company generated an after-tax profit of € 945,000, which compared to the previous calendar year means a drop of almost 60%.

Tatra Leasing

While the year 2009 was one of the most difficult yet for the leasing market, in many respects we can talk about 2010 as a year of cautious optimism. After a sharp year-on-year decline in 2009/2008 (by 45%) the leasing market enjoyed 4.86% growth in 2010. What's more, from all the companies affiliated in the Association of Leasing Companies SR it was Tatra Leasing that posted the highest year-on-year growth in new deals at 43.36%.

The year 2010 was definitely not one of the easiest periods in the history of our company, but it still managed successfully to deal with all company processes leading to improved commercial results. It counted on our conservative strategy, thanks to which it administers a healthy portfolio of clients and financed items.

For 2010 the company ranked 4th on the leasing market in the financing of movables and immovables expressed in acquisition prices. Even better, the company took third position in the segment of financing freight vehicles or large mobile equipment. It withstood competition best in the financing of properties, where it took 2nd spot on the market.

Tatra Leasing confirmed its mission as a universal leasing company, though, this proven by the balanced structure of its portfolio of financed items in 2010:

- cars 31.40% (in 2009 they comprised 18.00% of the new deals portfolio)
- machinery and industrial equipment 20.73% (21.66% in 2009)
- freight vehicles, trailers, semi-trailers 18.66% (29.11 %)
- real estate 14.78% (3.22%)
- utility vehicles 7.69% (14.24%)
- computers and office equipment 2.51% (4.12%)
- watercraft, aircraft, railway vehicles 4.23% (9.65%)

We covered the financial requirements of clients by the following structure of products (also expressed in acquisition prices of items excluding VAT):

- financial leasing 67.17% (in 2009 it accounted for 63.52% of the new deals portfolio)
- credit financing 23.52% (15.21% in 2009)
- instalment sales 7.51 % (18.64%)
- operative leasing 1.80.% (2.63%)

Human Resources

Priorities in the field of human resources included activities focusing on support for the brand promise of the bank. Tatra banka launched its project Job family and continued to provide its full HR support even after the project was outsourced.

An HR strategy was compiled that supports the strategic objectives of the bank, whereby work was started on the priority task – the Career management system.

The bank continued to pay increased attention to fluctuations. Despite an economic revival and so a revived labour market also, Tatra banka managed to keep fluctuation on the level of last year – 11.7%. Compared with 2007 and 2008, when the level of fluctuation was 18.8% and 16.4% respectively, this is a positive trend, and one that we want to maintain also in future.

Keeping payroll costs on the planned level is one of the fixed priorities of the HR section, and the year 2010 was no different in this respect. Costs were exceeded only proportionately to the attained higher key indicators of the bank and so also higher remunerations that are bound to it.

For the third time a biannual opinion poll was carried out among employees, the aim of which is to improve continually the working environment and the culture of the organisation, and so systematically build up the employer brand of Tatra banka.

A record 82% of bank employees took part in the survey. Despite a reduction in the number of employees by approx. 10% in the period between the two surveys, the devotion of employees remained on the level from two years ago, which can be regarded as a success.

With the aim of strengthening the performance climate of the bank, an analysis was made of the managerial styles of senior management – Board of Directors, level B-1 and managers reporting directly to the Board of Directors. The analysis was used to compile individual development plans, which if achieved will contribute to moving the current culture of management more toward a performance culture of management.

In total we adopted four modules of the HR information system – Employees, Change of post, External workers and Candidates. These modules let managers and bank employees gain access to information in a convenient and swift way, thereby raising their work efficiency.

The employee structure remained unchanged, with 70% women working in the company and 30% men. The bank is a young organisation with an average employee age of around 32, with over 56% boasting a university education.

Tatra banka is a much favoured employer, receiving almost 44,000 job applications in 2010 while taking on 570 new employees, most of which were due to replacements for fluctuations, maternity leave and staff reductions in some units). Compared with 2009 the total number of employees was down slightly.

The huge interest in employment at Tatra banka remains preserved despite a sharp drop in the number of vacancies and so also recruitment notices for them in the media.

The Bank Support for the Education and Arts

In 2010 Tatra banka remained true to its strategic focus on art and education.

Tatra banka was once again the general partner of the Slovak National Theatre and also supported a project of live opera broadcasts from the Metropolitan Opera in New York screened at the Aréna Theatre.

With exhibitions, Tatra banka was involved in the preparation of the unique exhibition called The Galandovs (Galandovci) – legends of Slovak contemporary art at the Bratislava City Gallery, and the exhibition project of Professor Ivan Csudai at the auctioneers SOGA.

In addition to established art groups, the bank also did not neglect up-and-coming young artists, supporting young fine art by a partnership in the auction of the Foundation of Contemporary Art in co-operation with SOTHEBY´S auction exhibition hall.

Larger art projects that Tatra banka co-operated on in 2010 include film projects, like the prestigious film festival Art Film Fest in Trenčianske Teplice and GEN.sk (Galéria elity národa - Gallery of the Nation's Elite), a series of short TV documentaries portraying prominent living public figures in Slovakia.

Alongside large projects, the bank also oversaw smaller events of high quality, such as the Revival international classical music festival in Kremnica under the auspices of Peter Michalica, the publication of a wall calendar of Divadla z Pasáže (Theatre from the Passage), publication of Bratislava Confrontation and the Borders of Geometry and the publication of the 1970s Classica, by Svetozár Okrucký.

Tatra banka is a regular contributor to the development of education also by supporting established conferences for top professionals and on work experience. In 2010 it once again was the exclusive partner of the TREND conferences. In co-operation with publishing house Eastone Books, Tatra banka again this year issued four books from the edition Business Class, namely: Chip and Dan Heath – Idea in a million, Adrian Gostick, Chester Elton – Motivational Principle, William Higham – Trendology, Jeff Jarvis – What Google would do.

The socially important project of financing education for socially deprived groups advanced in co-operation with the foundation INTEGRA.

Nadácia Tatra banky (Tatra banka Foundation)

Prestigious figures and opportunities that lead to innovative ideas

In 2010 Nadácia Tatra banky (Foundation) once again reinforced its position as a philanthropic institution in support of top educational events. In the three years of its operation, students and pedagogues of universities actively reflect the programmes that the Foundation prepares and supports. A common denominator of these events lies in the new and inspirational ideas that they produce.

Personalities in person

As part of the open programme of the Foundation called "Personalities in person", two Nobel Prize holders came to Slovakia, i.e. the co-founder of the first websites, together with more than 50 top economists from the Slovak and Czech republics, to give lectures to students of Slovak universities and the professional community. As part of this open programme, the Foundation supported 19 projects in 2010 with the amount of € 368,557. 21.

Nobel Prize Lecture Series

The first major lecture from the Nobel Prize Lecture Series in 2010 took place under the climate of widespread social discussion on the subject of Greece and its economy. The arrival of Nobel Prize winner Robert A. Mundell, co-author of the well-known Mundell-Fleming model, justifiably produced enormous interest among students and professionals alike. Robert A. Mundell lectured at the University of Economics in Bratislava on 10 March 2010 on the consequences of the global crisis for the international monetary system.

On 20 September the Foundation organised, in co-operation with its partners VSL and the University of Economics in Bratislava, a lecture by another Nobel Prize awarded professor, Edmund S. Phelps, who lectured on the theme of restoring prosperity in the western world. Following Robert Auman, Edward Prescott and Robert Mundell, he was the fourth top economist to accept the invitation to come to lecture in Slovakia. The professor received the Sveriges Riksbank Prize in 2006 for his clarification of the causality between the level of inflation and unemployment. Phelps' current work deals with the benefits and sources of the structural dynamics of countries.

Open lectures

Thanks to the Foundation's co-operation with the Faculty of informatics and information technologies of the Slovak University of Technology, students and the professional community had the chance on 21 April 2010 to attend a lecture by Professor Bebo White entitled The Emergence of Web Science. Professor White is a lecturer at Stanford University and focuses on researching informatics and information technologies for the web. In 1989 he worked in CERN, where at that time the World Wide Web was created. This led to a shift in his research to focus on the web, web technologies and web engineering.

In November 2010 the Foundation in co-operation with the Faculty of Mathematics, Physics and Informatics of Comenius University presented also the young talented scientist Peter Kondor from the Central European University (CEU) in Budapest, who publishes in many prestigious economic magazines, most recently in the Journal of Finance. Peter Kondor gave a presentation in Bratislava on the topic "The delegated Lucas tree" (on the influence of growth in delegated capital on trading strategy and balanced prices). The lecture was devoted to the consequences of the registered growth in the share of capital that investors entrust to professional fund managers. Among other things, it has been shown that delegated capital is more successful in times of recession and less successful in times of expansion.

Bratislava Economic meeting 2010

Together with Virtual Scientific Laboratories (VSL) and the prestigious economic institution CERGE in Prague, on 24-26 June 2010 the Foundation organised the second follow-up of the economic conference with international participation Bratislava Economic Meeting (BEM) 2010. The first meetings of Slovak economists who work at universities abroad with scientists from Slovakia took place in 2008.

The aim of the BEM 2010 conference was to acquaint students and the professional community from Slovakia and the extended region with modern economics and finance. At the second year of the conference, a lecture was given also by renowned economist, Professor Botond Koszegi from the University of California – Berkeley, who gave a plenary lecture on the use of behavioural economics in economic policy. Another section of the conference looked at issues of market functioning, the economy of labour, company management, managerial economics, banking and innovative methods, such as laboratory and field economic experiments. Over the two days of the conference, the four panels that took place in parallel saw lectures by fifty scientific experts from universities and scientific institutions from both home and abroad.

Nadácia Tatra banky prize for art

This year the Foundation awarded its prestigious prize to Slovak artists for the 15th time. This exceptional evening full of exceptional people, full of a sense of beauty for true art, produced many goose-bump moments throughout the evening.

The prestigious event saw artists awarded in five different categories – Audiovisual work, film and TV, Theatre, Music, Literature and Fine Art. The aim of the Foundation is to appreciate figures from Slovak cultural life and to provide them with space for the creation of further unique works of art. Every year a professional panel selects the names of the winners, who in additional to a financial award also receive a symbol of honour - a unique bronze sculpture of a muse by Slovak sculptor and artist Daniel *Brunovský* created specially for this occasion. The sculpture of the Muse is a work of art in itself and takes two months to create.

With the awards the Foundation supports top and talented Slovak artists, particularly thanks to the 43-member Academy, which monitors intensively what is going on in the Slovak art world. Nominated artists are selected on the basis of their works and artistic performances from the past year. The goal of the Foundation is to present the awards in a transparent way and to award the very best.

For the third year already, the Foundation has supported young talented artists with the special prize Young Artist in each of the five categories. A new tradition established this year was support for Slovak textile artists. From this year onwards, one excellent Slovak fashion designer will receive support by having the chance to design a made-to-measure dress for the presenter of the evening. The dress will then be purchased and become part of a future collection of dresses, meaning that over time an exclusive collection of original models will be put together. The opportunity to create the first dress went to the designer Mária Štraneková, who studied at the Academy of Fine Arts and Design (VŠVU) to gain her PhD and who has already attended several study stays abroad. In London she spent time at the Preen Studios and with the world renowned Alexander McQueen.

Main prize laureates

Audiovisual work, film, TV: Martin Huba for his part in the films The Kawasaki Rose and Tri sezóny v pekle (Three Seasons in Hell)
Theatre: Jana Olhová for her portrayal of Arsinoé in the play The Misanthrope
Music: Shina and Daniel Salontay for the album Longital: Long Live!
Literature: Ľubomír Feldek for his translation of Shakespeare works – Hamlet, Romeo and Juliet, Othello
Fine art: Daniel Fischer for his exhibition '8 statočných – vynáranie' (The Magnificent 8 – emergence), Dom umenia, Bratislava

Laureates of the special Young Artist prizes

Audiovisual work, film and TV: Mira Fornay for directing the film Líštičky (Foxes)
Theatre: Marián Amsler in the category of Theatre for directing the theatrical performance Plantáž (Plantation)
Music: Pavol Bršlík in the category of music for his portrayal of Tamino in the opera The Magic Flute
Literature: Michal Hvorecký in the category of Literature for his novel Dunaj v Amerike (Danube in America)
Fine art: Erik Šille in the category of Fine art for the exhibition E. S. Wird Hell

Grant programmes

In 2010 the Foundation successfully concluded all 4 grant programmes E-talent, Quality education, Knowing more and Students to the world, which this year saw an increase in the number and quality of submitted projects. It eventually supported 70 projects worth a total of € 193,523.

Grant programme	Donated amount	Number of supported projects
E-Talent	33 200 EUR	11
Quality education	61 843 EUR	21
Knowing more	42 780 EUR	16
Students to the world	55 700 EUR	22

The grant programme **E-Talent** is among the youngest that the Foundation has been implementing. The grant programme is open to students, teachers and research workers who work in the field of applied and industrial informatics. Our goal is to support the creativity and innovation of students and teachers who have decided to carry out scientific projects at university.

Conversely, the grant programme **Quality education** is one of the oldest of the Foundation, existing since 2006. Last year the programme was innovated and so opened to all faculties and departments that have accredited study fields in economics and management, or which have departments that focus on teaching economics or management. The ambition of the grant programme is to get the educational process in Slovak universities to approximate the standards of the modern educational process seen in world renowned educational institutions and reflecting real needs in practice.

As part of the programme **Knowing more** the Foundation supported activities, projects and programmes of non-governmental organisations that were established with the aim of advancing education at Slovak universities. The aim of the programme Knowing more is to support active groups in universities that “want to know more”, and so are involved in the educational process over and above the official extent, and who try to utilise and extend the educational process to the maximum degree, to enable the professional growth of pedagogues and students, to link the educational process with practical requirements or to increase the social status of universities, their pedagogues, scientific and management employees, and students, of course.

The grant programme **Students to the world** supported the best students so that they could study at schools abroad and gain invaluable experience that they could then apply in Slovakia. As part of the grant programme, the Foundation provided financial grants to cover part of the costs linked to study stays, summer schools, work experience stays, as well as special research stays at renowned universities abroad.

Distribution of the Profit for the Year 2010

TATRA BANKA
Member of Raiffeisen Bank International

Distribution of the Profit for the Year 2010

Distribution of the Profit for the Year 2010

(in thousands of EUR)	2010
Profit after tax	**91 307**
Dividends – Ordinary shares	65 789
Dividends – Preffered shares	9 221
Allocation to statutory reserves	161
Allocation to retained earnings	16 136

Profit according to separate financial statements of Tatra banka, a. s., see Note 32 to the consolidated financial statements.

Dividends without claim to payment as of the date of holding of General Meeting will be settled to the retained earnings of previous years as of December 31, 2011.

The Financial statements, the proposal for distibution of the profit and annual remuneration in the amount of EUR 608 000 for the members of the Supervisory Board were approved by the Ordinary General Meeting of Shareholders on May 26, 2011.

Consolidated financial statements

For the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independen Auditor´s Report

- Independent Auditor's Report
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Financial Position
- Consolidated Statement of Changes in Equity
- Consolidated Cash Flow Statement
- Notes to the Consolidated Financial Statements

TATRA BANKA
Member of Raiffeisen Bank International

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VAT Id. Nr.: SK2020325516

Tatra banka, a.s.

INDEPENDENT AUDITOR'S REPORT

Shareholders and Board of Directors of Tatra banka, a.s.:

We have audited the accompanying consolidated financial statements of Tatra banka, a.s. and subsidiaries (the "Bank"), which comprise the statement of financial position as at 31 December 2010, and the 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 Bank's 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 consolidated financial statements present fairly, in all material respects, the financial position of Tatra banka, a.s. and subsidiaries as of 31 December 2010, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Bratislava 7 March 2011

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

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

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

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

(in thousands of EUR)	Note	2010	2009
Interest and similar income		333 824	357 974
Interest and similar expenses		(65 939)	(115 626)
Net interest income	**(1)**	**267 885**	**242 348**
Provisions for impairment losses	(2)	(43 948)	(52 574)
Net interest after provisioning		**223 937**	**189 774**
Fees and commissions income		122 177	108 203
Fees and commissions expense		(19 983)	(18 653)
Net fees and commission income	**(3)**	**102 194**	**89 550**
Net profit (loss) from trading instruments	(4)	14 277	40 808
Net profit (loss) from financial instruments at fair value through profit or loss	(5)	1 689	8 054
Net profit (loss) from investments in associated undertakings	(6)	296	(1 212)
General administrative expenses	(7)	(210 872)	(208 110)
Other operating profit (loss)	(8)	(7 454)	2 958
Profit before income taxes		**124 067**	**121 822**
Income taxes	(9)	(29 902)	(26 938)
Consolidated profit after tax		**94 165**	**94 884**
Other components of comprehensive income, after income tax		**-**	**-**
Comprehensive consolidated profit after tax		**94 165**	**94 884**
Basic and diluted earnings per ordinary share (face value EUR 800) in EUR	**(10)**	**1 387**	**1 525**
Basic and diluted earnings per ordinary share (face value EUR 4 000) in EUR	**(10)**	**6 934**	**7 627**
Basic and diluted earnings per preference share (face value EUR 4) in EUR	**(10)**	**7**	**8**

Consolidated Statement of Financial Position for the year ended 31 December 2010

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

(in thousands of EUR)	Note	2010	2009
Assets			
Cash and deposits in central banks	(11)	151 715	165 514
Loans and advances to banks	(12)	530 486	1 066 737
Loans and advances to customers, gross	(13)	5 769 270	5 484 549
Impairment losses for loans and advances	(14)	(203 341)	(164 258)
Derivative financial assets	(15)	107 329	144 990
Held for trading financial assets	(16)	275 984	401 237
Financial assets at fair value through profit or loss	(17)	211 945	209 150
Held to maturity financial investments	(18)	1 740 384	1 524 294
Available for sale financial assets	(19)	644	644
Investments in associated undertakings	(20)	11 773	11 477
Non-current intangible assets	(21)	39 911	34 870
Non-current tangible assets	(21)	63 823	74 800
Investment property	(21)	9 662	6 902
Current income tax asset	(22)	3 596	13 453
Deferred income tax asset	(9, 23)	17 665	13 567
Other assets	(24)	31 268	26 015
Total assets		**8 762 114**	**9 013 941**
Equity and liabilities			
Deposits from banks	(25)	61 582	103 448
Deposits from customers	(26)	6 801 644	6 716 322
Derivative financial liabilities	(27)	126 175	130 592
Liabilities from debt securities	(28)	719 486	1 069 618
Provisions for liabilities and charges	(29)	38 687	31 880
Other liabilities	(30)	44 697	33 475
Subordinated debt	(31)	120 393	120 373
Total liabilities		**7 912 664**	**8 205 708**
Equity (excluding current year profit)	(32)	755 285	713 349
Consolidated comprehensive profit after tax		94 165	94 884
Total equity		**849 450**	**808 233**
Total equity and liabilities		**8 762 114**	**9 013 941**

Consolidated Statement of Changes in Equity for the year ended 31 December 2010

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

(in thousands of EUR)	Share capital	Share capital – own shares	Share premium	Share premium – own shares	Reserve fund and other funds	Retained earnings	Comprehensive consolidated profit after tax	Total
Equity as at 1 January 2010	54 555	(165)	152 506	(1 492)	10 457	497 488	94 884	808 233
Transfer to retained earnings and increase of the reserve fund	-	-	-	-	2 718	28 343	(31 061)	-
Dividends paid	-	-	-	-	-	-	(63 823)	(63 823)
Issue of preference shares	803	-	6 951	-	-	-	-	7 754
Sale of own preference shares	-	397	-	3 432	-	-	-	3 829
Amortisation of discount on preference shares	-	-	2 742	-	-	-	-	2 742
Loss on sale of ordinary and preference shares	-	-	(458)	458	-	-	-	-
Repurchase of preference shares	-	(308)	-	(3 142)	-	-	-	(3 450)
Comprehensive consolidated profit after tax	-	-	-	-	-	-	94 165	94 165
Equity as at 31 December 2010	**55 358**	**(76)**	**161 741**	**(744)**	**13 175**	**525 831**	**94 165**	**849 450**

(in thousands of EUR)	Share capital	Share capital – own shares	Share premium	Share premium – own shares	Reserve fund and other funds	Retained earnings	Comprehensive consolidated profit after tax	Total
Equity as at 1 January 2009	38 318	(176)	49 012	(1 726)	10 426	435 561	131 308	662 723
Transfer to retained earnings and increase of the reserve fund	-	-	-	-	31	69 784	(69 815)	-
Dividends paid	-	-	-	-	-	-	(61 493)	(61 493)
Issue of ordinary shares	8 380	-	101 608	-	-	-	-	109 988
Sale of own preference shares	-	851	-	6 936	-	-	-	7 787
Amortisation of discount on preference shares	-	-	2 572	-	-	-	-	2 572
Loss on sale of ordinary and preference shares	-	-	(686)	686	-	-	-	-
Repurchase of preference shares	-	(729)	-	(7 499)	-	-	-	(8 228)
Increase of share capital from the Parent Company's equity	7 857	(111)	-	111	-	(7 857)	-	-
Comprehensive consolidated profit after tax	-	-	-	-	-	-	94 884	94 884
Equity as at 31 December 2009	**54 555**	**(165)**	**152 506**	**(1 492)**	**10 457**	**497 488**	**94 884**	**808 233**

Consolidated Cash Flow Statement for the year ended 31 December 2010

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

(in thousands of EUR)	2010	2009
Cash flows from operating activities		
Profit before tax	124 067	121 822
Adjustments (Note 34):	(174 904)	(227 155)
Cash flow used in operating activities before changes in working capital, interest received and paid and income taxes paid (Note 34)	**(50 837)**	**(105 333)**
(Increase)/decrease in operating assets:		
Obligatory reserve with National Bank of Slovakia	7 744	204 345
Loans and advances to banks	538 685	926 512
Loans and advances to customers	(291 306)	272 849
Derivative financial assets and liabilities	11 451	(14 338)
Held for trading financial assets	181 871	(215 366)
Financial assets at fair value through profit or loss	(90)	158 489
Available for sale financial assets	-	20
Other assets	(1 793)	(2 239)
Increase(decrease) in operating liabilities:		
Deposits from banks	(41 735)	(749 059)
Deposits from customers	82 460	(731 750)
Liabilities from debt securities	(343 505)	(49 658)
Other liabilities	11 144	(5 238)
Cash (used in) earned from operations before interest paid and received and income taxes paid	**104 089**	**(310 766)**
Interest paid	(69 236)	(134 403)
Interest received	291 806	374 414
Income taxes paid	(24 065)	(74 018)
Net cash flows from operating activities	**302 594**	**(144 773)**

(in thousands of EUR)	2010	2009
Cash flows from investing activities		
Net (increase) in held to maturity financial assets	(407 101)	(1 209 456)
Net decrease in held to maturity financial assets	363 742	687 516
Interest received from held to maturity financial assets	27 818	42 418
Proceeds from sale or disposal of non-current tangible and intangible assets	1 833	1 431
Purchase of non-current tangible and intangible assets	(23 660)	(17 205)
Acquisition of investment property	(1 064)	(176)
Acquisition or establishment of a subsidiary	-	(8)
Sale of subsidiary	-	12 000
Dividends received	12	7
Net cash flows from investing activities	**(38 420)**	**(483 473)**
Cash flows from financing activities		
(Redemption) or sale of preference shares	379	(441)
Issue of preference shares	7 754	-
Issue of ordinary shares	-	109 988
Dividends paid	(63 823)	(61 493)
Net cash flows used in financing activities	**(55 690)**	**48 054**
Effects of exchange rate changes on cash and cash equivalents and other effects	3 362	148
Change in cash and cash equivalents	**211 846**	**(580 044)**
Cash and cash equivalents, beginning of the year (Note 34)	111 910	691 954
Cash and cash equivalents, end of the year (Note 34)	**323 756**	**111 910**

I. GENERAL INFORMATION

Scope of activities

The Tatra banka consolidated group (hereinafter also the "Group") includes the parent company – Tatra banka, akciová spoločnosť (hereinafter also the "Bank" or the "Parent Company"), whose registered seat is at Hodžovo námestie 3, Bratislava, and 11 subsidiaries and associated undertakings. The Bank was established on 17 September 1990 and incorporated with the Commercial Register on 1 November 1990. The Parent Company's identification number is 00 686 930; the tax identification number is 202 040 8522.

The Group offers a wide range of banking and financial services. Its core activities include receipt of deposits, provision of loans, domestic and cross-border money transfers, provision of investment services, investment activities, and supplementary services under Act No. 566/2001 Coll. on Securities and Investment Services and on Amendments to and Supplementation of Certain Acts etc. The valid list of all the Group's activities is disclosed in the Commercial Register of the Parent Company, its subsidiaries and associated undertakings.

The Parent Company's shareholders as a percentage of voting rights:

	31. December 2010	31. December 2009
Raiffeisen Bank International AG	73.88 %	73.88 %
Tatra Holding GmbH	14.38 %	14.38 %
Other	11.74 %	11.74 %
Total	**100.00 %**	**100.00 %**

The Parent Company's shareholders as a percentage of subscribed share capital:

	31. December 2010	31. December 2009
Raiffeisen Bank International AG	64.80 %	65.75 %
Tatra Holding GmbH	12.62 %	12.80 %
Other	22.58 %	21.45 %
Total	**100.00 %**	**100.00 %**

The Parent Company's shareholders as absolute shares of subscribed share capital:

	31. December 2010	31. December 2009
Raiffeisen Bank International AG	35 870	35 870
Tatra Holding GmbH	6 984	6 984
Other	12 504	11 701
Total	**55 358**	**54 555**

Tatra Holding GmbH is a member of the Raiffeisen Ostbanken-Holding GmbH Group. The ultimate parent company of Tatra Holding GmbH is Raiffeisenlandesbank Niederosterreich-Wien AG.

The Parent Company performs its activities in the Slovak Republic through its 154 branches, corporate centres and corporate centre sub-agencies, **Centrum** bývania^{TB} branches and the **Centrum** investovania^{TB} branch.

The Parent Company's ordinary shares are publicly traded on the Bratislava Stock Exchange.

The members of the statutory and supervisory bodies of the Parent Company (Group) as at 31 December 2010:

Supervisory Board	
Chairman:	Rainer FRANZ
Vice-Chairman:	Herbert STEPIC
Members:	Peter BALÁŽ
	Ján NEUBAUER
	Pavol FEITSCHER
	Reinhard KARL
	Aris BOGDANERIS
	Hubert FIGL (appointed on 5 November 2010)

Board of Directors	
Chairman:	Igor VIDA
Vice-Chairman:	Miroslav ULIČNÝ
Members:	Marcel KAŠČÁK
	Michal LIDAY
	Martin PYTLIK
	Vladimír MATOUŠ (appointed on 1 February 2010)
	Peter NOVÁK (office terminated as at 31 December 2010)
	Natália MAJOR (appointed on 1 January 2011)

Changes in the Parent Company's (Group's) Supervisory Board in 2010:

Renate Kattinger – termination of office as Member of the Supervisory Board on 5 November 2010
Huber Figl - appointment to office as Member of the Supervisory Board on 5 November 2010

Changes in the Parent Company's (Group's) Board of Directors in 2010:

Vladimír Matouš – appointment to office as Member of the Board of Directors on 1 February 2010
Peter Novák – termination of office as Member of the Board of Directors on 31 December 2010
Natália Major – appointment to office as Member of the Board of Directors on 1 January 2011

Changes in the immediate parent company's structure:

On 11 October 2010, the merger of the core business activities of Raiffeisen Zentralbank Österreich AG and Raiffeisen International Bank – Holding AG into one company called Raiffeisen Bank International AG was completed following its registration in the Commercial Register in Austria. As a result of the aforementioned merger the Bank's immediate parent company changed from Raiffeisen International Bank – Holding AG to Raiffeisen Bank International AG. The immediate parent company's shareholding in the Bank has not changed.

Business name of the ultimate parent company:

Raiffeisen-Landesbanken Holding GmbH, Austria

Business name of the ultimate parent company preparing the consolidated financial statements:

Raiffeisen Zentralbank Österreich AG, Austria

Business name of the immediate parent company:

Raiffeisen Bank International AG, Austria

Business name of the immediate parent company preparing the consolidated financial statements:

Raiffeisen Bank International AG, Austria

The consolidated financial statements of the Raiffeisen Zentralbank Group ("RZB Group") are maintained with the Handelsgericht Vienna Register Court at Marxergasse 1a, 1030 Vienna, Austria.

The RZB group represents the parent company (Raiffeisen Zentralbank) and its subsidiaries and associates owned directly or indirectly through its subsidiaries.

Raiffeisen Bank International AG also prepares consolidated financial statements. The consolidated financial statements of the Raiffeisen Bank International AG Group (the "RBI Group") are deposited with the register court (Handelsgericht Wien) at Marxergasse 1a, 1030 Vienna, Austria. The shares of Raiffeisen Bank International AG are listed on the Vienna Stock Exchange.

Definition of the consolidated group

As at 31 December 2010, the Group comprised the Parent Company and the following companies (the "consolidated entities"):

Company	Direct share in %	Share of the Group in %	Indirect share through consolidated entities	Company ID No.	Principal activities	Consolidation method	Seat
Tatra Group Servis, s. r. o.	99,5 %	100%	Tatra Billing, s. r. o.	35 730 561	Business activities	Full consolidation method	Bratislava
Tatra Asset Management, správ. spol., a. s.	100%	100%	n/a	35 742 968	Asset management	Full consolidation method	Bratislava
Doplnková dôchodková spoločnosť Tatra banky, a. s.	100%	100%	n/a	36 291 111	Supplementary retirement savings	Full consolidation method	Bratislava
ELIOT, s. r. o.	0,5 %	100%	Tatra Group Servis, s. r. o.	31 392 687	Asset leasing and management	Full consolidation method	Bratislava
Tatra Office, s. r. o.	0%	100%	Tatra Group Servis, s. r. o.	35 780 860	IT support	Full consolidation method	Bratislava
CENTRUM BÝVANIA, s. r. o.	0%	100%	Tatra Group Servis, s. r. o.	35 707 682	Asset leasing and management	Full consolidation method	Bratislava
Tatra Billing, s. r. o.	100%	100%	n/a	35 810 572	Services	Full consolidation method	Bratislava
TL Leasing, s. r. o.	0%	100%	Tatra Group Servis, s. r. o.	31 398 456	Leasing	Full consolidation method	Bratislava
Tatra Residence, s. r. o.	0%	100%	Tatra Group Servis, s. r. o.	35 805 498	Asset leasing and management	Full consolidation method	Bratislava
Tatra-Leasing, s. r. o.	48%	48%	n/a	31 326 552	Leasing	Equity method	Bratislava
Slovak Banking Credit Bureau, s. r. o.	33,33 %	33,33 %	n/a	35 869 810	Services	Unconsolidated due to immateriality	Bratislava

Changes in Group in 2010

There were no changes in the Group in 2010.

Distribution of the Parent Company's profit for 2009

The Parent Company's profit for the year ended 31 December 2009 in accordance with International Financial Reporting Standards in the amount of EUR 90 800 thousand was distributed based on the decision of the General Meeting held on 27 April 2010:

Dividends – ordinary shares	57 050
Dividends – preference shares	7 052
Allotment to statutory reserve fund	2 684
Contribution to retained earnings from previous years	24 014
Total	**90 800**

The financial statements for 2009 and payment of compensation to the members of the supervisory board were approved by the General Meeting on 27 April 2010. Dividends in the amount of EUR 279 thousand without claim to payment as at the date the General Assembly was held were posted to retained earnings as at 31 December 2010.

A dividend in the amount of EUR 940 was paid per ordinary share with the nominal value of EUR 800. A dividend in the amount of EUR 4 700 was paid per ordinary share with the nominal value of EUR 4 000. A dividend in the amount of EUR 4.70 was paid per preference share with the nominal value of EUR 4.

Profit distribution proposal of the Parent Company for 2010

Dividends – ordinary shares	65 789
Dividends – preference shares	9 221
Allotment to statutory reserve fund	161
Contribution to retained earnings from previous years	16 136
Total	**91 307**

A dividend in the amount of EUR 1 084 is proposed to be paid per ordinary share with the nominal value of EUR 800. A dividend in the amount of EUR 5 420 is proposed to be paid per ordinary share with the nominal value of EUR 4 000. A dividend in the amount of EUR 5.42 is proposed to be paid per preference share with the nominal value of EUR 4.

The profit distribution for 2010 is subject to the approval of the General Meeting.

Increase of the Parent Company's share capital by subscription of new preference shares

In 2010, the Parent Company's share capital was increased by EUR 803 532 by the subscription of 200 883 preference shares with the nominal value of EUR 4 per ordinary share at the rate of issue in the amount of EUR 38.6. The total amount of the issued new preference shares was paid to the Parent Company's account on 31 December 2010. The change became effective by repaying the issue of new preference shares and by registering the shares with the shares depository in December 2010 and the increase of the share capital was registered in the Commercial Register on 12 January 2011. Information on the number and nominal values of the shares is stated in Note 32. The changes relating to the increase of the share capital are disclosed in the Statement of Changes in Equity.

The impact of the change on the equity arising from the increase of the share capital on the subscription of new preference shares is set out below:

Share capital	803
Share premium	6 951
Total impact on the equity	**7 754**

Regulatory requirements

The Group is subject to the regulatory requirements of the National Bank of Slovakia, which include limits and other restrictions pertaining to minimum capital adequacy requirements, provisioning to cover credit risk, liquidity, interest rate, and foreign currency position. In 2010, the Group fulfilled all such regulatory requirements.

II. PRINCIPAL ACCOUNTING POLICIES

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

a) Statement of compliance

The consolidated financial statements of the Group for 2010 and comparatives for 2009 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 in accordance with the current interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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

IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for certain requirements for portfolio hedge accounting under IAS 39, which has not been approved by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not have significant impact on the financial statements had it eventually been approved by the EU at the balance sheet date.

Standards and Interpretations effective in the current period

In 2010, the Group 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) of the IASB that have been endorsed for use in the European Union and that are relevant to its operations and are effective for reporting periods beginning on 1 January 2010. These standards and interpretations include the following:

- **IFRS 3 (revised) "Business Combinations"** adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009), the revised IFRS 3 requires recognition of acquisition costs in the period expenses. Revisions to IFRS 3 and the related changes to IAS 27 limit application of acquisition accounting principles only to the moment of control takeover; in consequence, goodwill is calculated as at that date only. The change to the standard allows measurement of non-controlling interest in the acquiree at fair value or proportionally to its share in the identifiable net assets of the acquiree.
- **Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions** adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010), the amendments clarify: (1) the scope of IFRS 2 and (2) the interaction of IFRS 2 and other standards. The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2—Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.
- **Amendments to IAS 27 "Consolidated and Separate Financial Statements"**adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009), according to the revised standard, changes in the acquiree's interest in its subsidiary that do not result in a loss of control are accounted for in equity as transactions with owners in their capacity as owners. For such transactions, no financial profit/loss is recognized or goodwill remeasured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. The Standard defines accounting procedures to be applied by the parent if control of a subsidiary is lost.

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** - Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009), the revised Standard explains two hedge accounting issues: identifying inflation as a hedged risk or its portion; and hedging with options. The amendments make clear that inflation may only be hedged in the instance where changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged.
- **Amendments to various standards and interpretations "Improvements to IFRSs (2009)"** resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010).
- **IFRIC 15 "Agreements for the Construction of Real Estate"** adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010), IFRIC 15 deals with two (related) issues: determines whether a construction contract is subject to IAS 11 "Construction Contracts" or IAS 18 "Revenue" and when revenues from the construction of real estate are to be recognized.
- **IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"** adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009), the Interpretation determines: (i) currency risk qualifying for the hedge and the amount that can be hedged; (ii) where to maintain a hedging instrument within the group; (iii) what amount should be recognized in the income statement if a foreign operation is sold.
- **IFRIC 17 "Distributions of Non-Cash Assets to Owners"** adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009), the Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

The adoption of these amendments to the existing standards has not led to any changes in the Group'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 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 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).
- **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 (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Group 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 2010:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2013), 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. 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.
- **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"**- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

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

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the Bank's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

Purpose of preparation

The purpose of preparing annual consolidated financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll. Pursuant to Article 22 of Act on Accounting No. 431/2002 Coll., effective from 1 January 2005, the Group is required to prepare its consolidated financial statements under Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the Application of International Accounting Standards (IFRS). The individual and consolidated financial statements prepared in compliance with IFRS as at 31 December 2010, dated 7 March 2011, will be available at the Collection of Deeds. The financial statements are intended for general use and information; they 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.

Basis of preparation

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and reported in the financial statements of the periods to which they relate and on the going concern assumption.

The financial statements are prepared under the historical cost convention; certain financial instruments were revalued to fair value.

The reporting currency used in the financial statements is the euro ("EUR") with accuracy to EUR thousand, unless otherwise indicated.

Significant accounting judgements

The presentation of financial statements in conformity with IFRS requires the preparation of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their 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 subsequently result in a change in estimates or other adjustments that could have a material impact on the reported financial position and results of operations.

The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

Significant areas of judgement include the following:

- Provisioning for incurred loan losses and identified contingent liabilities involves many uncertainties concerning the outcomes of the risks mentioned above and requires the Group's management to make many subjective assessments when estimating the amount of losses. As described in Section e) paragraph 1 below and disclosed in detail in Note 2 and 14, the Group creates provisions for the impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are impacted negatively. These provisions are based on the Group's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to crystallise in loan default, as well as subjective judgments of the Group's management about estimated future cash-flows.
- Given the current economic conditions, the result of such estimates may differ from impairment provisions recognised as at 31 December 2010.
- Amounts recognised as provisions for liabilities are based on the management's judgement and represent the best estimate of expenses needed to settle a liability with uncertain timing or an uncertain amount payable.
- The income taxes rules and regulations have recently experienced significant changes; there is limited historical precedent and/or interpretation judgement with respect to the extensive and complex issues affecting the banking sector. Furthermore, tax authorities have broad powers as regards the interpretation of tax laws and regulations during the tax audit of a taxpayer. As a result, there is a higher degree of uncertainty as to the final outcome of the potential reviews conducted by tax authorities.

b) Consolidation principles

Subsidiary undertakings are those companies in which the Parent Company, directly or indirectly, has an interest of more than 50% of the voting rights or otherwise has power to exercise control over their operations; these were included in consolidation using the full consolidation method except for those where the influence was insignificant. Subsidiaries were consolidated as of the date when the Parent Company gained control over them, and deconsolidated on the date of their disposal or loss of the controlling interest. All receivables and payables, disposals and purchases, as well as expenses, revenues, profits, and losses on transactions within the Group were eliminated.

Investments in associated undertakings represent entities in which the Parent Company has more than a 20% but less than 50% share in the share capital and voting rights and in which the Parent Company has a significant influence. Investments in associated undertakings are valued using the equity method in the consolidated financial statements. Under the equity method, investments are initially measured at cost and subsequently adjusted for post-acquisition changes in the Parent Company's share of the net assets of an entity wherein the investment was made. The profit or loss of respective investors includes their share in the profit or loss of the entity wherein the investment was made. Gains (losses) resulting from the revaluation of associates using the equity method are disclosed as *"Net gains (losses) from investments in associated undertakings"* in the income statement.

All acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Parent Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. If the cost of the business combination exceeds the Parent Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised, the difference is disclosed as goodwill [Note k in Section II. – Principal Accounting Policies].

c) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into euros and reported in the financial statements as at the exchange rate declared by the European Central Bank (ECB) valid as at the balance sheet date. Income and expenses denominated in foreign currencies are recorded in euros in the underlying accounting system of the Group and are reported in the financial statements at the actual exchange rate of the European Central Bank valid as at the date of the transaction.

Exchange rate gains (losses) from all foreign exchange transactions are included in the Statement of Comprehensive Income item "*Net profit (loss) from trading instruments".*

Off-balance sheet transactions denominated in foreign currency are translated into euros in the Group's off-balance sheet using the ECB spot exchange rate valid as at the balance sheet date.

The unrealised gain or loss from fixed term transactions is calculated using the anticipated forward rate based on a standard mathematical formula, which takes into account the European Central Bank spot rate and interest rates effective as at the balance sheet date and is reported in the item *"Derivative financial assets"* or in the item "*Derivative financial liabilities"* in the statement of financial position, and "Net profit *(loss) from trading instruments"* in the statement of comprehensive income.

d) Cash and deposits in central banks

Cash and deposits in central banks comprise cash held, and cash balances with the National Bank of Slovakia, including the compulsory minimum reserve with the National Bank of Slovakia.

The compulsory minimum reserve with the National Bank of Slovakia is a required deposit with restricted drawing to be held by all commercial banks licensed in the Slovak Republic. The interest rate is determined by the European Central Bank on a regular basis after the end of each period.

e) Government and other treasury bills

Government and other treasury bills are debt securities with maturity up to 12 months issued by the National Bank of Slovakia or the Ministry of Finance of the Slovak Republic. Accounting principles stated in paragraph f) 2a) are applied to measure and recognise government and other treasury bills from the portfolio of securities held for trading. Treasury bills from the portfolio of securities held for trading are recognised as "*Held for trading financial assets*". The accounting principles stated in paragraph f) 2b) are applied to measure and recognise government and other treasury bills from the portfolio of securities at fair value through profit or loss. Treasury bills from the portfolio of securities at fair value through profit or loss are recognised as "*Financial assets at fair value through profit or loss"*. Accounting principles stated in paragraph f) 3) are applied to measure and recognise government and other treasury bills from the portfolio of securities held to maturity. Treasury bills from the portfolio of securities held to maturity are recognised as "*Held to maturity financial assets"*.

f) Financial instruments

A financial instrument is any contract that results in a financial asset in one entity and a financial liability in another.

The Group classifies financial instruments in five categories, in accordance with the Group's intention to acquire the instruments and pursuant to the Group's investment strategy, as follows:

1. Loans and receivables
2. Financial assets or financial liabilities at fair value through profit or loss
   a) Financial assets held for trading
   b) Derivative financial instruments
   c) Financial assets at fairvalue through profit or loss
3. Held to maturity financial assets
4. Avilable-for-sale financial assets
5. Hedging dervatives

1. Loans and receivables

Loans and other receivables represent non-derivative financial assets with fixed or determinable payments unlisted in an active market. Loans are measured at amortised costs using the effective interest rate method less impairment provisions.

When signing a loan agreement, the Parent Company records the issued loan commitment on the off-balance sheet. Loans are recognised in the statement of financial position when the funds are provided to debtors. During the performance of their activities, the Parent Company records contingent liabilities with inherent credit risk. The Parent Company accounts for these contingent liabilities in off-balance sheet accounts, and records a provision for such liabilities that reflects the level of risk of issued guarantees, letters of credit, and unused credit limits as at the balance sheet date.

Provisions for loan impairment

Provisions are recorded to cover estimated losses from receivables for which objective evidence of impairment exists. The provision for possible loan losses is calculated to reduce loans to their recoverable amount representing expected future cash flows discounted to the present value using the original effective interest rate implicit in the loan at inception or the fair value of the related collateral. Provisions for losses from loans to customers are charged as *"Provisions for impairment losses"* in the statement of comprehensive income. If there is no reason to record a provision or the amount of provisions is not adequate, excessive provisions are released using the same line of the statement of comprehensive income.

The Bank records two types of provisions: specific and portfolio provisions. Specific provisions for identified potential losses on loans are assessed with reference to the credit standing and financial performance of the borrower and collateral (a portfolio model is used for retail provisions). Portfolio provisions cover losses that have not been individually identified, but based on historical experience it is clear that they are inherent in the portfolio at the reporting date.

Loans and advances to corporate clients are generally individually significant and are analysed on an individual basis. The Group adjusts the value of a corporate receivable if there is reason to believe that the receivable demonstrates characteristics that would cause the receivable to be impaired. These characteristics mainly include: overdue receivables, information that a large-scope foreclosure procedure is pending against the debtor, that the debtor is in bankruptcy or liquidation, if an identified fraud is associated with the receivable, if the receivable was restructured due to the fact that the debtor did not have sufficient funds to repay the receivable in line with the original repayment schedule, or if the Group concludes - based on the regular monitoring of the client's financial position - that the client will be unable to fully repay the amount outstanding.

The calculation of specific provisions is based on an estimate of expected cash flows reflecting estimated delinquency in loan repayments, as well as income from loan collateral. The impairment amount is determined by the difference between the loan's carrying amount and the net present value ("NPV") of the estimated cash flows discounted by the loan's original effective interest rate. Specific provisions are recorded when there is objective evidence of a loss event that occurred after initial recognition.

For loans and advances to corporate clients where no impairment was identified on an individual basis, loans and advances are divided into groups with similar credit risk characteristics and portfolio-based provisions are calculated. Portfolio-based provisions cover losses that have not yet been individually identified, but based on historical experience, are deemed to be inherent in the portfolios of the balance sheet date. The provision depends on the client rating, historical default rate for the given client rating, collateral value, and recovery rate. For groups where the Bank does not have a sufficiently long time period to calculate a historical default rate, the Group uses default probabilities derived from other similar groups or from RBI Group data.

Specific provisions are established: for foreclosures, bankruptcies and liquidations, frauds; in the event of the debtor's death. For the aforementioned cases, the Bank creates provisions at 100% of the outstanding amount after considering the value of collateral.

For retail receivables where no impairment was identified, individually portfolio-based provisions are created using a flow rate model. Portfolio provisions cover losses that were not identified individually, but, based on historical experience, they were inherent to the portfolios as at the balance sheet date. A flow rate model (also known as a roll rate model) is the model for calculating provisions based on the principle of a percentage flow of overdue receivables into saturation status (180 days overdue). A vintage based recovery rate with a time-span of no more than 36 months is applied to receivables in saturation status. For both the flow rate model and the vintage based recovery, the Bank uses portfolio segmentation per products and their types (according to their risk characteristics), and 12-month flow rate averages are used to calculate the flow rates (if a significant change is seen in the population's behaviour, 6- or 3-month averages can be used).

The Group provides for a retail receivable if there is evidence the receivable is or will be impaired. If such evidence is identified, specific provisions are established.

In line with the internal policy, according to a valid decision on ceasing the recovery of claims issued by the competent court, the Board of Directors, or other Parent Company bodies (Problem Loan Committee, Executive Committee), the Group writes off its loans to customers against the recorded provision. Should the amount of the receivable written-off exceed the amount of recorded provisions, the difference is recognised through the statement of comprehensive income. Receivables written off that are still in the collection process under law are recorded in off-balance sheet accounts.

If, after the write off, the Bank collects additional amounts from the client or obtains control of collateral worth more than initially estimated, a recovery is recognised through the statement of comprehensive income in the caption *"Provisions for impairment losses"*.

Loan collateral

In terms of handling collateral, the Group places great emphasis mainly on valuing and revaluing individual collaterals, determining the value of pledged collateral for secured loans, determining collateral acceptability to mitigate credit risk, and collateral enforcement, should the client be in default.

The Bank mainly accepts the following types of collateral:

- Financial collateral
- Guarantees
- Real estates
- Chattels
- Receivables
- Life insurance

In terms of legal instruments, the Bank uses:

- Pledges
- Assignments of receivable intended to serve as security
- Transfers of title intended to serve as security
- Blockages of cash
- Contracts for purchase of securities
- Agreements on liability replacement

The methodology of collateral valuation and the frequency of such revaluation depend on the type of collateral and the minimum requirements pursuant to the effective legislative standards implemented in the Bank's internal regulations. The method of determining the value of collateral is specific for each type of collateral, and the Bank respects an adequate degree of prudence.

The value of pledged collateral is determined on a case-by-case basis for each type of collateral depending on the type of collateral and transaction, and individual risk characteristics. The value of pledged collateral is obtained by discounting the initial value of collateral obtained in valuation and revaluation. Factors based on which discounting factors are determined relate mainly to the enforceability of collateral if the counterparty defaults (eg type, location and condition of real estate), potential default of the security provider (eg credit quality and maturity of financial collateral), and other factors (business strategy and Bank orientation). The discounting factors applied are subject to regular revaluation.

The claim value of collateral is derived from the value of pledged collateral up to the amount of the current amount receivable. If the value of pledged collateral is lower than the balance of the receivable, the Bank will determine the claim value of collateral up to the amount of the value of pledged collateral.

The claim value of collateral contains a number of uncertainties and risks. The amounts that may be recovered in the course of liquidating the collateral for bad debts could differ from the estimated amounts, and the difference could be material.

The Bank's decisions on the enforcement of collateral is individual and depends on factors such as the current condition and value of the collateral, the current amount receivable, the promptness of the satisfaction of the receivable, collection-related costs etc. The relevant competent body of the Bank decides which security instrument will be used in the specific case.

The Bank mainly uses the following forms of enforcement of collateral:

- Voluntary auction
- Foreclosure procedure
- Realisation of the collateral for the Bank's receivable in a bankruptcy procedure
- Sale of receivables

2. Financial assets or financial liabilities at fair value through profit or loss

a. Held for trading financial assets

The Group has acquired held-for-trading financial assets and liabilities to utilise short-term price fluctuations in order to generate profits. In this category, the Group recognises securities (equity investments, debt securities, Treasury bills, shares). Equity and debt securities, treasury bills and shares are recognised by the Group in the statement of financial position line "*Held for trading financial assets*".

All purchases and sales of trading securities are recognised as at the settlement date.

Held for trading financial assets are initially recognised at cost net of transaction costs and are subsequently remeasured to fair value through the statement of comprehensive income.

The Group discloses unrealised gains and losses on revaluing such assets to fair value and net interest income in the statement of comprehensive income line "*Net profit (loss) from trading instruments".*

Refinancing costs of trading securities is disclosed in the statement of comprehensive income line *"Net profit (loss) from trading instruments*". Refinancing costs represent costs of refinancing positions contracted in trading activity.

Dividend income from held for trading securities is disclosed in the statement of comprehensive income line *"Net profit (loss) from trading instruments*".

b. Derivative financial instruments

In this category, the Group discloses derivative financial instruments (interest rate swaps, currency swaps, index swaps, currency forwards, interest rate options, currency options, share index options, currency, interest rate and index futures and commodity derivatives).

All purchases and sales that require delivery within the time frame established by regulation or market convention ("standard way") are recognised as spot transactions. Transactions that do not meet the "standard way" settlement criteria are treated as financial derivatives.

Derivatives are recognised as "Derivative financial assets" or "Derivative financial liabilities", if they are not used for hedging (see Note 5 Hedging Derivatives). Certain financial derivative transactions, while providing effective economic hedges under the Group's risk management policy, do not qualify for hedge accounting under the specific rules stipulated by IAS 39 and are therefore treated as "Derivative financial assets" or "Derivative financial liabilities".

Derivatives embedded in other financial instruments or other host contracts are treated, in terms of accounting, as separate derivatives if no close linkage exists between their risks and attributes, and risks and attributes of the host contract, and if the host contract is not recognised at fair value and changes in fair value are recognised in the statement of comprehensive income.

The Group records unrealised gains and losses from the revaluation of derivative instruments to their fair values and net interest income in the statement of comprehensive income line *"Net profit (loss) from trading instruments*". The fair value of held for trading financial derivatives is disclosed in Note 44.

c. Financial assets at fair value through profit or loss ("FVTPL")

Based on the Group's documented risk management strategy and in accordance with its investment strategy, the Group mainly recognises debt securities in the given portfolio. The performance of these securities is evaluated on a fair value basis. The aforementioned debt securities are treated by the Group at initial recognition as financial assets at fair value through profit or loss (FVTPL) and they are recognised in the statement of financial position as "*Financial assets at fair value through profit or loss"*.

Financial assets at fair value through profit or loss are initially recognised at cost excluding costs of transaction and are subsequently re-valued to fair value through statement of comprehensive income.

The Group recognises unrealised gains and losses from the revaluation of these assets to their fair values in the statement of comprehensive income line *"Net profit (loss) from financial instruments at fair value through profit or loss"*.

Net interest income is accrued on a daily basis and recorded in the statement of comprehensive income line *"Interest and similar income".*

3. Held to maturity financial assets

This portfolio is a non-derivative financial asset with fixed or floating payments and fixed maturity that the Group intends and is able to hold to maturity. The held to maturity portfolio includes debt securities in line with the approved strategy for the creation of a strategic securities portfolio. It mainly includes securities issued by the government and other creditworthy securities.

Held to maturity financial assets are measured at amortised cost using the effective interest rate method less impairment. Interest income and discounts and premiums on held-to-maturity securities are recognised as *"Interest and similar income"* in the statement of comprehensive income.

4. Available-for-sale financial assets (AFS)

The AFS portfolio includes the Group's investments in other entities, with a share of less than 20% of share capital and voting rights. The portfolio is measured at cost less impairment provisions, which are recognised as *"Other operating profit (loss)" in "Other expenses from available for sale financial instruments"* in the statement of comprehensive income, as their market price in an active market cannot be reliably measured.

The portfolio mainly includes shares in privately held companies for which no market exists or companies in which participation is mandatory (Burza cenných papierov v Bratislave a. s., S.W.I.F.T. s. c., VISA INC., USA). As a result, in respect of these shares the Group applies the level 3 for fair value measurements (see Note f). In 2010, there were no changes in one or more input data that would have an impact on the fair value change. Therefore, and also due to the insignificance of the given portfolio, the Group does not disclose any detailed requirements for reconciling opening and closing balances with separately described changes during the period. The Group does not expect the selling or otherwise disposing of the given participation shares in the near future. For companies against which bankruptcy proceedings are underway, 100% provisions are created and the participation shares will be written off after the completion of the bankruptcy proceedings.

Dividend income from available for sale financial assets is reported as *"Interest and similar income"* in the statement of comprehensive income. Profit or loss from the sale of financial assets available-for-sale is recognised in the statement of comprehensive income as *"Other operating profit (loss)" in "Other revenues from available for sale financial instruments"*.

5. Hedging Derivatives

Hedging derivatives are derivatives which are designed in the Group's strategy to hedge certain risks and which meet all classification criteria for hedging derivatives under international accounting standards. The relationship between the hedging instrument and the hedged item is documented at the origin of the hedging transaction. At the origin and during the existence of the hedging relationship the hedging effectiveness is tested so that the changes in fair values or cash flows from hedged or hedging items are set off with the final results within the range from 80% to 125%.

Fair Value Hedges

Changes in the fair value of hedging derivatives which are regarded as fair value hedges are recognised in the income statement together with any changes in the fair value of hedged assets or liabilities to which a hedge risk can be attributed. Hedge accounting is discontinued if the Group cancels the hedging relationship, derivative instrument expires or is sold, terminated, or exercised, or when the hedging relationship no longer meets the criteria for fair value hedge accounting.

The positive fair value of a hedging derivative is recognised in the statement of financial position line "*Derivative financial assets*". The negative fair value of a hedging derivative is recognised in the statement of financial position line "*Derivative financial liabilities".*

Any change in the fair value of a hedging derivative and a hedged instrument relating to the hedged risk is recognised in the statement of comprehensive income line *"Net profit (loss) from trading instruments*". Interest income and expenses related to the hedging derivative are recognised together with interest expenses related to the hedged instruments in the statement of comprehensive income as "*Interest and similar expenses*".

Derecognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities only when the Group's obligations are discharged or cancelled, or when they expire.

Inland securities in the Group's portfolio are mainly listed and traded on the Bratislava Stock Exchange; foreign securities are listed on the foreign stock exchange, where they are traded. Foreign securities are traded in an inter-bank market.

g) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- *Level 1* – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- *Level 2* – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- *Level 3* – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An analysis of financial instruments recognised at fair value divided according to their fair value measurement levels is stated in Note 45.

With respect to the definition of the fair value of financial instruments that are not revalued to fair value, the Group applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market values. More detailed information on the methods of calculating the fair values of financial instruments not revalued to fair value is provided in Note 45.

h) Sale and repurchase agreements - repo transactions

Securities sold under sale and repurchase agreements ("repo transactions") are recorded as assets in the statement of financial position lines *"Held for trading financial assets*", "*Financial assets at fair value through profit or loss*" or "*Held to maturity financial asset*", and the counterparty liabilities are included in "*Deposits from banks*" or *"Deposits from customers*".

Securities purchased under agreements to purchase and resell ("reverse repos") are recorded as assets in the statement of financial position line *"Loans and advances to banks"*or "*Loans and advances to customers"* as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

i) Non-current tangible and intangible assets

Non-current tangible and intangible assets are stated at historical cost less accumulated depreciation/ amortisation together with accumulated impairment losses. Non-current assets are depreciated using the straight–line method based on the estimated useful life. Tangibles in progress, land, and artwork are not depreciated.

The estimated useful economic lives (in years) are set out below:

Machinery and equipment, computers, vehicles	2 – 10
Software	up to 10
Fixtures, fittings and equipment	6 – 10
Energy machinery and equipment	10 – 15
Optical network	25
Buildings and structures	10 – 40

j) Investment Property

Investment property represents assets held by the Group in order to earn rentals or for further capital appreciation. Investment property is recognised at cost less accumulated depreciation and provisions for impairment. The net book value of investment property, depreciation charges and rentals are described in Note 21. The estimated useful life of buildings classified as investment property is 40 years.

k) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable assets, liabilities and contingent liabilities of the acquired company as at the acquisition date. Goodwill is initially recognised at cost and subsequently its value is adjusted for accumulated losses from its impairment. Goodwill is tested once or several times a year provided that the events or changes in circumstances indicate that the impairment of value is in compliance with IAS 36 – Impairment of assets. Impairment of goodwill cannot be reversed in the following reporting periods.

l) Impairment of tangible and intangible assets

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

The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows expected to derive from the asset. If any of the amounts above 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 through the statement of comprehensive income.

m) Leases

A lease is classified as a finance lease when the terms of the lease provide for transferring all the risks and rewards of ownership of the leased asset to the lessee. All other leases are classified as operating leases.

1. The Group as lessor

Amounts due from leases under finance lease are recognised as receivables at the amount of the Group's net lease investment. Finance lease income is allocated to reporting periods so as to express a constant periodic rate of return on the Group's net investment in respect of the lease.

The present value of future lease payments is recognised in the statement of financial position as "*Loans and advances to customers, gross*", line "Finance lease receivables".

2. The Group as lessee

Assets under finance lease are recognised as the Group's assets at fair value as at the acquisition date, or if the fair value is lower, at the present value of minimum lease payments. The relevant payable to a lessor is recognised in the statement of financial position as a finance lease payable. Finance lease payments are apportioned between financial charges and reduction of outstanding lease payable (to produce a constant periodic rate of interest on the outstanding balance). Financial charges are recognised directly in the statement of comprehensive income, unless they are allocated directly to the relevant asset. In this case, financial charges are capitalised.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of the rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

n) Liabilities from debt securities

Debt securities issued by the Group are stated at amortised cost using the effective interest rate method. The Group issues mortgage bonds and investment notes. Interest expense arising on the issue of securities is included in the statement of comprehensive income line "*Interest and similar expenses*".

o) Subordinated debt

Subordinated debt refers to the Group's external funds and, in the event of bankruptcy, composition or Group's liquidation, the entitlement to its repayment is subordinated to liabilities to other creditors. The Group's subordinated debt is recognised in the separate statement of financial position as "*Subordinated debt*". Interest expense paid on the received subordinated debt is recognised through the statement of comprehensive income in *"Interest and similar expenses".*

Subordinated debt is a financial liability initially measured at fair value, net of transaction costs. It is subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

p) Cash and cash equivalents in the cash flow statement

Cash and cash equivalents for the purpose of cash flow statement preparation comprise cash held and cash balances with the National Bank of Slovakia, except for the statutory minimum reserve. Cash equivalents include treasury bills, demand deposits with other banks, and short-term government bonds.

q) Provisions for liabilities

The amount of provisions for liabilities and charges is recognised as an expense and a liability when the Group has legal or constructive obligations as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle such obligation and a reasonable estimate of the amount of the resulting loss can be made. Any loss resulting from the recognition of provision for liability is recognised in the statement of comprehensive income for the period.

r) Provision for employee benefits

The Group has a defined benefit programme, under which employees are entitled to a lump-sum payment upon taking retirement or a work jubilee. As at 31 December 2010 there were 3 336 employees at the Group covered by this programme (2009: 3 386 employees).

The method of calculating the liability applies actuarial calculations, based on employee's age, number of years worked, employee turnover, mortality tables, and discount rates.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, measured as the present value of the estimated future cash outflows discounted by interest approximating yield on investment grade fixed income securities. Actuarial gains and losses from both the jubilee benefit obligation and post-employment defined benefit plans are charged to the statement of comprehensive income in the current year in "*General administrative expenses"*. The provision for employee benefits is recognised in the statement of financial position as "*Provision for liabilities"*.

Key assumptions used in actuarial valuation

Long-term employee provisions were calculated in accordance with the currently valid mortality tables issued by the Statistical Office of the Slovak Republic.

Real annual discount rate	4%
Annual future real rate of salary increases	2%
Annual employee turnover	8 – 21 %
Retirement age	Based on valid law

The Group also has a defined contribution plan for employees. All company contributions are included in personnel expenses (see note 7).

s) Accrued interest

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

t) Recognition of income and expense

1. Interest income and expense, and interest related charges

Interest income and expense, and interest related charges arising on all interest-bearing instruments except for *"Held for trading financial assets or financial liabilities*" are accrued in the statement of comprehensive income using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period.

Interest income from *"Held for trading financial assets or financial liabilities*" is recognised in the statement of comprehensive income as *"Net profit (loss) from trading instruments*".

Interest income (expense) from securities includes revenues from coupons with fixed and floating rates, and amortised discount or premium.

2. Fees and commissions income/expense

Fees and commissions that do not form part of the effective interest rate are recognised as expense and income in the statement of comprehensive income in *"Net fees and commission income*" from financial assets and liabilities not restated to fair value on an accrual basis as earned.

3. Dividend income

Dividend income is recognised in the statement of comprehensive income when the dividend is approved to the Group.

u) Basic and diluted earnings per share

The Group reports earnings per share attributable to the holders of each class of shares. The Group calculated earnings per share as profits attributable to each class of shares divided by the weighted average number of each class of shares outstanding during the period.

The profit attributable to each class of shares is determined based on the face value of each class of shares in relation to the percentage of the total face value of all shares.

The Group does not report diluted earnings per share as there were no dilutive potential ordinary shares in issue as at 31 December 2010 nor 31 December 2009.

v) Taxation and deferred taxation

Income taxes are calculated in accordance with the provisions of the relevant legislation of the Slovak Republic, based on taxable profit. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rate anticipated for future periods was used to determine deferred income tax, ie 19%. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The Group recognises the due corporate income tax in the statement of financial position line *"Current tax asset"* or *"Current tax liability"* and the deferred tax in "*Deferred tax asset*" *or "Deferred tax liability".*

The Group is a payer of various statutory taxes and value added tax (VAT) recognised in the statement of comprehensive income line "*Other operating profit (loss)"* except for VAT on the acquisition of non-current tangible and intangible assets, which is included in the cost of non-current tangible and intangible assets.

III. SEGMENT REPORTING

When reporting per segments, the Group applies IFRS 8 – "Operating Segments".

The basis for classifying per segments is an internal principle for the Group management that is customer oriented. It also reflects the segmentation principle of the majority shareholder (Raiffeisen Bank International AG). The segmentation applied by the Group is as follows:

- Corporate clients
- Financial institutions and public sector
- Retail customers
- Treasury and Investment Banking
- Equity investments

Corporate companies include all resident and non-resident companies including state-owned companies. In terms of products, corporate clients were mainly provided with investment and operating loans in the form of instalment credits or overdraft facilities, factoring and documentary financing, project financing of commercial real estate projects, office premises, construction of shopping centres etc.

Financial institutions and the public sector consist of:

Groups/Supra-Nationals, which include all local and international groups and their majority-owned subsidiaries in the country and all institutions such as the World Bank, EBRD, EIB, IMF, and KfW. In terms of products on the side of assets, exposures to banks mainly included nostro accounts and term placements made. On the side of liabilities, they included mainly loro accounts, term placements received and loans received from banks.

Brokers & Asset Management Companies, which include foundations, all broker houses, mutual fund companies, leasing companies, investment groups, and other groups like these entities. Insurance companies include, for example, pension funds. These entities were mainly provided with investment and operating loans.

Public sector, which includes all government entities, ministries, municipalities, and similar institutions. Corporations that are owned by the public sector (state owned) are shown under the corporate clients segment. Groups that belong to the government are defined as financial institutions. Securities of the Slovak Republic are disclosed in the Treasury and Investment Banking segment. Embassies and trade representatives are shown in this segment.

Retail Customers consist of *Individuals (Consumers)*, which include all consumer customers, from low-income to high-income. The retail customers segment also includes micro businesses. For private banking, individuals are defined locally, with special treatment to individually manage their assets. In terms of products, retail customers – micro businesses and sole traders – were mainly provided with operating loans called **Business**Úver^{TB}Expres and B**usiness**Úver^{TB} Comfort, company credit cards (VISA Standard/Gold/Platinum, MercedesCard, AMEX, Diners Club) and others. Retail customers – households were mainly provided with mortgage loans, equity home loans, Mortgage loan^{TB}, **Bezúčelový** úver^{TB}Classic, **Bezúčelový** úver^{TB} Garant, private credit cards (VISA Standard/Gold/Platinum, MercedesCard, AMEX, Diners Club) and others. Retail customers placed their financial funds mainly in current accounts and term deposits.

Treasury and Investment Banking consist of business transactions conducted on the Group's own accounts and risk that are originated from managing market risk positions like FX-dealing, securities and derivatives trading, money market trading, liquidity management and funding, strategic positioning (investment portfolio), interest rate gapping (maturity transformation).

Segment reporting is based on the schemes of contribution margins that are calculated as a basis for the management of the Group. In the schemes, revenues and expenses are allocated under the principles of causality, ie revenues and expenses are allocated to individual segments based on the place of their origin.

General administrative expenses consist of direct and indirect expenses. Direct expenses (personnel expenses and other administrative expenses) are allocated as per individual segments and indirect expenses are allocated as per the approved ratios.

The structure of items presented in Note III "Segment Reporting" is consistent with similar items of the statement of comprehensive income. Accounting policies applicable for individual segments are consistent with the Group's accounting policies presented in these consolidated financial statements.

Geographically, operating profit was primarily generated by the provision of banking services in the Slovak Republic. Some assets and liabilities are placed outside the Slovak Republic. The summary of the most significant exposures of total assets and liabilities to customers in foreign countries is included in Note 37 *"Foreign assets and liabilities".* The Group decided not to report the total amount of revenues from foreign entities owing to their immateriality.

The Group's management monitors interest income of individual segments on a net basis.

The consolidated statement of comprehensive income and other indicators per segments as at 31 December 2010:

(in thousands of EUR)	Corporate customers	Financial institutions and public sector	Retail customers	Treasury and investment banking	Equity investments and other	Total
Net interest income	69 473	4 863	187 436	1 829	4 284	267 885
Provisions and provisions for losses	(33 318)	681	(11 096)	-	(215)	(43 948)
Net interest income after provisioning	**36 155**	**5 544**	**176 340**	**1 829**	**4 069**	**223 937**
Net fees and commissionss income	11 424	(67)	86 653	1 148	3 036	102 194
Net profit (loss) from financial trading instruments	7 828	480	8 046	(2 077)	-	14 277
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	1 689	-	1 689
Net profit (loss) from investments in associated undertakings	-	-	-	-	296	296
General administrative expenses	(31 832)	(3 175)	(163 596)	(11 656)	(613)	(210 872)
Other operating profit (loss)	-	-	-	-	(7 454)	(7 454)
Consolidated profit before income taxes	**23 575**	**2 782**	**107 443**	**(9 067)**	**(666)**	**124 067**
Total assets	**3 039 952**	**108 972**	**2 658 695**	**2 951 466**	**3 029**	**8 762 114**

The consolidated statement of comprehensive income and other indicators per segments as at 31 December 2009:

(in thousands of EUR)	Corporate customers	Financial institutions and public sector	Retail customers	Treasury and investment banking	Equity investments and other	Total
Net interest income	67 260	4 124	176 312	(4 525)	(823)	242 348
Provisions and provisions for losses	(23 186)	(661)	(28 626)	-	(101)	(52 574)
Net interest income after provisioning	**44 074**	**3 463**	**147 686**	**(4 525)**	**(924)**	**189 774**
Net fees and commissions income	10 641	(137)	75 688	602	2 756	89 550
Net profit (loss) from financial trading instruments	6 995	240	9 051	24 522	-	40 808
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	8 054	-	8 054
Net profit (loss) from investments in associated undertakings	-	-	-	-	(1 212)	(1 212)
General administrative expenses	(38 210)	(3 759)	(153 977)	(11 593)	(571)	(208 110)
Other operating profit (loss)	-	-	-	-	2 958	2 958
Consolidated profit before income taxes	**23 500**	**(193)**	**78 448**	**17 060**	**3 007**	**121 822**
Total assets	**2 837 906**	**145 114**	**2 507 763**	**3 434 495**	**88 663**	**9 013 941**

IV. OTHER NOTES

1. Net interest income

(in thousands of EUR)	2010	2009
Interest and similar income:	**333 824**	**357 974**
From loans and advances to banks	8 854	23 606
From loans and advances to central banks	*1 394*	*3 776*
From loans and advances to customers	265 776	286 019
From finance lease receivables	684	765
From held to maturity financial assets	51 901	36 439
From financial assets at fair value through profit or loss	6 597	11 138
From received dividends from financial assets available for sale	12	7
Interest and similar expenses:	**(65 939)**	**(115 626)**
On deposits from banks	(795)	(3 153)
On deposits from central banks	*(19)*	*(1)*
On deposits from customers	(32 880)	(67 222)
On subordinated debts	(3 179)	(4 201)
On liabilities from debt securities issued by the Group	(29 085)	(41 050)
Net interest income	**267 885**	**242 348**

2. Provisions for impairment losses

Movement in provisions for impairment losses for loans disclosed in the statement of financial position and provisions for off-balance sheet liabilities are as follows:

(in thousands of EUR)	2010	2009
Specific provisions for loan receivables:	**(28 517)**	**(60 179)**
Additions to provisions	(71 240)	(83 633)
Released provisions	43 827	24 965
Written-off loans	(1 289)	(1 696)
Recovery from written-off loans	185	185
Portfolio provisions for loan receivables:	**(13 087)**	**256**
Additions to provisions	(17 301)	(6 457)
Released provisions	4 214	6 713
Specific provisions for off-balance sheet items:	**1 551**	**4 766**
Additions to provisions	(2 581)	(3 409)
Released provisions	4 132	8 175
Portfolio provisions for off-balance sheet items:	**(3 895)**	**2 583**
Additions to provisions	(4 132)	-
Released provisions	237	2 583
Total	**(43 948)**	**(52 574)**

More information on provisions for loan losses and provisions for off-balance sheet liabilities are disclosed in Notes 14 and 29, respectively.

3. Net fees and commission income

(in thousands of EUR)	2010	2009
Fees and commission income:	**122 177**	**108 203**
From payment transfers business	73 373	66 225
From credit processing and guarantee business	17 297	14 328
From securities business	6 008	3 851
From activities regarding management of investment and pension funds	19 742	18 643
From activities regarding mediation for third parties	3 859	3 931
For other banking services	1 898	1 225
Fees and commission expense:	**(19 983)**	**(18 653)**
From payment transfers business	(17 104)	(16 077)
From credit processing and guarantee business	(487)	(766)
From securities business	(826)	(286)
From activities regarding management of investment and pension funds	(602)	(496)
From activities regarding banknotes, foreign exchange and coins	(164)	(237)
For other banking services	(800)	(791)
Net fees and commission income	**102 194**	**89 550**

4. Net profit (loss) from trading instruments

(in thousands of EUR)	2010	2009
Interest-rate contracts – Securities:	**6 487**	**11 119**
Interest income, net	7 759	10 675
Revaluation to fair value	249	3 027
Profit (loss) from securities sold	154	87
Refinancing costs	(1 682)	(2 675)
Dividends	7	5
Interest-rate contracts – Liabilities from debt securities:	**579**	**-**
Revaluation to fair value	579	-
Interest-rate contracts – Derivatives:	**(9 089)**	**15 198**
Interest income (expense)	16 056	11 729
Realised profit (loss) from derivatives	168	(7)
Revaluation to fair value	(24 724)	3 476
Revaluation to fair value – derivatives to hedge fair value	(589)	-
Currency contracts:	**(1 946)**	**6 032**
Realised profit (loss) from derivatives	(746)	22 348
Revaluation to fair value of derivatives	(1 239)	(16 332)
Exchange differences from securities held for trading	39	16
Index-related contracts:	**(112)**	**(365)**
Revaluation to fair value – securities	5	759
Profit (loss) from securities sold	(1)	(1 140)
Realised profit (loss) from derivatives	160	23
Revaluation to fair value – derivatives	(276)	(7)
Commodity contracts:	**47**	**18**
Realised profit (loss) from derivatives	8	111
Revaluation to fair value – derivatives	39	(93)
Foreign exchange gains (losses)	**18 311**	**8 806**
Total	**14 277**	**40 808**

5. Net profit (loss) from financial instruments at fair value through profit or loss ("FVTPL")

(in thousands of EUR)	2010	2009
Interest-rate contracts – Securities:	**1 689**	**8 054**
Revaluation to fair value	1 688	8 755
Profit (loss) from securities sold	1	(701)
Total	**1 689**	**8 054**

6. Net profit (loss) from investments in associated undertakings

(in thousands of EUR)	2010	2009
From investments in associated undertakings	296	(1 212)
Total	**296**	**(1 212)**

7. General administrative expenses

The Group's general administrative expenses comprise staff expenses, other general expenses, depreciation, amortisation, and write-downs of non-current tangible and intangible assets. Such expenses break down as follows:

(in thousands of EUR)	2010	2009
Staff expenses:	**(106 456)**	**(103 216)**
Wages and salaries	(81 515)	(78 748)
Social security costs	(22 021)	(21 742)
Other social expenses	(2 797)	(2 687)
Creation (release) of provisions for anniversaries and other loyalty benefits	(123)	(39)
Other general expenses:	**(82 262)**	**(85 302)**
Costs on premises	(18 283)	(18 513)
Costs on information technology	(17 854)	(19 323)
Communication costs	(7 609)	(8 011)
Legal and consultancy costs	(5 103)	(9 324)
Of which: Costs of audit firm's services in respect of an audit of the financial statements	*(341)*	*(380)*
Of which: Costs of audit firm's services in respect of tax advisory services	*(14)*	*(44)*
Of which: Costs of audit firm's services in respect of other related services	-	*(84)*
Advertising and entertainment expenses	(9 977)	(8 128)
Deposits guarantee fund	(7 268)	(7 326)
Consumption of stationeries	(2 754)	(2 865)
Transport and processing of cash	(597)	(601)
Travelling expenses	(1 879)	(1 758)
Education of employees	(1 618)	(1 122)
Other items	(9 320)	(8 331)
Depreciation, amortisation and write-downs of non-current tangible and intangible assets:	**(22 154)**	**(19 592)**
Non-current tangible assets	(15 702)	(13 979)
Non-current intangible assets	(6 452)	(5 613)
Total	**(210 872)**	**(208 110)**

The Group does not have pension arrangements separate from the state pension system of the Slovak Republic. Pursuant to Slovak legal regulations, an employer is 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 gross salary. These expenses are charged to the statement of comprehensive income in the period in which the employee was entitled to a salary.

The Group contributes to a defined contribution supplementary pension plan administered by a private pension fund, based on the employment period of the employee. No liabilities arise to the Group from the payment of pensions to employees in the future. Supplementary retirement insurance expenses amounted to EUR 818 thousand for 2010 (2009: EUR 748 thousand).

8. Other operating profit (loss)

Other operating profit (loss) includes other revenues from available-for-sale financial instruments, revenues and expenses from non-banking activities, disposal of non-current tangible and intangible assets, and VAT that the Group in unable to claim and other revenues and expenses:

(in thousands of EUR)	2010	2009
Other revenues from available-for-sale financial instruments	-	4
Income on sale of an ownership share in the subsidiary	-	11 489
Revenues from non-banking activities	11 483	8 726
Revenues from release of litigation provisions	*999*	*722*
Revenues from disposals of tangible and intangible assets	*1 833*	*1 431*
Other revenues from non-banking activities	*8 651*	*6 573*
Expenses arising from non-banking activities	(18 459)	(16 331)
Other taxes	*(10 836)*	*(11 937)*
Creation of litigation provisions	*(5 338)*	*(2 110)*
Disposals of tangible and intangible assets	*(2 285)*	*(2 284)*
Other operating income	1 392	774
Other operating expenses	(1 870)	(1 704)
Total	**(7 454)**	**2 958**

In June 2009, the Parent Company sold a 100% ownership share in the subsidiary Regional Card Processing Centre, s. r. o. The net income on the sale is recognised in line "*Income on sale of an ownership share in the subsidiary".*

The Group reclassified *Other revenues* from available for sale financial instruments to "*Other operating profit (loss)*" as such revenues were insignificant. In 2009, the aforementioned revenues were recognised in the separate statement of comprehensive income line "*Net profit (loss) from available-for-sale financial instruments*".

9. Income taxes

(in thousands of EUR)	2010	2009
Current tax expense	(33 959)	(39 367)
Deferred tax benefit	4 057	12 429
Total	**(29 902)**	**(26 938)**

Slovak legal entities must individually report taxable income and remit corporate income taxes thereon to the appropriate authorities. In 2010, the corporate income tax rate amounted to 19% (2009: 19%).

The tax on pre-tax profit differs from the theoretical tax that would arise if the valid income tax rate was applied as follows:

(in thousands of EUR)	2010	2009
Income before tax	**124 067**	**121 822**
Theoretical tax calculated at the tax rate of 19%	23 573	23 146
Tax effects of:		
Non-taxable income	(1 661)	(2 030)
Non-deductible expenses	1 482	1 719
Provisions for assets and provisions for liabilities, net	1 366	(1 755)
Additional taxation from previous periods	164	2 324
Creation/(release) of provisions for uncertain utilisation of deferred tax assets	4 494	2 948
Effect of non-tax losses	89	196
Effect of consolidation	395	390
Income tax expense	**29 902**	**26 938**
Effective tax for the reporting period	**24.10 %**	**22.11 %**

Deferred tax assets and liabilities as at 31 December 2010 and as at 31 December 2009 relate to the following items:

(in thousands of EUR)	Book value	Tax value	Temporary difference (gross)	2010	2009
Deferred tax assets					
Loans and advances to customers (net of impairment provisions)	5 565 929	5 767 804	202 608	38 496	31 099
Other assets	31 268	31 455	187	36	33
Provisions for liabilities and charges	38 687	-	9 969	1 894	1 662
Other liabilities	44 697	26 942	15 666	2 978	2 609
Total				**43 404**	**35 403**
Deferred tax liabilities					
Non-current tangible assets and investment property	73 485	59 540	13 945	(2 650)	(3 200)
Total				**(2 650)**	**(3 200)**
Net deferred tax asset/(liability)				**40 754**	**32 203**
Allowance for uncertain realisation of deferred tax asset				(23 879)	(19 385)
Net deferred tax asset/(liability)				**16 875***	**12 818***

** represents a deferred tax asset, net of a deferred tax liability disclosed in Note 30*

As at 31 December 2010, the Group did not recognise deferred tax assets of EUR 23 879 thousand (2009: EUR 19 385 thousand), which mainly related to tax-deductible temporary differences resulting from provisions, due to their uncertain timing and realisation in future reporting periods.

10. Earnings per share

2010 (in thousands of EUR)	Ordinary shares	Ordinary shares*	Preference shares
	Face value EUR 800	Face value EUR 4 000	Face value EUR 4
Profit after tax in the accounting period attributable to	69 642	14 527	9 996
Weighted average number of shares outstanding during the period	50 216	2 095	1 441 479
Earnings per share	**1 387**	**6 934**	**7**

2009 (in thousands of EUR)	Ordinary shares	Ordinary shares*	Preference shares
	Face value EUR 800	Face value EUR 4 000	Face value EUR 4
Profit after tax in the accounting period attributable to	76 598	7 989	10 297
Weighted average number of shares outstanding during the period	50 216	1 048	1 350 130
Earnings per share	**1 525**	**7 627**	**8**

** The Group increased its share capital by the subscription of new ordinary shares. The holders of the 2009 issue are entitled to the same share of profit recognised by the Group for 2009, as if they have had held shares for the entire year.*

The process and methodology of the calculation of earnings per share is described in Note II.u).

11. Cash and deposits in central banks

(in thousands of EUR)	2010	2009
Cash in hand	65 175	71 230
Balances at central banks:	86 540	94 284
Obligatory minimum reserves	*86 540*	*94 284*
Total	**151 715**	**165 514**

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

12. Loans and advances to banks

(in thousands of EUR)	2010	2009
Giro and interbank clearing business	48 681	40 680
Money-market business	446 896	1 011 487
Other loans to banks	34 909	14 570
Total	**530 486**	**1 066 737**

Loans and advances to banks broken down along geographical lines:

(in thousands of EUR)	2010	2009
Slovak Republic	16 881	184 307
Other countries	513 605	882 430
Total	**530 486**	**1 066 737**

An overview of the quality of loans extended to banks is stated in Note 46 – Risk Report.

13. Loans and advances to customers, gross

Analysis of loans and advances to customers:

(in thousands of EUR)	2010	2009
Bank overdrafts	829 776	792 881
Receivables from credit cards	91 479	89 401
Factoring and loans backed by bills of exchange	71 867	65 401
Housing loans	583 175	281 688
Mortgage loans	844 717	1 048 740
American mortgages	363 599	343 304
Finance lease receivables	19 875	22 607
Consumer loans	203 744	193 797
Investment, operating and other loans	2 761 038	2 646 730
Total	**5 769 270**	**5 484 549**

As at 31 December 2010, the total amount of syndicated loans sponsored by the Group represented EUR 263 219 thousand (31 December 2009: EUR 232 120 thousand). The Group's contribution represented EUR 114 452 thousand (31 December 2009: EUR 101 336 thousand). Syndicated loans are included in *"Investment, operating and other loans"*.

Analysis of loans by customer group:

(in thousands of EUR)	2010	2009
Public sector	17 011	12 948
Corporate clients	3 368 566	3 251 627
Retail clients	2 383 693	2 219 974
Total	**5 769 270**	**5 484 549**

Analysis of loans by contractual maturity period:

(in thousands of EUR)	2010	2009
Short-term loans (up to 1 year)	1 587 858	1 564 447
Medium-term loans (1 year to 5 years)	973 994	949 984
Long-term loans (over 5 years)	3 207 418	2 970 118
Total	**5 769 270**	**5 484 549**

Analysis of loans and advances to customers by geographical segment:

(in thousands of EUR)	2010	2009
Slovak Republic	5 663 709	5 364 980
Other countries	105 561	119 569
Total	**5 769 270**	**5 484 549**

An overview of the quality of loans extended to customers is stated in Note 46 – Risk Report.

14. Impairment losses for loans and advances

The movement in provisions for loan losses during 2010 is as follows:

(in thousands of EUR)	As at 1 January 2010	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2010
Specific provision	**137 696**	**71 240**	**(43 827)**	**(1 422)**	**5**	**163 692**
Public sector	3	101	(3)	-	-	101
Corporate clients	90 493	49 915	(32 958)	(1 305)	(108)	106 037
Retail clients	47 200	21 224	(10 866)	(117)	113	57 554
Portfolio provision	**26 562**	**17 301**	**(4 214)**	**-**	**-**	**39 649**
Corporate clients	9 260	17 301	(400)	-	-	26 161
Retail clients	17 302	-	(3 814)	-	-	13 488
Total	**164 258**	**88 541**	**(48 041)**	**(1 422)**	**5**	**203 341**

The movement in provisions for loan losses during 2009 is as follows:

(in thousands of EUR)	As at 1 January 2009	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2009
Specific provision	**81 852**	**83 633**	**(24 965)**	**(2 832)**	**8**	**137 696**
Public sector	-	3	-	-	-	3
Corporate clients	55 166	57 104	(20 667)	(1 091)	(19)	90 493
Retail clients	26 686	26 526	(4 298)	(1 741)	27	47 200
Portfolio provision	**26 818**	**6 457**	**(6 713)**	**-**	**-**	**26 562**
Corporate clients	15 973	-	(6 713)	-	-	9 260
Retail clients	10 845	6 457	-	-	-	17 302
Total	**108 670**	**90 090**	**(31 678)**	**(2 832)**	**8**	**164 258**

15. Derivative financial assets

(in thousands of EUR)	2010	2009
Positive fair value of financial derivatives for trading		
Interest–rate contracts	85 887	119 500
Currency contracts	19 083	23 031
Index-related contracts	2 173	2 445
Commodity contracts	186	14
Total	**107 329**	**144 990**

16. Held-for-trading financial assets

(in thousands of EUR)	2010	2009
Debt securities and other fixed-interest securities	**253 772**	**376 247**
Government treasury bills	84 810	-
Government bonds	168 898	376 181
Bonds issued by other sectors	64	66
Shares, debt and other floating-rate securities	**22 212**	**24 990**
Equity securities	-	93
Government bonds	21 742	24 201
Other floating rate securities	-	330
Unit trust certificates	470	366
Total	**275 984**	**401 237**

17. Financial assets at fair value through profit or loss

(in thousands of EUR)	2010	2009
Debt securities and other fixed income securities	**196 966**	**195 837**
Government treasury bills	59 598	-
Government bonds	120 906	178 677
Bonds issued by the banking sector	666	661
Bonds issued by other sectors	15 796	16 499
Shares, debt and other floating-rate securities	**14 979**	**13 313**
Bonds issued by other sectors	14 979	13 313
Total	**211 945**	**209 150**

18. Held to maturity financial investments

(in thousands of EUR)	2010	2009
Debt securities and other fixed income securities	**1 563 198**	**1 334 767**
Government treasury bills	149 922	228 741
Government bonds	1 374 969	1 041 124
Bonds issued by the banking sector	38 307	64 902
Shares, debt and other floating-rate securities	**177 186**	**189 527**
Government bonds	122 207	121 339
Bonds issued by the banking sector	54 979	68 188
Total	**1 740 384**	**1 524 294**

19. Available for sale financial assets

Company (in thousands of EUR)	Group investment (%)	Cost	Provision	Carrying amount 31 December 2010	Carrying amount 31 December 2009
RVS, a. s.	0,68	46	(46)	-	-
SLOVAKIA INDUSTRIES a. s., Banská Bystrica	n/a	48	(48)	-	-
Burza cenných papierov v Bratislave, a. s.	0,09	10	-	10	10
S.W.I.F.T. s. c., Belgicko	0,03	73	-	73	73
International Factors Group s. c., Belgicko	0,66	9	-	9	9
D. Trust Certifikačná Autorita, a. s.	10,00	37	-	37	37
VISA INC., USA	0,07	515	-	515	515
Total		**738**	**(94)**	**644**	**644**

In 2010, there were no changes in provisions for available-for-sale financial assets.

20. Investments in associated undertakings

(in thousands of EUR)	2010	2009
At 1 January	11 477	12 929
Share in profits of associated undertakings after tax (Note 6)	296	(1 212)
Elimination of received dividends	-	(240)
Total	**11 773**	**11 477**

Associated undertaking (in thousands of EUR)	Ownership interest in %	Cost	Provision	Net book value	Share in net assets at 31 December 2010	Share in net assets at 31 December 2009
Tatra-Leasing, s. r. o.	48.00 %	3 187	-	3 187	11 770	11 474
Slovak Banking Credit Bureau, s. r. o.	33.33 %	3	-	3	3	3
Total		**3 190**	**-**	**3 190**	**11 773**	**11 477**

Basic financial information on associate Tatra-Leasing, s. r. o., Bratislava, is as follows:

(in thousands of EUR)	2010	2009
Total assets	321 453	372 914
Total liabilities	296 933	349 010
Net assets	24 520	23 904
The Parent Company's share on net assets	**11 770**	**11 474**
Interest income and similar income	19 947	24 860
Profit (loss) after tax	616	(2 524)
The Parent Company's share on profit (loss) after tax	**296**	**(1 212)**
Contingent liabilities and other off-balance sheet items	9 957	4 689

21. Development of non-current tangible and intangible assets

Development of non-current tangible assets as at 31 December 2010:

(in thousands of EUR)	Land and buildings	Machinery & equipment	Other non-current assets	Means of transport	Construction in progress	Investment property	Investment property under construction	Total
Cost								
1 January 2010	60 033	108 220	31 512	8 794	4 874	6 562	340	220 335
Additions	-	-	-	-	12 164	-	1 064	13 228
Disposals	(2 211)	(6 993)	(2 156)	(1 426)	-	-	-	(12 786)
Transfer to investment property	(3 142)	-	-	-	-	3 142	-	-
Transfer from own use to inventories*	(7 470)	-	-	-	-	-	-	(7 470)
Transfer from tangibles in progress	3 246	6 446	460	1 074	(11 226)	669	(669)	-
31 December 2010	**50 456**	**107 673**	**29 816**	**8 442**	**5 812**	**10 373**	**735**	**213 307**
Accumulated depreciation								
1 January 2010	(21 667)	(89 039)	(23 071)	(4 856)	-	-	-	(138 633)
Depreciation charge	(5 070)	(7 613)	(1 319)	(1 617)	-	83	-	(15 702)
Disposals	401	6 859	2 083	1 161	-	-	-	10 504
Transfer to investment property	1 363	-	-	-	-	(1 363)	-	-
Transfer from own use to inventories	4 009	-	-	-	-	-	-	4 009
31 December 2010	**(20 964)**	**(89 793)**	**(22 307)**	**(5 312)**	**-**	**(1 446)**	**-**	**(139 822)**
Net book value at 1 January 2010	**38 366**	**19 181**	**8 441**	**3 938**	**4 874**	**6 562**	**340**	**81 702**
Net book value at 31 December 2010	**29 492**	**17 880**	**7 509**	**3 130**	**5 812**	**8 927**	**735**	**73 485**

** See Note 24*

Development of non-current tangible assets as at 31 December 2009:

(in thousands of EUR)	Land and buildings	Machinery & equipment	Other non-current assets	Means of transport	Construction in progress	Investment property	Investment property under construction	Total
Cost								
1 January 2009	61 182	109 821	32 387	9 436	3 243	7 795	164	224 028
Additions	-	-	-	-	12 391	-	176	12 567
Disposals	(1 677)	(7 808)	(1 985)	(1 205)	-	(1 233)	-	(13 908)
Transfer from own use to inventories*	(947)	-	-	-	(1 405)	-	-	(2 352)
Transfer from tangibles in progress	1 475	6 207	1 110	563	(9 355)	-	-	-
31 December 2009	**60 033**	**108 220**	**31 512**	**8 794**	**4 874**	**6 562**	**340**	**220 335**
Accumulated depreciation								
1 January 2009	(19 749)	(88 170)	(23 238)	(3 722)	-	-	-	(134 879)
Depreciation charge	(2 267)	(8 167)	(1 723)	(1 822)	-	-	-	(13 979)
Disposals	349	7 298	1 890	688	-	-	-	10 225
31 December 2009	**(21 667)**	**(89 039)**	**(23 071)**	**(4 856)**	**-**	**-**	**-**	**(138 633)**
Net book value at 1 January 2009	**41 433**	**21 651**	**9 149**	**5 714**	**3 243**	**7 795**	**164**	**89 149**
Net book value at 31 December 2009	**38 366**	**19 181**	**8 441**	**3 938**	**4 874**	**6 562**	**340**	**81 702**

** See Note 24*

As at 31 December 2010, the Group did not recognise any liabilities under contracts for the purchase of non-current tangible assets (2009: EUR 0 thousand).

As at 31 December 2010, the Group owns a building that is leased to third parties at the net book value of EUR 1 721 thousand (2009: EUR 0 thousand). The Group used the building for own purposes until the end of 2009 and in 2010 the building was reclassified as investment property in the carrying amount of EUR 1 779 thousand. The total rentals amounted to EUR 48 thousand (2009: EUR 0 thousand) and are recognised as "*Other operating profit (loss)" in line* "*Other revenues from non-banking activities"*. Depreciation charges on the building are recognised as "*General administrative expenses" in line "Depreciation and amortisation on non-current tangible assets"* and amount to EUR 83 thousand (2009: EUR 0 thousand).

The building is recognised in movements on the accounts of tangible assets as "*Investment property"*. In addition to the building, "*Investment property"* also includes plots of land, which are intended for further capital appreciation.

As at 31 December 2010, the estimated fair value of investment property amounted to EUR 10 million (2009: EUR 7.7 million). The Group uses its own model to determine the fair value of investment property, which is based on discounted future income from rentals less direct operating expenses. The fair value of investment property that is not leased but held for appreciation is identified using an independent appraiser's calculation.

Insurance coverage

Non-current tangible assets are insured covering EUR 157 745 thousand against natural disaster, EUR 168 118 thousand against fire damage, EUR 141 966 thousand against water damage, and EUR 22 238 thousand against theft and vandalism. Electronic equipment is insured covering a maximum risk of EUR 75 950 thousand. Based on the effective motor hull insurance, vehicles have been insured up to EUR 10 462 thousand.

Development of non-current intangible assets as at 31 December 2010:

(in thousands of EUR)	Software	Goodwill	Construction in progress	Total
Cost				
1 January 2010	72 572	10 122	3 793	86 487
Additions	-	-	11 496	11 496
Disposals	(3)	-	-	(3)
Transfer from intangibles in progress	7 505	-	(7 505)	-
31 December 2010	**80 074**	**10 122**	**7 784**	**97 980**
Accumulated amortisation				
1 January 2010	(50 515)	(1 102)	-	(51 617)
Amortisation charge	(6 452)	-	-	(6 452)
Disposals	-	-	-	-
31 December 2010	**(56 967)**	**(1 102)**	**-**	**(58 069)**
Net book value at 1 January 2010	**22 057**	**9 020**	**3 793**	**34 870**
Net book value at 31 December 2010	**23 107**	**9 020**	**7 784**	**39 911**

Development of non-current intangible assets as at 31 December 2009:

(in thousands of EUR)	Software	Goodwill	Construction in progress	Total
Cost				
1 January 2009	81 674	10 122	1 502	93 298
Additions	-	-	6 147	6 147
Disposals	(12 958)	-	-	(12 958)
Transfer from intangibles in progress	3 856	-	(3 856)	-
31 December 2009	**72 572**	**10 122**	**3 793**	**86 487**
Accumulated amortisation				
1 January 2009	(57 423)	(1 102)	-	(58 525)
Amortisation charge	(5 613)	-	-	(5 613)
Disposals	12 521	-	-	12 521
31 December 2009	**(50 515)**	**(1 102)**	**-**	**(51 617)**
Net book value at 1 January 2009	**24 251**	**9 020**	**1 502**	**34 773**
Net book value at 31 December 2009	**22 057**	**9 020**	**3 793**	**34 870**

22. Current income tax asset

(in thousands of EUR)	2010	2009
Tax asset – current	3 596	13 453
Total	**3 596**	**13 453**

The income tax asset for 2010 and 2009 resulted from the amount of prepayments made by the Parent Company during the year the total of which exceeds the Group's tax liability calculated as at 31 December 2010 and 31 December 2009.

23. Deferred income tax asset

(in thousands of EUR)	2010	2009
Income tax asset – deferred	17 665	13 567
Total	**17 665**	**13 567**

Net deferred income tax asset resulted mainly from temporary deductible differences described in Note 9.

24. Other assets

(in thousands of EUR)	2010	2009
Prepayments and other deferrals	4 542	6 312
Other receivables from the state budget	1 002	1 153
Values in transit	6 110	9 223
Assets held for development and construction	11 538	2 352
Other assets	8 076	6 975
Total	**31 268**	**26 015**

The Group recognises assets held for development and construction that are designated for a subsequent sale as "*Other assets*" in line "*Assets held for development and construction*". In 2010, the Group reclassified to the aforementioned item assets in the net book value of EUR 3 461 thousand which were used by the Group for its own purposes in 2009.

At the end of 2009 the Group also recognised other assets held for development and construction as "Non-current tangible assets". To ensure the consistency, the Group adjusted the presentation of the recognised amounts as at 31 December 2009 in the amount of EUR 2 352 thousand.

Prepayments for the acquisition of non-current tangible and intangible assets are recognised in *"Prepayments and other deferrals"* in the amount of EUR 54 thousand (31 December 2009: EUR 68 thousand). In *"Values in transit"* the Group recognises a receivable from an entity that provides services related to the operation of ATMs and cash transports.

25. Deposits from banks

(in thousands of EUR)	2010	2009
Giro and interbank clearing business	12 136	37 727
Money-market business	4 070	30 376
Loans received	45 376	35 345
Total	**61 582**	**103 448**

Deposits from banks by geographical segment:

(in thousands of EUR)	2010	2009
Slovak Republic	3 368	29 749
Other countries	58 214	73 699
Total	**61 582**	**103 448**

An analysis of loans received by type of counterparty is as follows:

Type of loan (in thousands of EUR)	Currency	Type of loan according to maturity	Contractual maturity	2010	2009
Loans received from banks:					
– Commercial banks	EUR	Long-term	Jun 2014	1 659	2 600
– Reconstruction and development banks	EUR	Long-term	May 2020	15 841	17 507
– Reconstruction and development banks	EUR	Long-term	Mar 2016	27 876	15 238
Total				**45 376**	**35 345**

As at 31 December 2010, part of loans received from banks was secured by government bonds of the Slovak Republic included in the securities portfolios in the amount of EUR 33 703 thousand in favour of the following subjects (in thousand EUR):

Description (v tisícoch €)	Carrying amount of debt securities	Carrying amount of received loan	Guarantee expiry date	In favour of
Government bond EUR	33 703	15 841	22 Jan 2013	Reconstruction and development banks

As at 31 December 2009, part of loans received from banks was secured by government bonds of the Slovak Republic included in the securities portfolios in the amount of EUR 33 793 thousand in favour of the following subjects (in thousand EUR):

Description (v tisícoch €)	Carrying amount of debt securities	Carrying amount of received loan	Guarantee expiry date	In favour of
Government bond EUR	33 793	17 507	22 Jan 2013	Reconstruction and development banks

26. Deposits from customers

Deposits from customers by product group are as follows:

(in thousands of EUR)	2010	2009
Current accounts	4 306 293	3 842 948
Time deposits	2 163 169	2 468 129
Savings deposits	296 007	371 515
Loans received	36 175	33 730
Total	**6 801 644**	**6 716 322**

Deposits from customers by customer segment are as follows:

(in thousands of EUR)	2010	2009
Public sector	195 835	190 352
Corporate clients	2 339 291	2 499 379
Retail clients	4 266 517	4 026 591
Total	**6 801 644**	**6 716 322**

Deposits from customers by geographical segment are as follows:

(in thousands of EUR)	2010	2009
Slovak Republic	6 683 688	6 420 598
Other countries	117 956	295 724
Total	**6 801 644**	**6 716 322**

Loans received by particular customer are as follows:

Type of loan (in thousands of EUR)	Currency	Type of loan according to maturity	Contractual maturity	2010	2009
Loans received from customers:					
– Other financial institutions	EUR	Long-term	Jul 2017	36 175	33 730
Total				**36 175**	**33 730**

27. Derivative financial liabilities

(in thousands of EUR)	2010	2009
Negative fair value of held for trading financial derivatives	**125 637**	**130 592**
Interest-rate contracts	102 041	110 896
Currency contracts	20 981	17 227
Index-related contracts	2 459	2 455
Commodity contracts	156	14
Negative fair value of financial derivatives to hedge fair value	**538**	**-**
Interest-rate contracts	538	-
Total	**126 175**	**130 592**

Fair value hedges relating to interest rate risk

The Group uses interest rate swaps to hedge the interest rate risk related to issued debt securities – mortgage bonds from the debt securities portfolio. Changes in the fair values of these interest rate swaps as a result of interest rate changes are set off, to a large extent, by changes in the fair values of issued mortgage bonds caused by changes in risk-free interest rates. Hedging was effective during the reporting period.

With respect to the aforementioned hedging instruments, as at 31 December 2010 the Group recognised a net loss in the amount of EUR 589 thousand (31 December 2009: EUR - thousand). Net profit from hedged items which related to hedged risk represented EUR 579 thousand (31 December 2009: EUR - thousand). Both items are recognised in Note 4 "*Net profit (loss) from trading instruments*".

28. Liabilities from debt securities

(in thousands of EUR)	2010	2009
Issued debt securities – mortgage bonds	691 201	1 035 816
Issued debt securities – bonds	28 285	33 802
Total	**719 486**	**1 069 618**

In 2010, the Parent Company issued mortgage bonds, issue 58, part of which is secured by an interest rate swap. The amount of secured mortgage bonds represents the nominal value of EUR 38 000 thousand.

The fair value of an interest rate swap used for hedging is stated in Note 27 "*Derivative financial liabilities*". The effect of revaluing a mortgage bond and an interest rate swap on the results of operations is outlined in Note 4 "*Net profit (loss) from trading instruments".*

The Group issued mortgage bonds with the following conditions:

Name (in thousands of EUR)	Interest rate	Curr.	Number of mortgage bonds issued	Mortgage bonds unit face value in currency	Issue date	Maturity date	Coupon payment	2010	2009
MB 02	5.50 %	EUR	9 890	3 319	17 Dec 2002	17 Dec 2012	Annually	33 182	33 322
MB 03	6.00 %	EUR	Paid	3 319	11 Mar 2003	11 Mar 2010	Annually	-	15 143
MB 05	5.00 %	EUR	10 000	3 319	21 May 2003	21 May 2013	Annually	34 426	34 519
MB 12	2.90 %	EUR	Paid	33 194	15 Nov 2005	15 Nov 2010	Annually	-	33 059
MB 13	12M EURIBOR	EUR	Paid	33 194	21 Nov 2005	21 Nov 2010	Annually	-	33 231
MB 17	6M EURIBOR + 0.08 %	EUR	650	33 194	24 Nov 2006	24 Nov 2011	Semi-annually	21 605	21 599
MB 22	4.6 %	EUR	500	33 194	25 Jun 2007	25 Jun 2012	Annually	16 992	16 992
MB 23	0%	EUR	Paid	3 319	1 Aug 2007	30 Jul 2010	-	-	7 047
MB 25	4.6 %	EUR	Paid	3 319	18 Oct 2007	18 Oct 2010	Annually	-	33 491
MB 26	0%	EUR	Paid	3 319	31 Oct 2007	29 Oct 2010	-	-	14 826
MB 28	3M EURIBOR + 0.30 %	EUR	Paid	100 000	31 Jan 2008	31 Jan 2010	Quarterly	-	100 127
MB 29	4.25 %	EUR	Paid	3 319	20 Feb 2008	20 Feb 2010	Annually	-	16 052
MB 30	4.30 %	EUR	10 000	3 319	25 Feb 2008	25 Feb 2013	Annually	34 983	8 354
MB 33	4.75 %	EUR	Paid	1 000 000	27 May 2008	27 May 2010	Annually	-	205 753
MB 34	4.60 %	EUR	4 900	3 319	18 Jun 2008	18 Jun 2011	Annually	16 650	16 621
MB 35	0%	EUR	22 740	950	31 Oct 2008	31 Oct 2012	-	19 602	18 722
MB 36	3M EURIBOR + 0.70 %	EUR	Paid	66 388	30 Jul 2008	30 Jul 2010	Quarterly	-	66 551
MB 37	6M EURIBOR + 0.20 %	EUR	200	66 388	30 Jul 2008	30 Jul 2011	Semi-annually	13 354	13 355
MB 38	5.70 %	EUR	Paid	3 319	11 Aug 2008	11 Aug 2010	Annually	-	16 105
MB 39	3M EURIBOR + 0.20 %	EUR	Paid	1 000 000	18 Aug 2008	18 Aug 2010	Quarterly	-	99 685
MB 40	3M EURIBOR + 0.30 %	EUR	50	1 000 000	18 Aug 2008	18 Aug 2011	Quarterly	49 857	49 481
MB 41	5.50 %	EUR	350	66 388	20 Aug 2008	20 Aug 2011	Annually	23 741	23 792
MB 42	5.70 %	EUR	Paid	3 319	17 Sep 2008	17 Sep 2010	Annually	-	10 542
MB 45	5.33 %	EUR	Paid	3 319	27 Nov 2008	7 May 2010	Annually	-	16 649
MB 46	4.05 %	EUR	16 000	1 000	27 Feb 2009	27 Feb 2012	Annually	16 628	9 378
MB 47	5.01%	EUR	24 810	1 000	1 Jul 2009	1 Jul 2014	Annually	25 442	25 442
MB 48	3M EURIBOR + 1,40 %	EUR	70 000	1 000	14 Aug 2009	14 Aug 2011	Quarterly	70 224	70 193
MB 49	3.6 %	EUR	393	50 000	28 Sep 2009	28 Mar 2013	Annually	19 787	19 919
MB 50	0%	EUR	10 000	1 000	19 Nov 2009	19 Nov 2013	-	8 967	5 866
MB 51	3.7 %	EUR	340	50 000	1 Feb 2010	1 Aug 2013	Annually	17 574	-
MB 52	3M EURIBOR + 1.30 %	EUR	200	100 000	3 Feb 2010	3 Feb 2013	Quarterly	20 076	-
MB 53	Inflation - CPTFEMU	EUR	1 000	10 000	30 Apr 2010	30 Apr 2015	Bullet payment	10 220	-
MB 54	3.60 %	EUR	42 408	1 000	28 Jun 2010	28 Jun 2015	Annually	43 204	-
MB 55	3M EURIBOR + 0.90 %	EUR	2 500	10 000	1 Jun 2010	1 Jun 2012	Quarterly	25 041	-
MB 57	3M EURIBOR + 0.95 %	EUR	800	100 000	30 Jul 2010	30 Jul 2012	Quarterly	80 282	-
MB 58	2.80 %	EUR	43 837	1 000	7 Oct 2010	7 Oct 2014	Annually	43 548	-
MB 59	6M EURIBOR + 1.00 %	EUR	2 572	10 000	18 Nov 2010	18 Nov 2013	Semi-annually	25 797	-
MB 60	6M EURIBOR + 1.00 %	EUR	2 000	10 000	17 Dec 2010	17 Dec 2015	Semi-annually	20 019	-
Total MB								**691 201**	**1 035 816**

The Group also issued other debt securities with the following conditions:

Name (in thousands of EUR)	Interest rate	Curr.	Number of depth securities issued	Face value per debt security in currency	Issue date	Maturity date	Coupon payment	2010	2009
BOND 02	0%	EUR	7 862	1 000	19 Nov 2009	19 Nov 2011	-	7 666	7 078
BOND 03	0%	EUR	255	1 000	8 Mar 2010	8 Mar 2013	-	239	-
Tatra Residence01	5.75 %	EUR	Repaid	3 319	5 Dec 2007	5 Dec2010	Annually	-	16 666
Tatra Residence02	6.00 %	EUR	3 000	3 319	31 Oct 2008	31 Oct 2011	Annually	10 058	10 058
Tatra Residence03	4.50 %	EUR	10 000	1 000	14 Apr 2010	14 Apr 2012	Annually	10 322	-
Total bonds								**28 285**	**33 802**
Total liabilities from debt securities								**719 486**	**1 069 618**

In accordance with Act on Banks No. 483/2001 Coll., the Bank is obliged to finance mortgage loans at least in the amount of 90% by issuing and selling mortgage bonds. Under its decision, the NBS set special conditions for financing of mortgage loans for the Parent Company, where the mortgage loans must be financed at least in the amount of 70%. As at 31 December 2010, the Bank met the aforementioned condition.

Mortgage bonds and bonds are in the form of bearer securities and all mortgage bonds and other debt securities are registered securities.

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.

Some issued mortgage bonds of the Bank are quoted on the Bratislava Stock Exchange.

As at 31 December 2010, mortgage bonds issued by the Bank are not secured by any form of collateral. As at 31 December 2009, part of the issued mortgage bonds was secured by government bonds of the Slovak Republic included in securities portfolios in the amount of EUR 19 265 thousand in favour of the below business entities:

Description (in thousands of EUR)	Carrying amount of government bonds	Guarantee for issue of	Carrying amount of mortgage bonds	Security termination date	Pledged in favour of
Government bonds (EUR)	19 265	MB XIII	16 616	21 Nov 2010	Commercial banks

29. Provisions for liabilities and charges

As at 31 December 2010 movements in provisions for liabilities and charges were as follows:

(in thousands of EUR)	1 January 2010	Allocated	Released	Used	Transfers, exchange differences	31 December 2010
Provisions for Anniversaries and other Long-service benefits	1 566	289	(166)	-	-	1 689
Legal disputes (Note 38)	21 728	5 338	(999)	-	-	26 067
Specific provision	4 996	2 581	(4 132)	-	1	3 446
Guarantees	*1 406*	*2 086*	*(841)*	-	-	*2 651*
Irrevocable loan commitments	*3 590*	*495*	*(3 291)*	-	*1*	*795*
Portfolio provision for off-balance sheet items	3 590	4 132	(237)	-	-	7 485
Total	**31 880**	**12 340**	**(5 534)**	**-**	**1**	**38 687**

As at 31 December 2009, movements in provisions for liabilities and charges were as follows:

(in thousands of EUR)	1 January 2009	Allocated	Released	Used	Transfers, exchange differences	31 December 2009
Provisions for Anniversaries and other Long-service benefits	1 527	168	(129)	-	-	1 566
Legal disputes (Note 38)	20 340	2 110	(722)	-	-	21 728
Specific provision	9 764	3 409	(8 175)	-	(2)	4 996
Guarantees	*938*	*931*	*(455)*	-	*(8)*	*1 406*
Irrevocable loan commitments	*8 826*	*2 478*	*(7 720)*	-	*6*	*3 590*
Portfolio provision for off-balance sheet items	6 173	-	(2 583)	-	-	3 590
Total	**37 804**	**5 687**	**(11 609)**	**-**	**(2)**	**31 880**

30. Other liabilities

(in thousands of EUR)	2010	2009
Deferred items	1 756	1 644
Liabilities from spot transactions	270	282
Social fund	629	665
Employee liabilities	16 790	14 928
Current tax liability	183	146
Deferred tax liability	790	749
Other liabilities to state budget	2 033	2 677
Other liabilities	22 246	12 384
Total	**44 697**	**33 475**

The summary of social fund balances, additions, and drawings is as follows:

(in thousands of EUR)	2010	2009
At 1 January	**665**	**725**
Additions	1 028	1 048
Drawing	(1 064)	(1 108)
At 31 December	**629**	**665**

Owing to insignificance, the Group classified the current and deferred tax liability as "*Other liabilities*" in the statement of financial position.

Movements in the current corporate income tax liability as at 31 December 2010 were as follows:

(in thousands of EUR)	1 January 2010	Allocated	Used	31 December 2010
Current tax	146	37	-	183
Total	**146**	**37**	**-**	**183**

Movements in the current corporate income tax liability as at 31 December 2009 were as follows:

(in thousands of EUR)	1 January 2009	Allocated	Used	31 December 2009
Current tax	21 376	39 367	(60 597)	146
Total	**21 376**	**39 367**	**(60 597)**	**146**

Movements in the deferred income tax as at 31 December 2010 were as follows:

(in thousands of EUR)	1 January 2010	Allocated	Used	31 December 2010
Deferred tax	749	41	-	790
Total	**749**	**41**	**-**	**790**

Movements in the deferred income tax as at 31 December 2009 were as follows:

(in thousands of EUR)	1 January 2009	Allocated	Used	31 December 2009
Deferred tax	672	81	(4)	749
Total	**672**	**81**	**(4)**	**749**

31. Subordinated debt

(in thousands of EUR)	2010	2009
Subordinated debt	120 393	120 373
Total	**120 393**	**120 373**

Subordinated debt analysed by individual bank:

Type of loan (in thousands of EUR)	Curr.	Type of loan by maturity	Start of loan drawdown	Contractual maturity	2010	2009
Subordinated debt from banks:						
– Commercial banks	EUR	Long-term	Sep 2007	Sep 2012	75 004	75 003
– Commercial banks	EUR	Long-term	Oct 2008	Oct 2013	45 389	45 370
Total					**120 393**	**120 373**

32. Equity

Equity breaks down as follows:

(in thousands of EUR)	2010	2009
Share capital – ordinary shares	48 553	48 553
Share capital – preference shares	6 805	6 002
Own shares	(76)	(165)
Share premium – ordinary shares	104 932	104 931
Share premium – preference shares	56 809	47 575
Share premium – own shares	(744)	(1 492)
Reserve and other funds	13 175	10 457
Retained earnings (excluding current year net profit after tax)	525 831	497 488
Total	**755 285**	**713 349**

The type, form, nature, and par value of equity shares and preference shares issued by the Group:

Type	Ordinary shares	Ordinary shares	Preference shares
Form	Registered	Registered	Registered
Nature	Non-certified	Non-certified	Non-certified
Number	50 216 shares	2 095 shares	1 701 415 shares
Par value	EUR 800	EUR 4 000	EUR 4
Issue No. (ISIN)	SK1110001502, 01-04 series	SK1110015510	SK1110007186 SK1110008424 SK1110010131 SK1110012103 SK1110013937 SK1110014901 SK1110016237

Description of rights:

Each holder of an equity share is the Company's shareholder. Each shareholder enjoys its fundamental shareholder rights resulting from the Commercial Code and from the Bank's Articles, namely:

- The right to share in the Company's profit (dividend), based on the proportion of total face value of their shares to the total face value of all shareholders;
- The right to attend the General Meeting, vote at the General Meeting, ask for information thereon and explanations regarding the Company's issues and/or issues concerning the controlled entities and related to the agenda of the General Meeting, make motions at the General Meeting; and
- The right to share in the liquidation balance.

Each holder of preference shares enjoys similar rights as holders of equity shares; the only difference is that the preference shares are not equipped with the right to vote at a General Meeting, except for cases for which the law assigns voting power to such shares. Preference shares are assigned a preferential right applicable to dividends, ie if the Company generates minimum net profit in Euro equal to the number of issued preference shares, the holders of preference shares will be paid a dividend at least in the amount EUR 0.03 (in words three eurocents) per preference share.

Preference shares are subscribed and/or purchased during a subscription period which is announced by the Parent Company's management on an annual basis after the Parent Company's Annual General Meeting. The right to subscribe and/or purchase preference shares is vested in any employee who works in the Group for at least one year as at the end of a subscription period, and is employed for an unlimited period of time. Preference shares are sold by the Bank with a discount that is recognised in costs during a three-year period.

Voting power exercisable at the General Meeting is determined by the face value of the share, where one vote is assigned to each share at face value of EUR 800 and five voting rights to each ordinary share at face value of EUR 4 000. If the law requires voting by the preference shares' holders, their voting is conducted separately and each preference share at face value of EUR 4 is assigned one vote.

Ordinary shares are publicly tradable on stock markets, preference shares are not publicly tradable.

The following table shows the Group's contributions to consolidated share premium, equity restricted funds, and retained earnings (except for current year profits). The use of equity-restricted funds is restricted (legal reserve fund) as per the Commercial Code valid in the Slovak Republic.

(in thousands of EUR)	2010	2009
Parent Company	656 108	619 148
Entities consolidated using full consolidation method	35 608	30 072
Entities consolidated using equity method	8 287	9 739
Total share premium, equity restricted funds, and retained earnings	**700 003**	**658 959**

The contribution of the Group entities to the consolidated profit after tax for the respective period:

(in thousands of EUR)	2010	2009
Parent Company (bank)	91 307	90 800
Elimination of received dividends from associated undertakings	-	(240)
Entities consolidated using full consolidation method	2 562	5 536
Entities consolidated using equity method	296	(1 212)
Consolidated profit after tax	**94 165**	**94 884**

33. Capital management

For capital management purposes, the Group defines regulatory capital, internal capital and economic capital.

Regulatory capital is the capital defined by the capital adequacy rules under Pillar 1. When quantifying regulatory capital, the Group complies with current legislation (Decree of the National Bank of Slovakia No. 4/2007), defining its structure and minimum amount. As at the balance sheet date, the Group applied BASEL II – the standardised approach and the internal ratings-based (IRB) approach for calculating capital requirements. The general internal ratings-based (IRB) approach is applied by the Bank for a bulk portion of the non-retail portfolio and the advanced internal ratings-based approach for a bulk portion of the retail portfolio.

Regulatory capital, designated as own funds of the Group's financing, comprises the sum of the Group's original own funds and additional own funds less the value of deductible items. The Group does not generate any supplementary own funds. Regulatory capital is assigned for the coverage of credit risk, risks arising from the positions recorded in the Trading book (market risks), foreign exchange risk and operational risk.

The National Bank of Slovakia, as the supervising authority, requires that the Group maintain the proportion of total regulatory capital to risk-weighted assets at 8% or above. In 2010 and 2009, the Group met the above minimum capital requirement.

Capital represents such own sources of the Group's financing that are internally held and placed by the Group to cover its risks. The capital consists of capital components under the NBS Decree 4/2007 supplemented by other additional funds available to the Group. The Group's objective is to maintain the required amount of capital. For 2010, the Group met this objective.

Economic capital is the necessary capital and/or it responds to the minimum capital requirement to cover unexpected losses resulting from internal risks, which are defined by the Group as material. Economic capital ensures the financial stability of the Group at the reliability level corresponding to the Group's credibility. The benefits of the knowledge of economic capital are important for the Group, eg for active portfolio management, valuation, controlling etc.

The below table provides the outline of the structure of the Group's regulatory capital including the capital adequacy ratios for the years ending 31 December:

(in thousands of EUR)	2010*	2009*
The Group's original own funds (TIER 1)	**755 285**	**713 349**
Paid-up share capital	55 358	54 555
(-) Treasury shares	(76)	(165)
Share premium	160 997	151 014
Funds from profit and other capital reserves	13 175	10 457
Other specific items of the Group's original own funds	525 831	497 488
(-) Items deductible from the Group's original own funds	**(39 910)**	**(34 870)**
(-) Intangible assets	(39 910)	(34 870)
Additional own funds (TIER 2)	**120 000**	**120 000**
Subordinated debts	120 000	120 000
(-) Items deductible from the Group's original and additional own funds	**(66 324)**	**(13 413)**
(-) From the Group's original own funds	(33 162)	(6 707)
(-) From additional own funds	(33 162)	(6 706)
Total own funds	**769 051**	**785 066**

**) Since 1 January 2009 the Bank applies a combination of the standardised approach and the IRB approach for calculating risk-weighted assets. In the event of a positive difference between the created provisions and expected losses, the Bank may add this positive difference to the original and additional own funds. If the difference is negative, it is deducted from own funds. These are included in "Items deductible from the Group's original and additional own funds" in the amount of EUR 54 555 thousand (2009: EUR 1 939 thousand).*

(in thousands of EUR)	2010	2009
Adequacy of own funds (%)	**10,85**	**12,23**
Own funds	**769 051**	**785 066**
Risk-weighted assets (RWA)	**7 090 550**	**6 421 285**
RWA from receivables recorded in the Banking book	6 260 975	5 577 214
RWA from positions recorded in the Trading book	160 462	183 175
RWA from operating risk – standardised approach	669 113	660 896

34. Information for Cash Flow Statement

Profit from operating activities before changes in working capital and interest received and paid is summarised as follows:

(in thousands of EUR)	2010	2009
Cash flows from operating activities		
Profit before income taxes	124 067	121 822
Adjustments:	(174 904)	(227 155)
Interest expense	65 939	115 626
Interest income	(333 824)	(405 551)
Dividend income	(12)	(7)
Provisions for impairment losses on loans and advances and provisions for liabilities and charges, net	48 417	54 007
(Profit) loss on sale and other disposals of non-current assets	452	853
Unrealised (profit) loss from financial derivative instruments and held for trading securities	24 574	4 851
Unrealised (profit) loss from securities at fair value through profit or loss	(1 688)	(8 913)
Profit on sale of the ownership interest in a subsidiary	-	(11 489)
Share in retained earnings of associated undertakings	(296)	1 452
Discount applicable to preference shares	2 742	2 572
Depreciation and amortisation non-current tangible and intangible assets	22 071	19 592
Depreciation and amortisation of investment property	83	-
Foreign exchange (gain) loss on cash and cash equivalents	(3 362)	(148)
Cash flow of operating activities before changes in working capital, interest received and paid and income taxes paid	**(50 837)**	**(105 333)**

Cash and cash equivalents as at 31 December 2010, 31 December 2009, and 31 December 2008 comprise of the following:

(in thousands of EUR)	2010	2009	2008
Cash in hand	65 175	71 230	170 742
State and other treasury bills due within 3 months	209 900	-	-
Deposits with National Bank of Slovakia repayable on demand	-	-	126 294
NBS overnight deposits	-	-	331 953
Giro and interbank clearing business	48 681	40 680	62 965
Total	**323 756**	**111 910**	**691 954**

35. Related parties

Related parties as defined by IAS 24 are those counterparties that represent:

a) Enterprises that directly, or indirectly through one or more intermediaries control, or are controlled by, or are under common control with the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
b) Associates – enterprises in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture of the investor;
c) Individuals owning, directly or indirectly, an interest in the voting power of the Parent Company that gives them significant influence over the Group, and anyone expected to influence, or be influenced by that person in their dealings with the Group;
d) Key management personnel, ie those persons with authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

A number of banking transactions are entered into with related parties in the normal course of business. All transactions were carried out on commercial terms and conditions and at market rates.

As a result of the merger of the core business activities of Raiffeisen Zentralbank Österreich AG and Raiffeisen International Bank – Holding AG into one company called Raiffeisen Bank International AG, the Bank changed its presentation of related party transactions with RZB and RZB Group to related party transactions with RBI and RBI Group.

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2010:

(in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board*	Other related parties	Total
Loans and advances to banks and customers	78 647	28 025	89 554	792	4 583	**201 601**
Receivables from financial derivative transactions	18 428	2 118	-	-	-	**20 546**
Other assets	31	475	-	-	-	**506**
Deposits from banks and customers	7 186	6 963	69	3 108	-	**17 326**
Liabilities from financial derivative transactions	23 000	458	-	-	-	**23 458**
Subordinated debt	75 003	45 389	-	-	-	**120 392**
Other liabilities	82	142	-	-	-	**224**
Guarantees issued	20 158	33 295	3 921	-	-	**57 374**
Commitments	-	3 364	10 659	156	1 533	**15 712**
Guarantees received	29 319	18 466	-	-	-	**47 785**

**Including members of RZB and RBI Boards of Directors*

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2009:

(in thousands of EUR)	RZB	RZB Group	Associates	Statutory bodies and Supervisory Board*	Other related parties	Total
Loans and advances to banks and customers	165 623	14 617	22 476	830	5 085	**208 631**
Receivables from financial derivative transactions	19 550	3 326	-	-	-	**22 876**
Other assets	83	484	-	-	-	**567**
Deposits from banks and customers	33 798	4 242	30	2 852	-	**40 922**
Liabilities from financial derivative transactions	21 322	72	-	-	-	**21 394**
Subordinated debt	75 003	45 370	-	-	-	**120 373**
Other liabilities	18	371	-	-	-	**389**
Guarantees issued	20 104	30 159	3 921	-	-	**54 184**
Commitments	-	3 843	37 544	171	1 450	**43 008**
Guarantees received	35 922	20 265	50	-	-	**56 237**

**Including members of RZB and RBI Boards of Directors*

The following are revenues and expenses with related parties as at 31 December 2010:

(in thousands of EUR)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	1 109	231	566	13	236	**2 155**
Fees and commissions income	83	443	112	-	-	**638**
Unrealised gain (loss) on financial derivative transactions	1 555	(1 092)	-	-	-	**463**
Operating revenues	1 054	1 570	248	-	-	**2 872**
Interest and similar expenses	(1 066)	(2 178)	(7)	(30)	(77)	**(3 358)**
Expenses on charges and commissions	(917)	(3 370)	-	-	-	**(4 287)**
Administrative expenses	(4 609)	(189)	-	(3 891)*	-	**(8 689)**
Total	**(2 791)**	**(4 585)**	**919**	**(3 908)**	**159**	**(10 206)**

**Remuneration of the members of the Board of Directors, Supervisory Board and proxies including the members of the subsidiaries' Boards of Directors*

The following are revenues and expenses with related parties as at 31 December 2009:

(in thousands of EUR)	RZB	RZB Group	Associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	5 402	494	91	10	291	**6 288**
Fees and commissions income	150	207	258	-	-	**615**
Unrealised gain (loss) on financial derivative transactions	44	1 995	-	-	-	**2 039**
Gain on the sale of a subsidiary	-	11 489	-	-	-	**11 489**
Operating revenues	9	1 964	283	-	-	**2 256**
Interest and similar expenses	(2 218)	(2 559)	(21)	(86)	(125)	**(5 009)**
Expenses on charges and commissions	(345)	(3 075)	-	-	-	**(3 420)**
Administrative expenses	(171)	(6 397)	-	(3 435)*	-	**(10 003)**
Total	**2 871**	**4 118**	**611**	**(3 511)**	**166**	**4 255**

** Remuneration of the members of the Board of Directors, Supervisory Board and proxies including the members of the subsidiaries' Boards of Directors*

36. Foreign currency items

The financial statements contain the following volumes of assets and liabilities denominated in foreign currencies:

(in thousands of EUR)	2010	2009
Assets	215 595	130 129
Of which: USD	*128 094*	*71 015*
Of which: CZK	*46 064*	*20 461*
Of which: other currencies (PLN, HUF, GBP)	*41 437*	*38 653*
Liabilities	243 534	220 342
Of which: USD	*151 025*	*149 887*
Of which: CZK	*44 478*	*44 094*
Of which: other currencies (PLN, HUF, GBP)	*48 031*	*26 361*

37. Foreign assets and liabilities

Assets and liabilities with entities outside the Slovak Republic are as follows:

(in thousands of EUR)	2010	2009
Assets	721 280	1 104 094
Of which: Austrian assets	*476 917*	*774 696*
Of which: Foreign assets (mostly EU member states)	*244 363*	*329 398*
Liabilities	389 257	591 465
Of which: Austrian liabilities	*124 523*	*145 484*
Of which: Foreign assets (mostly EU member states)	*264 734*	*445 981*

38. Contingent liabilities and other off-balance-sheet items

The Group reports the following contingent liabilities and other off-balance sheet items:

(in thousands of EUR)	2010	2009
Contingent liabilities:	**471 519**	**448 802**
From guarantees	444 978	419 981
From letters of credit	26 541	28 821
Commitments:	**2 532 664**	**2 207 349**
From irrevocable loan commitments	1 853 196	1 607 687
Up to 1 year	*1 331 152*	*1 218 772*
More than 1 year	*522 044*	*388 915*
From revocable loan commitments	679 468	599 662
Up to 1 year	*477 499*	*341 607*
More than 1 year	*201 969*	*258 055*
Total	**3 004 183**	**2 656 151**

Off-balance sheet commitments from guarantees represent obligations that the Group will make payments in the event that a customer cannot fulfil its obligations against third parties.

A documentary letter of credit is an irrevocable undertaking of the issuing Group acting at the request of a customer (buyer) to make payment to the beneficiary (seller) or to pay or accept bills of exchange drawn by the beneficiary against stipulated documents, provided all terms and conditions of the letter of credit are complied with. The documentary letters of credit are collateralised depending on the creditworthiness of the customer and on the same basis as guarantees or loans.

The primary purpose of unused credit facilities (loan commitments) is to ensure that funds are available to a customer as required. Commitments to grant loans issued by the Group represent issued loan commitments and the unused part of approved overdraft loans.

The risk associated with off-balance sheet financial commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. as at 31 December 2010, the Group created reserves for these risks amounting to EUR 10 931 thousand (2009: EUR 8 586 thousand) (Note 29).

An overview of the quality of contingent liabilities and other off-balance sheet items is stated in Note 46 – Risk Report.

Legal disputes

In the ordinary course of business, the Group is subject to legal actions and complaints. Each dispute is subject to a special monitoring and regular re-assessment as a part of the Group's standard procedures. It is the policy of the Group not to disclose details of the pending legal actions and to rigorously defend unjustified claims. If it is probable that the Group will be required to settle the claim and a reliable estimate of the amount can be made, provisions are recorded. The total provision for litigation amount to EUR 26 067 thousand (31 December 2009: EUR 21 728 thousand), Note 29.

An overview of the quality of contingent liabilities and other off-balance sheet items is stated in Note 46 – *"Risk Report".*

Contingent liabilities from operating lease

The Group recognises contingent liabilities from non-cancellable operating leases as a lessee on the off-balance sheet as follows:

(in thousands of EUR)	2010	2009
Total non-cancellable payments for operating leases	**32 475**	**36 934**
Less than 1 year	11 176	10 393
1 year to 5 years	16 202	19 967
More than 5 years	5 097	6 574
Operating lease expense in other administrative costs	13 371	11 547

39. Finance lease

The movements in finance lease receivables are analysed as follows:

(in thousands of EUR)	2010	2009
Gross investment	**22 040**	**25 273**
Up to 3 months	-	20
From 3 months up to 1 year	3 433	3 397
From 1 year up to 5 years	17 767	13 591
Over 5 years	840	8 265
Unearned finance income	**2 165**	**2 666**
Up to 3 months	160	168
From 3 months up to 1 year	466	495
From 1 year up to 5 years	1 537	1 791
Over 5 years	2	212
Net investment	**19 875**	**22 607**
Up to 3 months	(160)	(148)
From 3 months up to 1 year	2 967	2 903
From 1 year up to 5 years	16 230	11 800
Over 5 years	838	8 052

Finance lease receivables include lease receivables recognised as "*Loans and advances to customers, gross*" (Note 13).

40. Values in custody and management

(in thousands of EUR)	2010	2009
Values in custody	**86 475**	**53 884**
Investment notes	36 843	29 748
Promissory notes	815	938
Merchandise and trust receipts	46 877	23 198
Gold	1 940	-
Values in management	**151 909**	**269 830**
Securities	151 909	269 830
Total	**238 384**	**323 714**

The Group reported values received in custody and administration at fair values. Values received in custody and administration does not represent the Group's property and accordingly they are not part of the Group's assets.

Revenues from custody and administration are disclosed in the statement of comprehensive income as *"Fees and commissions income".* As at 31 December 2010 they amounted to EUR 352 thousand (31 December 2009: EUR 236 thousand).

In addition to amounts in the table above, in accordance with the depository function for subsidiary Tatra Asset Management, správ. spol., a.s. (TAM), as at 31 December 2010 the Parent Company reported deposited securities in custody of the TAM Unit Trusts in the amount of EUR 1 025 990 thousand (as at 31 December 2009: EUR 909 304 thousand).

41. Assets pledged as collateral

Liabilities secured by the Group's assets:

(in thousands of EUR)	2010	2009
Deposits from banks (received loans)	15 840	17 507
Liabilities from debt securities	-	222 368
Total	**15 840**	**239 875**

The pledge attributable to the aforementioned liabilities comprised the following assets recognised in the statement of financial position:

(in thousands of EUR)	2010	2009
Loans and advances to banks	1 364	207 323
Held for trading financial assets	-	155 639
Financial assets at fair value through profit or loss	33 703	53 058
Held to maturity financial investments	471 703	127 990
Total	**506 770**	**544 010**

For information on securities pledged as collateral for the Group's liabilities, see Note 25 "*Deposits from banks",* and Note 28 *"Liabilities from debt securities"*.

The Bank opened margin accounts as a collateral for derivative transactions. The amount of cash deposited by the Bank in margin accounts depends on the volume and risk exposures of the deals made. The amount of cash deposited in margin accounts equals the amount of assets pledged as collateral and is recognised in "*Loans and advances to banks"*.

The Bank pledged in favour of the NBS government bonds and bonds issued by the banking sector, which are held in the held-to-maturity securities portfolio and in the trading portfolio in the amount of EUR 471 703 thousand (31 December 2009: EUR 283 629 thousand). For the pledged securities, the Bank can draw an intraday credit in the amount of EUR 250 000 thousand.

42. Default loan portfolio

Default loans represent the loans receivable portfolio as defined by the "International Convergence of Capital Measurement and Capital Standards" issued by the Basel Committee and known as Basel II. In the Slovak Republic, the definition of default is set forth in Article 73 of NBS Decree No. 4/2007 on banks' own funds of financing and banks' capital requirements.

To determine the client's default, the Parent Company uses mainly the following indicators also depending on the client's segment: permanent delay in repayment of a material portion of a receivable more than 90 days, declaration of early maturity, bankruptcy or insolvency, a portion of the loan receivables from the client written off, legal restructuring, suspended interest on receivables, sale of the receivables from the client resulting in a loss or an anticipated loss from a deal. For non-retail clients, the threshold of EUR 250 is considered a material amount. For the retail portfolio, the threshold which the receivable must exceed is set in the amount of EUR 10.

There is no definition of default loans in the methodology of International Financial Reporting Standards.

The following summary analyses the default loan portfolio as at 31 December 2010:

(in thousands of EUR)	Public sector	Corporate clients	Retail clients	Total
Default loans	101	192 087	110 687	302 875
Provisions for default loans	101	104 532	55 678	160 311
Claim value of received collateral for default loans	-	59 516	53 356	112 872

The following summary analyses the default loan portfolio as at 31 December 2009:

(in thousands of EUR)	Public sector	Corporate clients	Retail clients	Total
Default loans	127	156 767	89 523	246 417
Provisions for default loans	3	70 909	45 986	116 898
Claim value of received collateral for default loans	-	64 721	39 712	104 433

43. Average number of staff

The following is information on the Group's average headcount:

	2010	2009
Group employees	3 526	3 626
Of which: Members of the Board of Directors	7	6
Total	**3 526**	**3 626**

44. Derivative financial instruments

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2010:

(in thousands of EUR)	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 15)	Negative (Note 27)
a) Interest-rate contracts for hedging	**-**	**38 000**	**-**	**38 000**	**-**	**(538)**
OTC products:						
Interest rate swaps	-	38 000	-	38 000	-	(538)
b) Interest-rate contracts for trading	**1 059 762**	**2 139 895**	**595 748**	**3 795 405**	**85 887**	**(102 041)**
OTC products:						
Interest rate swaps	1 053 398	2 083 765	587 313	3 724 476	85 726	(101 846)
Interest rate options – buy	3 182	25 115	1 612	29 909	161	-
Interest rate options – sell	3 182	25 115	1 612	29 909	-	(195)
Stock exchange products:						
Interest rate futures	-	5 900	5 211	11 111	-	-
c) Currency contracts for trading	**1 153 572**	**38 854**	**-**	**1 192 426**	**19 083**	**(20 981)**
OTC products:						
Currency swaps	248 650	-	-	248 650	2 602	(1 442)
Currency forwards	369 559	3 165	-	372 724	2 482	(5 504)
Currency options-buy	246 856	17 897	-	264 753	13 999	-
Currency options-sell	287 514	17 792	-	305 306	-	(14 035)
Stock exchange products:						
Currency futures	993	-	-	993	-	-
d) Index-related contracts for trading	**-**	**164 280**	**1 298**	**165 578**	**2 173**	**(2 459)**
OTC products:						
Index options - buy	-	10 275	-	10 275	1 626	
Index options - sell	-	10 272	-	10 272	-	(1 626)
Index swaps		143 733	-	143 733	547	(833)
Stock exchange products:						
Index futures	-	-	1 298	1 298	-	-
e) Commodity contracts for trading	**12 158**	**-**	**-**	**12 158**	**186**	**(156)**
OTC products:						
Commodity swaps	12 158	-	-	12 158	186	(156)
Total	**2 225 492**	**2 381 029**	**597 046**	**5 203 567**	**107 329**	**(126 175)**

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2009:

(in thousands of EUR)	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 15)	Negative (Note 27)
a) Interest-rate contracts for trading	**1 357 004**	**3 013 570**	**605 990**	**4 976 564**	**119 500**	**(110 896)**
OTC products:						
Interest rate swaps	1 357 004	2 962 598	605 990	4 925 592	118 966	(110 362)
Interest rate options – buy	-	22 686	-	22 686	534	-
Interest rate options – sell	-	22 686	-	22 686	-	(534)
Stock exchange products:						
Interest rate futures	-	5 600	-	5 600	-	-
b) Currency contracts for trading	**1 264 429**	**67 538**	**-**	**1 331 967**	**23 031**	**(17 227)**
OTC products:						
Currency swaps	438 056	-	-	438 056	7 701	(669)
Currency forwards	315 606	4 079	-	319 685	2 378	(3 675)
Currency options-buy	247 798	31 697	-	279 495	12 952	-
Currency options-sell	262 331	31 762	-	294 093	-	(12 883)
Stock exchange products:						
Currency futures	638	-	-	638	-	-
c) Index-related contracts for trading	**-**	**51 030**	**1 035**	**52 065**	**2 445**	**(2 455)**
OTC products:						
Index options - buy	-	10 275	-	10 275	2 445	
Index options - sell	-	10 275	-	10 275	-	(2 445)
Index swaps		30 480	-	30 480	-	(10)
Stock exchange products:						
Index futures	-	-	1 035	1 035	-	-
d) Commodity contracts for trading	**482**	**-**	**-**	**482**	**14**	**(14)**
OTC products:						
Commodity swaps	482	-	-	482	14	(14)
Total	**2 621 915**	**3 132 138**	**607 025**	**6 361 078**	**144 990**	**(130 592)**

45. Fair value of financial instruments

Financial assets at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices were available (which was mainly the case for securities and derivative instruments traded on stock exchanges and functioning markets), they were used. All other financial instruments were valued using internal measurement models, including present value models or accepted option price models in particular, or use was made of external expert opinions.

The following table shows a summary of financial instruments recognised at fair value divided into Level 1 to Level 3 based on fair value measurements as at 31 December 2010. In 2010, there were no significant transfers among individual levels of measurement.

Financial assets at fair value (in thousands of EUR)	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**-**	**107 329**	**-**	**107 329**
Positive fair value of financial derivative instruments for trading	-	107 329	-	107 329
Held for trading financial assets	**143 194**	**132 790**	**-**	**275 984**
Debt securities and other fixed income securities	142 724	111 048	-	253 772
Shares, debt and other floating rate securities	470	21 742	-	22 212
Financial assets at fair value through profit or loss	**60 986**	**150 959**	**-**	**211 945**
Debt securities and other fixed income securities	60 986	135 980	-	196 966
Shares, debt and other floating rate securities	-	14 979	-	14 979
Available-for-sale financial assets	**-**	**-**	**644**	**644**
Available-for-sale securities	-	-	644	644
Total	**204 180**	**391 078**	**644**	**595 902**

Financial liabilities at fair value (in thousands of EUR)	Level 1	Level 2	Level 3	Total
Derivative financial liabilities	**-**	**126 175**	**-**	**126 175**
Negative fair value of financial derivative instruments for trading	-	125 637	-	125 637
Negative fair value of financial derivative instruments for hedging	-	538	-	538
Total	**-**	**126 175**	**-**	**126 175**

** Level 1 – derived from listed prices on active markets.*

*** Level 2 – derived on the basis of active markets other than prices for identical assets or liabilities.*

**** Level 3 – inputs for assets or liabilities, which are not based on observable market data (unobservable inputs).*

The following table shows a summary of financial instruments recognised at fair value divided into Level 1 to Level 3 based on fair value measurements as at 31 December 2009:

Financial assets at fair value (in thousands of EUR)	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**-**	**144 990**	**-**	**144 990**
Positive fair value of financial derivative instruments for trading	-	144 990	-	144 990
Held for trading financial assets	**158 985**	**242 251**	**-**	**401 237**
Debt securities and other fixed income securities	158 196	218 050	-	376 247
Shares, debt and other floating rate securities	789	24 201	-	24 990
Financial assets at fair value through profit or loss	**121 993**	**87 157**	**-**	**209 150**
Debt securities and other fixed income securities	121 993	73 844	-	195 837
Shares, debt and other floating rate securities	-	13 313	-	13 313
Available-for-sale financial assets	**-**	**-**	**644**	**644**
Available-for-sale securities	-	-	644	644
Total	**280 978**	**474 398**	**644**	**756 021**

Financial liabilities at fair value (in thousands of EUR)	Level 1	Level 2	Level 3	Total
Derivative financial liabilities	**-**	**130 592**	**-**	**130 592**
Negative fair value of financial derivative instruments for trading	-	130 592	-	130 592
Total	**-**	**130 592**	**-**	**130 592**

** Level 1 – derived from listed prices on active markets.*

*** Level 2 – derived on the basis of active markets other than prices for identical assets or liabilities.*

**** Level 3 – inputs for assets or liabilities, which are not based on observable market data (unobservable inputs).*

Amounts presented as at 31 December 2009 were adjusted to ensure the 2010 amounts were presented consistently.

Financial assets recognised at amortised cost

Fixed-interest receivables from and payables to banks or customers were only re-measured to fair values different from their carrying amount in the statement of financial position if they had a remaining term of more than one year. Variable-rate receivables and payables were only taken into account if they had an interest rollover period of more than one year. Only in those cases does discounting based on an assumed interest rate in line with market rates have a significant effect.

(in thousands of EUR)	Fair value 2010	Carrying amount 2010	Difference 2010	Fair value 2009	Carrying amount 2009	Difference 2009
Assets						
Loans and advances to banks	530 486	530 486	-	1 066 737	1 066 737	-
Loans and advances to customers, gross	6 065 651	5 769 270	296 381	5 692 833	5 484 549	208 284
Held-to-maturity financial investments	1 776 567	1 740 384	36 183	1 553 701	1 524 294	29 407
Investments in associated undertakings	11 773	11 773	-	11 477	11 477	-
Liabilities						
Deposits from banks	61 582	61 582	-	103 448	103 448	-
Deposit from customers	6 804 236	6 801 644	2 592	6 719 725	6 716 322	3 403
Liabilities from debt securities	727 527	719 486	8 041	1 082 266	1 069 618	12 648
Subordinated debt	120 393	120 393	-	120 373	120 373	-

46. Risk report

Credit risk

The Group bears a credit risk, ie the risk that the counterparty will not be able to repay in full the amounts owed at their maturity. The Group classifies loan exposure borne by the Group by setting limits of risk accepted with respect to one debtor, or a group of debtors, and with respect to individual countries. The aforementioned risks are monitored on a regular basis and reviewed at least annually. Exposure to one debtor including banks and securities dealers is also limited by partial limits set for balance sheet and off-balance sheet exposures, and by daily limits of exposure in relation to items traded, such as forward foreign currency contracts. The actual exposure is compared to set limits on a daily basis.

The loan exposure is managed based on regular analyses of the debtor's and potential debtors' ability to repay the principal amount and interest, and based on potential adjustments to such loan limits. Credit risks are also partially managed by collaterals and guarantees received from private individuals or legal entities.

Retail debtors are assessed by the Group using the scoring models developed for individual products. Credit risk in the retail portfolio is managed by the following main tools: credit scoring is a tool used by the Group in the loan decision process for private individuals and also for small companies. The next important tool in the loan approval process is the system of underwriting by specialists whose goal is to optimise revenues from loans to the risk taken by the Group. The regular monitoring of the existing portfolio quality and trends together with appropriate strategies to secure the quality of the existing portfolio are also very important part of risk management that significantly contribute to retaining portfolio quality and to targeted level of risk charges.

When claiming receivables, the Group uses internal or external resources depending on the amount and type of receivable. Receivables up to a certain amount are forwarded to collecting agencies. In the case of unsuccessful collection of receivables, the receivable is sold to an external company that specialises in the enforcement of receivables using legal action. Receivables over a certain amount and specific or selected types of receivables are dealt with by an expert team of internal employees in co-operation with the legal function and professional divisions of the Group.

As part of credit risk monitoring and management, the Group also closely observes the area of exposure and residual risks:

- Exposure risk represents the risk resulting from the concentration of the Group's transactions with an entity, a group of economically-related parties, state, geographical area, industry sector, collateral provider etc. The risk is closely related to both exposures in the Banking book and exposures in the Trading book. In order to manage exposure risk effectively, the Group's objective is to focus on quality portfolio management and its adequate diversification while adhering to set exposure limits (large assets' exposure and other). Simultaneously, the Group develops methods for exposure risk quantification.
- Residual risk represents the risk stemming from insufficient enforceability of rights arising to the Group from received security against credit risk. The Group eliminates this risk in particular by means of consistently observing legal and operational requirements, and conservative valuation and revaluation methods, and by applying appropriate discounts depending on the type and quality of the received collateral.

The table below shows the maximum amount of credit risk regardless of received collateral:

Credit risk related to balance sheet assets: (in thousands of EUR)	2010	2009
Loans and advances to banks	530 486	1 066 737
Loans and advances to customers, net	5 565 929	5 320 291
Derivative financial assets	107 329	144 990
Held for trading securities	275 984	401 237
Financial assets at fair value through profit or loss	211 945	209 150
Held to maturity financial assets	1 740 384	1 524 294
Available-for-sale financial assets	644	644
Investments in subsidiary and associated undertakings	11 773	11 477
Current tax asset	3 596	13 453
Deferred tax asset	17 665	13 567
Other assets	31 268	26 015
Total	**8 497 003**	**8 731 855**

Credit risk related to off-balance sheet items: (in thousands of EUR)	2010	2009
Contingent commitments from guarantees and letters of credit	471 519	448 802
Irrevocable loan commitments/stand-by facility	1 853 196	1 607 687
Revocable loan commitments/stand-by facility	679 468	599 662
Total	**3 004 183**	**2 656 151**

The table below shows the summary of the quality of the loan portfolio as at 31 December 2010 (balance sheet amounts):

(in thousands of EUR)	Total carrying amount	Not impaired	Assessed on an individual basis – impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Loans and advances to banks	530 486	530 486	-	-	-	530 486	-
Loans and advances to customers	5 769 270	5 490 111	279 159	163 692	39 649	5 565 929	3 641 321
Public sector	*17 011*	*16 910*	*101*	*101*	*-*	*16 910*	*7 959*
Corporate clients	*3 368 566*	*3 166 900*	*201 666*	*106 037*	*26 161*	*3 236 368*	*1 843 907*
Retail clients	*2 383 693*	*2 306 301*	*77 392*	*57 554*	*13 488*	*2 312 651*	*1 789 455*
Total	**6 299 756**	**6 020 597**	**279 159**	**163 692**	**39 649**	**6 096 415**	**3 641 321**

The table below shows the summary of the quality of the loan portfolio as at 31 December 2009 (balance sheet amounts):

(in thousands of EUR)	Total carrying amount	Not impaired	Assessed on an individual basis – impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Loans and advances to banks	1 066 737	1 066 737	-	-	-	1 066 737	-
Loans and advances to customers	5 484 549	4 978 141	506 408	137 697	26 561	5 320 291	3 545 493
Public sector	*12 948*	*12 821*	*127*	*3*	*-*	*12 945*	*6 622*
Corporate clients	*3 251 627*	*2 805 569*	*446 058*	*90 494*	*9 259*	*3 151 874*	*1 802 634*
Retail clients	*2 219 974*	*2 159 751*	*60 223*	*47 200*	*17 302*	*2 155 472*	*1 736 237*
Total	**6 551 286**	**6 044 878**	**506 408**	**137 697**	**26 561**	**6 387 028**	**3 545 493**

The table below shows the summary of the quality of the loan portfolio as at 31 December 2010 (off-balance sheet items):

(in thousands of EUR)	Total carrying amount	Not impaired	Assessed on an individual basis – impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Contingent liabilities and other off-balance sheet liabilities to banks	73 952	73 952	-	-	-	73 952	26 009
Contingent liabilities and other off-balance sheet liabilities to clients	2 930 230	2 921 791	8 439	3 447	7 485	2 919 298	467 277
Public sector	*20 832*	*20 832*	-	-	-	*20 832*	*2 586*
Corporate clients	*2 391 060*	*2 382 643*	*8 417*	*3 446*	*7 485*	*2 380 129*	*412 623*
Retail clients	*518 339*	*518 317*	*22*	*1*	-	*518 338*	*52 068*
Total	**3 004 183**	**2 995 743**	**8 439**	**3 447**	**7 485**	**2 993 251**	**493 286**

The table below shows the summary of the quality of the loan portfolio as at 31 December 2009 (off-balance sheet items):

(in thousands of EUR)	Total carrying amount	Not impaired	Assessed on an individual basis – impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Contingent liabilities and other off-balance sheet liabilities to banks	51 171	51 171	-	-	-	51 171	14 858
Contingent liabilities and other off-balance sheet liabilities to clients	2 604 980	2 545 080	59 900	4 996	3 590	2 596 394	465 043
Public sector	*17 073*	*17 073*	-	-	-	*17 073*	*1 292*
Corporate clients	*2 153 830*	*2 094 179*	*59 651*	*4 990*	*3 590*	*2 145 250*	*395 674*
Retail clients	*434 077*	*433 828*	*249*	*6*	-	*434 071*	*68 077*
Total	**2 656 151**	**2 596 251**	**59 900**	**4 996**	**3 590**	**2 647 565**	**479 901**

The summary of individual types of received collateral for financial assets (balance sheet amounts) at claim value is as follows:

(in thousands of EUR)	2010	2009
Collateralisation of issued loans:	**3 641 321**	**3 545 493**
Cash	44 028	39 085
Guarantees	583 459	490 222
Securities	56 519	89 683
Real estate	2 649 223	2 696 635
Movables	145 833	94 326
Receivables	162 259	135 542
Collateralisation of debt securities:	**-**	**16 620**
Securities	-	16 620
Collateralisation of receivables from derivative transactions:	**4 415**	**5 265**
Cash	4 415	5 265
Total	**3 645 736**	**3 567 378**

The summary of individual types of received collateral for contingent liabilities and other off-balance sheet liabilities at claimable value is as follows:

(in thousands of EUR)	2010	2009
To cover contingent liabilities and other off-balance sheet liabilities:		
Cash	41 390	42 650
Guarantees	211 263	215 138
Securities	27 383	42 928
Real estate	122 897	106 553
Movables	26 366	24 380
Receivables	63 987	48 252
Total	**493 286**	**479 901**

The summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2010:

(in thousands of EUR)	Within maturity	Within 90 days	From 91 to 180 days	From 181 days up to 1 year	Over 1 year	Received collateral for overdue loans (in claim value)
Loans and advances to banks	530 486	-	-	-	-	-
Loans and advances to customers	5 320 725	139 994	19 102	7 307	2 983	65 588
Public sector	*16 910*	-	-	-	-	-
Corporate clients	*3 122 462*	*44 437*	*1*	-	-	*28 147*
Retail clients	*2 181 353*	*95 557*	*19 101*	*7 307*	*2 983*	*37 441*
Total	**5 851 211**	**139 994**	**19 102**	**7 307**	**2 983**	**65 588**

The following summary represents an analysis of individually impaired loan portfolio as at 31 December 2009:

(in thousands of EUR)	Within maturity	Within 90 days	From 91 to 180 days	From 181 days up to 1 year	Over 1 year	Received collateral for overdue loans (in claim value)
Loans and advances to banks	1 066 737	-	-	-	-	-
Loans and advances to customers	4 830 062	128 280	19 746	27	26	37 188
Public sector	*12 821*	-	-	-	-	-
Corporate clients	*2 775 110*	*29 906*	*500*	*27*	*26*	*23 210*
Retail clients	*2 042 131*	*98 374*	*19 246*	-	-	*13 978*
Total	**5 896 799**	**128 280**	**19 746**	**27**	**26**	**37 188**

The following summary represents an analysis of individually impaired loan portfolio as at 31 December 2010:

(in thousands of EUR)	Public sector	Corporate clients	Retail clients	Total
Loans assessed on an individual basis – impaired	101	201 666	77 392	**279 159**
Specific provisions	101	106 037	57 554	**163 692**
Claim value of received collateral	-	68 980	59 467	**128 447**
% coverage by provisions for assets	100%	52,6 %	74,4 %	**58,6 %**
% coverage by provisions for assets and received collaterals	100%	86,8 %	151,2 %	**104,7 %**
Interest income from impaired loans	-	1 010	2 662	**3 672**

The following summary represents an analysis of individually impaired loan portfolio as at 31 December 2009:

(in thousands of EUR)	Public sector	Corporate clients	Retail clients	Total
Loans assessed on an individual basis – impaired	127	446 058	60 223	**506 408**
Specific provisions	3	90 494	47 200	**137 697**
Claim value of received collateral	-	295 776	38 283	**334 059**
% coverage by provisions for assets	2,4 %	20,3 %	78,4 %	**27,2 %**
% coverage by provisions for assets and received collaterals	2,4 %	86,6 %	141,9 %	**93,2 %**
Interest income from impaired loans	-	1 420	2 128	**3 548**

The summary below represents the quality of the loan portfolio that is non-impaired and non-overdue in accordance with internal rating:

(in thousands of EUR)	2010	2009
Loans and advances to banks:	**530 486**	**1 066 737**
A2 – Excellent credit rating	1 182	2 082
A3 – Very good credit rating	470 901	964 527
B1 - Good credit rating	19 412	38 901
B2 - Standard credit rating	25 989	51 267
B3 - Ordinary credit rating	10 064	5 354
B4 - Sub-standard credit rating	2 727	-
With no assigned rating	211	4 606
Loans and advances to customers:	**5 320 725**	**4 830 062**
Of which, public sector:	**16 910**	**12 821**
A3 - Very good credit rating	1 893	5 758
B1 - Good credit rating	922	377
B2 - Standard credit rating	697	-
B3 - Ordinary credit rating	5 372	6 082
B4 - Sub-standard credit rating	6 868	148
B5 - Significantly sub-standard credit rating	673	333
C – Doubtful/high risk of default	179	67
With no assigned rating	306	56
Of which, corporate clients without project financing:	**2 439 434**	**2 191 952**
0.5 – Minimum risk	6 458	-
1.0 - Excellent credit rating	53 526	20 712
1.5 - Very good credit rating	273 076	232 031
2.0 - Good credit rating	282 302	219 080
2.5 - Standard credit rating	374 148	381 061
3.0 - Ordinary credit rating	482 469	410 190
3.5 - Sub-standard credit rating	472 637	535 117
4.0 - Significantly sub-standard credit rating	397 832	342 509
4.5 – High probability of default	96 548	50 768
5.0 – Defaulted	18	314
With no assigned rating	420	170
Of which, corporate clients – project financing:	**683 028**	**583 158**
6.1 – Excellent project financing profile rating	168 915	218 568
6.2 - Good project financing profile rating	337 652	276 752
6.3 – Acceptable project financing profile rating	121 239	78 451
6.4 – Weak project financing profile rating	55 208	9 025
6.5 – Defaulted	14	362
Of which, retail clients	**2 181 353**	**2 042 131**
Total	**5 851 211**	**5 896 799**

The scoring system of the Group's corporate clients (applied for the entire RBI Group) is based on the client's economic rating and complies with the rules of the Internal Rating Based Approach (IRB) as required by the Basel II. The rating range has 10 grades from 0.5 to 5.0, and 5 grades for project financing from 6.1 to 6.5.

The Group provides real estate financing loans to corporate clients who have no assigned project financing rating. As at 31 December 2010, loan receivables from these clients that are not impaired or overdue, amount to EUR 201 880 thousand (31 December 2009: EUR 215 027 thousand).

Credit risk associated with the securities portfolio is low as the majority of purchased debt securities are government bonds issued by the Slovak Republic. In the case of exposure to corporate debt securities, which amount to EUR 30 839 thousand (2009: EUR 29 878 thousand), the risk category of the respective issuers is credit rating 1.5 – Very good in the amount of EUR 30 778 thousand (2009: EUR 13 313 thousand). The remaining amount of corporate debt securities in the amount of EUR 61 thousand (2009: EUR 309 thousand) represents exposure to clients with the 3.5 rating - Sub-standard credit rating.

Credit risk from derivative transactions is also minimal as transactions are secured by a certain form of hedging (eg blockage of client's financial funds etc).

The structure of the Group's credit risk exposure to the Slovak Republic (entities controlled by the Slovak Republic, guarantees issued by the Slovak Republic, and similar exposures) is as follows:

(in thousands of EUR)	2010	2009
Zero coupon government bonds and other securities received by the NBS for refinancing	801 724	840 837
Loans and advances to banks	86 540	94 284
Loans and advances to customers	305 653	257 359
Debt securities	1 301 328	1 129 426
Total	**2 495 245**	**2 321 906**

The overall impact of the Slovak Republic on the Group's results of operations represented income of EUR 66 991 thousand (2009: EUR 66 489 thousand), which is mostly of an interest nature.

Restructuring

The Group can modify repayment terms of its loan receivables if the client's financial position is weak and the client would be unable to repay, within a specified period of time, its liabilities to the Group.

With overdraft loans, Agreement on Debt Instalments is concluded. This agreement cannot be extended, only transformed into an instalment credit after declaration of extraordinary maturity. In extraordinary circumstances, the overdraft loan can be extended but with the use of a gradual reduction.

In the case of instalment loans, repayment schedules are modified due to the client's inability to keep the agreed-upon deadlines. In the case of retail loans, there is an option to ask for loan restructuring in the form of a temporary decrease in the instalment amounts for the maximum period of 12 months with a subsequent increase of the original instalment or an extension of the loan's maturity.

In 2010, the carrying amount of loan receivables whose repayment terms were modified due to the client's default and deteriorated financial position amounted to EUR 64 623 thousand (2009: EUR 42 178 thousand).

In 2010, the Group turned into cash its pledges over movable and immovable assets received as collateral for its bad debt totalling EUR 8 322 thousand (2009: EUR 8 849 thousand).

Market risk

The Group is exposed to market risks. Market risks result from open positions from transactions with interest rate, cross-currency, and equity products that are subject to general and specific market changes. To assess the approximate level of market risks associated with the Group's positions, and the expected maximum amount of potential losses, the Group uses internal reports and models for individual types of risks faced by the Group. The Group uses a system of limits, the aim of which is to ensure that the level of risks the Group is exposed to at any time does not exceed the level of risks the Group is willing and able to accept. These limits are monitored on a daily basis.

For risk management purposes, market risk is regarded as the risk of potential losses the Group may incur due to unfavourable development in market rates and prices. To manage market risks, the Group uses a system of limits imposed on individual positions and portfolios.

As to the structure of trades, the Group primarily faces the following market risks:

- Currency risk
- Interest rate risk

Market risks at which the Group faces insignificant exposure:

- Equity price risk
- Commodity risk

Currency risk

Currency risk represents the potential of loss resulting from unfavourable movements in foreign currency exchange rates. The Group controls this risk by determining and monitoring open position limits.

Open currency positions are subject to real-time monitoring through the information system. The currency position of the Group is monitored separately for each currency, as well as the group limit for specific currencies if monitoring is necessary, eg in the case of market turbulences. Limits for these positions are set in line with the RBI Group standards. Data on the Group currency positions and on the Group's compliance with the limits set by RBI are reported on a weekly basis.

In addition to the limit on an open currency position, the Group also sets a negative *gamma*limit on an option position for each currency match subject to trading. The Group also sets the *vega* limit on the overall option position.

Positions from client option trades to currency matches, where no *gamma* limit on trading has been specified by the Group, are closed in the market, so as to ensure that the Group has no open position for this currency match.

1. In addition, the Group has set three various *stop-loss* limits for the overall foreign exchange position.

The Group's net foreign exchange (FX) position of assets, liabilities and equity as at 31 December 2010 and 2009 were as follows:

(in thousands of EUR)	Net FX position 31 December 2010	Net FX position 31 December 2009
EUR	27 939	90 213
USD	(22 931)	(78 872)
Other (CZK, GBP, CHF, PNL, HUF and other)	(5 008)	(11 341)
Total net FX balance sheet position	**-**	**-**
EUR	(54 549)	(95 228)
USD	23 765	79 162
Other (CZK, GBP, CHF, PNL, HUF and other)	1 593	17 434
Total net FX off-balance sheet position	**(29 191)**	**1 368**
Total Net FX position	**(29 191)**	**1 368**

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Group controls and manages its interest rate risk for all trades, and for the Banking Book, and the Trading Book separately. Interest rate risk is monitored and assessed on a daily basis.

To monitor interest rate risk, the Group uses the gap analysis method (interest GAP), method of market value sensitivity to yield curve shift by defined number of basis points (basis point value – BPV), and three stop-loss limits to interest rate sensitive instruments.

Internal interest rate risk limits applicable in the Banking Book are set in the form of limits on open positions in each time band of the interest gap for each currency that is included in the Banking Book (mainly EUR, and USD).

The Group's limit on the interest rate risk of the Banking Book is set in the form of limits on the sensitivity of the overall position to the yield curve shifts (BPV) in the Banking Book, with a limit on the position concentration in one time basket and one currency.

The interest rate risk limits applicable in the Trading Book are set in the form of limits on sensitivity of the overall position to the yield curve shifts (BPV). The limits are set for individual currency included in the Trading Book. The loss resulting from interest rate variations is limited to three stop-loss limits.

Once a week, Integrated Risk Management submits to the Assets and Liabilities Committee information on the actual amount of credit risk by individual currency and information on the use of credit risk limits (ALCO).

In the case of exceeding the set limit, the interest rate positions are closed by using both traditional and derivative financial instruments.

The table below provides information in carrying amount on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "unspecified" category.

Interest rate gap of financial assets and liabilities as at 31 December 2010:

(in thousands of EUR)	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified	Total
Assets						
Cash and balances with central banks	86 540	-	-	-	65 175	151 715
Loans and advances to banks	479 435	5 782	45 132	-	137	530 486
Loans and advances to customers, net	3 147 534	1 170 984	1 023 977	83 115	140 319	5 565 929
Derivative financial assets	12 474	27 163	52 320	15 372	-	107 329
Held for trading financial assets	84 706	56 040	102 053	32 715	470	275 984
Financial assets at fair value through profit or loss	4 326	90 335	58 152	59 132	-	211 945
Held to maturity financial investments	280 113	287 725	807 477	365 069	-	1 740 384
Available for sale financial assets	-	-	-	-	644	644
Other assets	-	-	-	-	31 268	31 268
Interest rate position for financial assets as at 31 December 2010	**4 095 128**	**1 638 029**	**2 089 111**	**555 403**	**238 013**	**8 615 684**
Liabilities						
Deposits and advances from banks	60 100	490	975	-	17	61 582
Deposits from customers	2 242 511	2 723 774	1 807 885	2 240	25 234	6 801 644
Derivative financial liabilities	8 281	16 048	62 182	39 664	-	126 175
Liabilities from debt securities	261 162	128 963	329 361	-	-	719 486
Provisions for liabilities and charges	-	-	-	-	38 687	38 687
Other liabilities	-	-	-	-	44 697	44 697
Subordinated debt	120 393	-	-	-	-	120 393
Interest rate position for financial liabilities as at 31 December 2010	**2 692 447**	**2 869 275**	**2 200 403**	**41 904**	**108 635**	**7 912 664**
Net interest rate position as at 31 December 2010	**1 402 681**	**(1 231 246)**	**(111 292)**	**513 499**	**129 378**	**703 020**

Interest rate gap of financial assets and liabilities as at 31 December 2009:

(in thousands of EUR)	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified	Total
Assets						
Cash and balances with central banks	94 284	-	-	-	71 230	165,514
Loans and advances to banks	811 485	205 536	45 110	-	4 606	1 066 737
Loans and advances to customers, net	3 061 190	1 105 186	973 770	68 148	111 997	5 320 291
Derivative financial assets	18 920	23 788	89 826	12 456	-	144 990
Held for trading financial assets	217 003	25 084	131 309	27 382	459	401 237
Financial assets at fair value through profit or loss	23 084	56 671	70 964	58 431	-	209 150
Held to maturity financial investments	208 119	330 161	773 640	212 374	-	1 524 294
Available for sale financial assets	-	-	-	-	644	644
Other assets	-	-	-	-	26 015	26 015
Interest rate position for financial assets as at 31 December 2009	**4 434 085**	**1 746 426**	**2 084 619**	**378 791**	**214 951**	**8 858 872**
Liabilities						
Deposits and advances from banks	99 839	656	1 668	-	1 285	103 448
Deposits from customers	2 371 206	2 607 050	1 713 244	1 876	22 946	6 716 322
Held for trading financial liabilities	11 816	14 636	72 779	31 361	-	130 592
Liabilities from debt securities	430 587	409 068	229 963	-	-	1 069 618
Provisions for liabilities and charges	-	-	-	-	31 880	31 880
Other liabilities	-	-	-	-	33 475	33 475
Subordinated debt	120 373	-	-	-	-	120 373
Interest rate position for financial liabilities as at 31 December 2009	**3 033 821**	**3 031 410**	**2 017 654**	**33 237**	**89 586**	**8 205 708**
Net interest rate position as at 31 December 2009	**1 400 264**	**(1 284 984)**	**66 965**	**345 554**	**125 365**	**653 164**

Equity price risk

Equity price risk arises from the Group's exposure to changes in equity investment prices. Equity price risk is determined at the Group level. Equity price risk is measured using individual exposures and by calculating and monitoring the overall equity investments position. Equity investments positions are reported on the level of the overall portfolio on a weekly basis.

Commodity risk

Commodity risk arises from the Group's exposure to changes in commodity prices. Commodity risk is determined at the Group level and is measured using positions in individual commodities. Sensitivity analysis is applied for the measurement and management of commodity risk.

Sensitivity analysis of market risks

Sensitivity analysis reflects the implications on the Group's profit/loss arising from the movements in market parameters (interest rates, exchange rates, share prices etc.) by predetermined delta value. For monitoring and limiting of risk, the Group uses 100 basis points for interest rates, a 5% movement in exchange rates, and 50% movement in share prices, and 30% movement in commodity prices.

GAP method assorts the Group's positions into baskets and examines the Group's final position in individual baskets. This method is used in interest rate risk management. The stress scenario is similar to the sensitivity analysis; however, it takes into consideration a marginal situation on the market. It combines movements in the market parameters so that these are the least favourable for the Group.

The table below shows the Group's sensitivity to movements in exchange rate, assuming negative movements in exchange rates by 5% to the detriment of the Group.

Change in the present value of assets and liabilities of the Group following the movements in exchange rates of the selected currencies to the detriment of the Group as at 31 December 2010:

(in thousands of EUR)	Present value of exchange rate	Exchange rate in sensitivity scenario	Group's position in respective currency	Group's loss in respective scenario
USD	1.336	1.403	836	(42)
CZK	25.061	23.808	(2 175)	(109)
HUF	277.950	264.053	(637)	(32)
PLN	3.975	4.174	559	(28)
RON	4.262	4.049	(1 585)	(79)
CHF	1.250	1.188	(1 552)	(78)
GBP	0.861	0.904	196	(10)
TRY	2.069	2.173	1 262	(63)
Total			**(3 096)**	**(441)**

Change in the present value of assets and liabilities of the Group following the movements in exchange rates of the selected currencies to the detriment of the Group as at 31 December 2009:

(in thousands of EUR)	Present value of exchange rate	Exchange rate in sensitivity scenario	Group's position in respective currency	Group's loss in respective scenario
USD	1.441	1.513	292	(15)
CZK	26.473	27.797	260	(13)
HUF	270.420	283.941	923	(46)
PLN	4.105	4.310	4 175	(209)
RON	4.236	4.448	6 733	(337)
Total			**12 383**	**(619)**

The table below shows the Group's sensitivity to movements in the interest rate assuming negative movement of the yield curve to the detriment of the Group by 100 basis points.

Change in the present value of assets and liabilities of the Group following the change in the interest rate for the selected currencies as at 31 December 2010:

(in thousands of EUR)	Yield curve shift	Group's loss from yield curve shift
Trading Book:		
EUR	100 BPV	(1 292)
USD	-100 BPV	3
Banking Book:		
EUR	100 BPV	(12 862)
USD	-100 BPV	(568)
Total		**(14 719)**

Change in the present value of assets and liabilities of the Group following the change in the interest rate for the selected currencies as at 31 December 2009:

(in thousands of EUR)	Yield curve shift	Group's loss from yield curve shift
Trading Book:		
EUR	-100 BPV	1 101
USD	-100 BPV	(99)
Banking Book:		
EUR	-100 BPV	(2 276)
USD	-100 BPV	(316)
Total		**(1 590)**

As at 31 December 2010 and 31 December 2009, the Group's exposure position in the Trading Book to equity price risk is insignificant. The Group, therefore, does not recognise this exposure position to equity price risk.

In the Trading Book, the Group has no commodity position; therefore, the change in the present value of assets and liabilities in the Group's Trading Book following the change in commodity prices is also zero as at 31 December 2010 and 31 December 2009.

The Group in the sensitivity analysis scenario uses the negative development of exchange rates, yield curves movements, and decrease in share prices. In the case of exactly opposite movements, the Group would book profit instead of loss in approximately the same amount.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to fulfil its obligation to settle its liabilities when they become due.

The Group wishes to maintain its solvency, ie the ability to meet its financial liabilities in a proper manner and in time, and to manage its assets and liabilities so as to ensure continuous liquidity. Liquidity management is the responsibility of the Assets and Liabilities Committee (ALCO) and the Treasury Division. Regular meetings of ALCO are held on a weekly basis, during which the Group's liquidity is evaluated and, subsequently, decisions are made based on the current state of affairs.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees, and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Integrated Risk Management function monitors the Group's liquidity on a daily basis and reports on its development. Information on the liquidity position is reported to ALCO weekly. The Asset and Liabilities Management function submits quarterly reports on the Group's structure of assets and liabilities to ALCO for approval, and proposes the size and structure of the portfolio of securities held strategically for the following period subject to monitoring.

The Group monitors long-term liquidity risk by developing a liquidity and crisis liquidity gap (3 scenarios) based on internal rules and assumptions. The limits are approved by the Integrated Risk Management Department, ALCO, and the Group's management.

Deposits from customers are the primary funding source for the Group. Although the terms of the majority of the deposits permit customers withdrawals with little or no advanced notice, the actual balances maintained by customers provide a stable source of funding.

The Group's liquidity position reflecting the existing residual maturity of assets and liabilities as at 31 December 2010:

(in thousands of EUR)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	151 715	-	-	151 715
Loans and advances to banks	485 217	45 132	137	530 486
Loans and advances to customers, net	2 135 936	3 207 944	222 049	5 565 929
Derivative financial assets	39 637	67 692	-	107 329
Held for trading financial assets	119 117	156 397	470	275 984
Financial assets at fair value through profit or loss	79 724	132 221	-	211 945
Held-to-maturity financial assets	426 207	1 314 177	-	1 740 384
Available-for-sale financial investments	-	-	644	644
Investments in subsidiary and associate undertakings	-	-	11 773	11 773
Non-current intangible assets	-	-	39 911	39 911
Non-current tangible assets	-	-	63 823	63 823
Investment property	-	-	9 662	9 662
Current tax asset	-	-	3 596	3 596
Deferred tax asset	-	-	17 665	17 665
Other assets	6 103	-	25 165	31 268
Total assets	**3 443 656**	**4 923 563**	**394 895**	**8 762 114**
Liabilities				
Deposits from banks	21 008	40 557	17	61 582
Deposits from customers [1)]	3 242 567	3 535 278	23 799	6 801 644
Derivative financial liabilities	24 329	101 846	-	126 175
Liabilities from debt securities	219 391	500 095	-	719 486
Provisions for liabilities and charges	-	-	38 687	38 687
Other liabilities	-	-	44 697	44 697
Subordinated debt	393	120 000	-	120 393
Total liabilities	**3 507 688**	**4 297 776**	**107 200**	**7 912 664**
Equity (excluding current year profit)	-	-	755 285	755 285
Profit after tax	-	-	94 165	94 165
Total equity and liabilities	**3 507 688**	**4 297 776**	**956 650**	**8 762 114**
Net balance sheet position	**(64 032)**	**625 787**	**(561 755)**	**-**
Net off-balance sheet position [2)]	**(2 574 237)**	**(9 800)**	**56 766**	**(2 527 271)**
Cumulative balance sheet and off-balance sheet position	**(2 638 269)**	**(2 022 282)**	**(2 527 271)**	**(2 527 271)**

1) Amounts for current accounts and savings books are recognised based on the estimated maturity model.

2) Off-balance sheet position includes receivables and liabilities from spot transactions and financial derivative transactions where the supporting instrument is replaced, in particular from future loans and borrowings, guarantees and letters of credit, and delta option equivalents.

The Group's liquidity position reflecting the existing residual maturity of assets and liabilities as at 31 December 2009:

(in thousands of EUR)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	165 514	-	-	165 514
Loans and advances to banks	1 017 022	45 110	4 605	1 066 737
Loans and advances to customers, net	2 004 739	3 097 109	218 443	5 320 291
Derivative financial assets	42 708	102 282	-	144 990
Held for trading financial assets	218 021	182 757	459	401 237
Financial assets at fair value through profit or loss	66 480	142 670	-	209 150
Held-to-maturity financial assets	382 701	1 141 593	-	1 524 294
Available-for-sale financial investments	-	-	644	644
Investments in subsidiary and associate undertakings	-	-	11 477	11 477
Non-current intangible assets	-	-	34 870	34 870
Non-current tangible assets	-	-	74 800	74 800
Investment property	-	-	6 902	6 902
Current tax asset	-	-	13 453	13 453
Deferred tax asset	-	-	13 567	13 567
Other assets	9 216	-	16 799	26 015
Total assets	**3 906 401**	**4 711 521**	**396 019**	**9 013 941**
Liabilities				
Deposits from banks	72 235	29 997	1 216	103 448
Deposits from customers [1)]	4 329 277	2 364 103	22 942	6 716 322
Derivative financial liabilities	26 452	104 140	-	130 592
Liabilities from debt securities	687 644	381 974	-	1 069 618
Provisions for liabilities and charges	-	-	31 880	31 880
Other liabilities	-	-	33 475	33 475
Subordinated debt	373	120 000	-	120 373
Total liabilities	**5 115 981**	**3 000 214**	**89 513**	**8 205 708**
Equity (excluding current year profit)	-	-	713 349	713 349
Profit after tax	-	-	94 884	94 884
Total equity and liabilities	**5 115 981**	**3 000 214**	**897 746**	**9 013 941**
Net balance sheet position	**(1 209 580)**	**1 711 307**	**(501 727)**	**-**
Net off-balance sheet position [2)]	**(2 251 223)**	**(656)**	**(2 601)**	**(2 254 480)**
Cumulative balance sheet and off-balance sheet position	**(3 460 803)**	**(1 750 152)**	**(2 254 480)**	**(2 254 480)**

1) Amounts for current accounts and savings books are recognised based on the estimated maturity model.

2) Off-balance sheet position includes receivables and liabilities from spot transactions and financial derivative transactions where the supporting instrument is replaced, in particular from future loans and borrowings, guarantees and letters of credit, and delta option equivalents.

The summary below represents the analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario as at 31 December 2010 (in non-discounted values):

(in thousands of EUR)			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Deposits from banks	61 582	62 433	17 581	2 954	33 053	8 845
Deposits from customers	6 801 644	6 808 087	5 937 328	479 556	386 996	4 207
Liabilities from debt securities	719 486	768 074	4 052	228 108	535 914	-
Other liabilities	44 697	44 697	44 697	-	-	-
Subordinated debt	120 393	128 795	829	2 593	125 373	-
Derivative financial liabilities:						
Trading derivatives	125 637	1 122 685	575 684	372 269	139 967	34 765
Hedging derivatives	538	780	-	200	580	-

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2010 (at non-discounted values):

(in thousands of EUR)			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	444 978	444 978	444 978	-	-	-
Contingent liabilities from letters of credit	26 541	26 541	26 541	-	-	-
From irrevocable loan commitments	1 853 196	1 853 196	1 853 196	-	-	-

The summary below represents the analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario as at 31 December 2009 (in non-discounted values):

(in thousands of EUR)			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Deposits from banks	103 448	104 429	69 580	3 018	18 969	12 862
Deposits from customers	6 716 322	6 725 948	5 801 685	533 976	388 052	2 235
Liabilities from debt securities	1 069 618	1 116 205	133 457	574 266	408 482	-
Other liabilities	33 475	33 475	33 475	-	-	-
Subordinated debt	120 373	131 085	771	2 313	128 001	-
Derivative financial liabilities:						
Trading derivatives	130 592	1 791 441	1 105 844	405 761	230 170	49 666

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2009 (at non-discounted values):

(in thousands of EUR)			Residual maturity			
	Carrying amount	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	419 981	419 981	419 981	-	-	-
Contingent liabilities from letters of credit	28 821	28 821	28 821	-	-	-
From irrevocable loan commitments	1 607 687	1 607 687	1 607 687	-	-	-

Operational risk

Operational risk is the risk arising from inappropriate or erroneous procedures, human errors or failures of the Group's systems or from external events. Operational risk also includes legal risk, ie the risk of loss primarily due to the failure to enforce contracts, risk of unsuccessful legal disputes or court rulings with adverse impacts on the Group. As in the case of other types of risks, operational risk is managed by applying the standard principle including the separation of functions in risk management and controlling.

For the purposes of the capital requirement calculation to cover operational risk, the Group uses the "Standardised Approach" according to BASEL II requirements and the Banking Act. Under the Standardised Approach, the Group's activities and the related Gross Income are divided into eight business lines. Gross Income for each business line is represented by a general indicator serving as a representative for a range of business activities, thereby representing an operational risk rate for each business line. The capital to cover operational risk is calculated as net interest income and net interest-free income multiplied by an assigned ß factor for each business line separately. Total capital requirement equals the sum of eight partial requirements for each business line and the average for the past three years.

To identify operational risk, the Group uses a three-dimensional model compound of risk categories, business functions, and business lines (Risk Management Association methodology). Operational risk loss data collection covers the collection of all operational losses by individual risk categories of this three-dimensional model.

The Group puts the accent on process quality improvement and operational risk mitigation actions. The essential assumption of set goals is based on operational risk awareness and operational risk Group culture.

The Group also uses other tools to manage operational risk such as Key Risk Indicators and Self-Assessment of the operational risk, which are designated to identify, analyse and monitor areas with increased operational risk.

The Group is also active in preparing Business Continuity plans. The plans aim to minimising impacts of unexpected events on the Group's operation.

The next objective of the Group is to implement an advanced operational risk management model.

Other risks

Simultaneously, in terms of implementing an internal process of capital adequacy determination, the Group monitors and develops quantification and management methods aimed at other risks, in particular:

- Strategic risk
- Reputation risk
- Other risks and risk factors

Basel II

The Group rigorously meets the requirements of the European directives implementing the rules known as Basel II, while following in their implementation the local legislative standards, in particular amendment to Act No. 483/2001 Coll. on Banks and NBS Decree No. 4/2007 as amended by Decree No. 17/2008.

The concepts, methodology, and documentation for the activities in the Basel II Project are prepared in close co-operation with Raiffeisen Bank International AG while reflecting the local specifics of the Group and the entire bank environment.

The objective of the Basel II implementation is primarily to ensure the most accurate assessment and proper management of credit, market, and operation risks. The achievement of this objective is based on, among other things, the appropriate collection and archiving of all comprehensive data or potential comprehensive data, on the development of a reliable measurement methodology for individual types of risks, on the maintenance of effective and well-developed processes for the prudent management of individual types of risks, on the maintenance of quality and secure IT systems for the automation of processes, data collection, data analysis, calculations, and provision of outputs.

The Group's intention is to implement the advanced approach to management, quantification, and reporting of individual risks as soon as possible. For credit risk, the Group's objective is to implement the IRB approach based on the use of internal rating models. As at the reporting date, the general IRB approach for calculating the capital requirement for the non-retail portfolio and the advanced IRB approach for the retail portfolio was approved for the Group.

The IRB approach has been used for sovereign units, institutions, corporate entities, project financing, insurance companies, fund investments, and purchased receivables since 1 January 2009 and since 1 April 2010 for the retail portfolio. For the SME portfolio, the authorisation process will take place in the near future.

The Group continuously modifies and supplements its methodology and process procedures for Pillar 2 (internal process of capital adequacy assessment) in the context of its risk appetite and performed business activities. As part of this process, pursuant to the approved methodology, the Group performs on a regular basis risk relevance and materiality assessment, risk quantification and assessment with respect to the Group's capital and subsequent reporting. The process of capital allocation, which is closely linked with budgeting, forms an integral part.

Due to the transition to advanced approach risk and capital adequacy measurement (pursuant to Pillar 1 and Pillar 2) as well as the changes in the economic environment, a thorough prediction of capital adequacy developments and its stress testing are significant aspects for eliminating the effects of unforeseen events and for efficient capital planning. Information on the Group's individual risks and capital are reflected in the management of the Group and its business strategies to achieve an optimum compromise between mitigation of individual risk types and augmentation of the Group's market share, profit and return on capital.

47. Events after the balance sheet date

Between the balance sheet date and the approval date of these financial statements, there were no such events that would require any adjustment or additional disclosure.

48. Approval of the consolidated financial statements

The most recent previous consolidated financial statements (as at 31 December 2009) were signed and approved for issue on 3 March 2010.

The financial statements were signed and authorised for issue on 7 March 2011.

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