Tatra banka

Annual Report 2012

Slovakia

Member of Raiffeisen Bank International

TATRA BANKA

Content

About

Survey of key data according to International Financial Reporting Standards

Tatra banka Group (in EUR thousands)	2012	2011	Change
Consolidated Statement of Comprehensive Income			
Net interest income	278 196	290 831	(4.3)%
Provisions for impairment losses	(45 147)	(15 092)	199.1%
Net fees and commission income	110 207	103 675	6.3%
Net profit (loss) from trading instruments	21 778	15 103	44.2%
General administrative expenses	(220 392)	(223 984)	(1.6)%
Profit before income taxes	131 416	174 655	(24.8)%
Comprehensive consolidated profit after tax	103 536	139 084	(25.6)%
Earnings per ordinary share (nominal value per share: 800 EUR)	1 297	1 899	(31.7)%
Earnings per ordinary share (nominal value per share: 4 000 EUR)	6 485	9 497	(31.7)%
Consolidated Statement of Financial Position			
Loans and advances to banks	118 469	168 972	(29.9)%
Loans and advances to customers, gross	6 388 106	6 357 055	0.5%
Deposits from banks	118 001	101 414	16.4%
Deposits from customers	6 864 783	6 932 867	(1.0)%
Equity (including consolidated profit)	1 062 296	1 051 527	1.0%
Balance sheet total	9 073 027	9 160 811	(1.0)%
Performance			
Return on equity (ROE) before tax	13.1%	19.8%	(33.9)%
Cost/income ratio	56.19%	53.94%	4.2%
Return on assets (ROA) before tax	1.4%	1.9%	(25.8)%
Tier 1 ratio, total	15.23%	13.06%	16.6%
Own funds ratio	15.23%	13.24%	15.0%
Resources			
Number of staff on balance sheet date	3 418	3 509	(2.6)%
Branches on balance sheet date[1)]	158	151	4.6%

Ratings	Long-term	Outlook	Short-term	Bank Financial Strength
Moody´s Investors Service	A3	negative	Prime-2	C-

1) Inclusive of Corporate centres, Centrum bývania[TB] branches, the Investment centre[TB] and Raiffesen bank branches

Statement by the Chairman of the Board of Directors

Dear Shareholders, Business Partners and Clients,

every year, I have the pleasant duty to summarise the previous period and share with you our joint achievements. There were many also in 2012, both in terms of products and services brought to our clients, and new successfully implemented process solutions.

Despite challenges from the external environment, we managed to close the year with a profit, and this was not least due to the fact that we constantly put emphasis on cost reduction.

No market sector reflects economic development to such an extent as the banking market. The past year was no exception. Due to the lower growth of the Slovak economy and the resulting lower interest in investments by businesses, we saw lower volume of loans in that business segment compared to the previous year. On the other hand, personal loans increased by almost 10 per cent. In terms of deposits, the banking sector recorded only a slight increase in corporate deposits, while personal bank deposits grew at a more rate of 6 per cent.

Overall, the so-called bank levy had the greatest impact on the profit of the banking sector. A special levy of 0.4 per cent on selected liabilities and an extraordinary levy of 0.1 per cent on the same base significantly contributed to the 27 per cent decrease of profit after tax year-on-year. The consolidated profit of the Tatra banka Group dropped 25.6 per cent year-on-year to EUR 103.5 million.

The levies due by Tatra banka reflected its share in the banking market. In 2012, the extraordinary and special levies had a negative effect on Tatra banka totalling EUR 28.3 million. Overall, all Slovak banks paid an extra EUR 170 million, irrespective of their earnings situation.

The total assets of the Tatra banka Group were stable year-on-year, with a marginal decrease of slightly below 1 per cent due to asset structure optimisation. Loans to private customers increased, particularly regarding housing loans and non-purpose consumer loans, while loans to corporate customers declined. Overall, loan growth was 0.5 per cent to EUR 6.39 billion. At 5.2 per cent, the share of non-performing loans in the total portfolio was below the sector‘s overall value.

Customer deposits remained almost unchanged at EUR 6.86 billion. The drop in total assets can also be attributed to the repayment of subordinated debt of EUR 75 million. The loan-to-deposit ratio as at 31 December 2012 was 93.1 per cent, which gives Tatra banka sufficient scope for credit portfolio growth. The capital adequacy ratio stood at 15.3 per cent at the end of 2012.

Also in this environment, which required dynamic solutions and seeking new resources, we succeeded in bringing innovative products to the Slovak market, which Tatra banka’s clients were the first to use. Among these are is Instant Card Issuance. This service, whereby a client receives the payment card at a branch right when opening an account, is part of our above-standard client service at branches implemented this year. The aim is to provide clients with affordable and fast banking services depending on the service package, as well as to create a pleasant experience when visiting a branch.

Another innovation concerning cards was definitely the facilitation of the first contactless payment solution by mobile phone. Contactless payments are becoming increasingly popular in Slovakia. One of the reasons is the rate at which standard cards are being replaced with contactless cards as well as the rate of retailers being equipped with contactless terminals. The conditions created on the Slovak market in this way gave us the courage to move the trend further - and place the payment card in the mobile phone.

In the first phase, it was only available to iPhone users with an added iCarte feature. Tatra banka has thus become the first bank in the European Union to successfully implement this service. The second phase was launched in January 2013 when contactless mobile payments features were also extended to other phone types with Android operating system and NFC technology. This time without additional equipment needed. The phone has thereby become a purse which facilitates payments simply by tapping it on the payment terminal. This step has opened up new options in the rendering of banking services.

In the card world, we have introduced additional attractive designs, as is characteristic of Tatra banka. For students, we offer four stylish Roxy and Quiksilver designs. Credit cards were specially designed as part of a limited edition devoted to Erik Šille, the Tatra banka Foundation Art Award holder.

Client comfort – and client security in particular – was our concern in online services. By launching the first Virtual Branch on Facebook, we managed to extend the communication channel directly to social networks and took another step closer to our clients. New features were added to the improved Internet banking version, and almost all our clients were provided with the Card and Reader tool. Thanks to Reader application versions for almost all types of mobile phones, not only for smartphones, the application is very user-friendly, so we have actively removed the initial barrier of inconvenience based on carrying the tool Card & Reader. We introduced three more features concerning applications: the option to take a pre-approved loan with just a couple of clicks as part of the Tatra banka internet banking application, to pay postal money orders using the bar code scanner, and the Art Consulting application designed preferably for private banking clients. Thanks to its features, it will certainly please all art lovers.

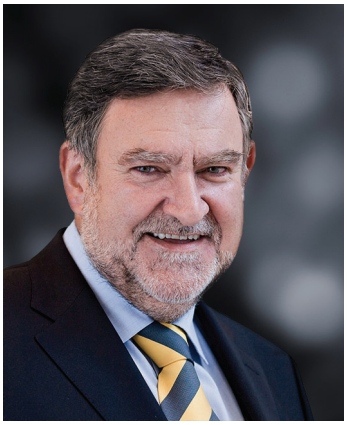
I would also like mention one particularly interesting milestone. Last year, we successfully launched onto the Slovak market the brand of our parent bank, Raiffeisen Bank, on the occasion of its 125thanniversary in Austria. The connection with Tatra banka is purely technical, the cooperation is based on sharing cost and operating activities, which ensures the maximum cost effectiveness of this initiative. Raiffeisen Bank‘s specific feature is its franchising business model, which ensures a high potential of fast expansion while maintaining the lowest possible level of operating costs. Together with the Zuno brand, in this way Raiffeisen has created a good basis to cover all client segments in Slovakia.

Being a large institution, we continue to promote culture and education. Also last year, we successfully implemented a number of projects beneficial to schools and artists. We are an active partner of the Slovak National Theatre and we sponsor exhibitions of the Bratislava City Gallery and the SOGA Auction House. Most activities fall into the responsibility of Tatra banka Foundation, which last year alone supported 252 projects with EUR 560 thousand. Among them also six grant programs for teachers and school pupils and a Good Heart grant program for employees. The events “Personalities in person” have become very popular, as they bring prominent scientists to Slovak schools and enable both students and professionals to have an inspirational dialogue with them. As part of this program, we welcomed to Slovakia the second two-time Pulitzer Prize winner already - Tim Weiner. The top event for the support of Slovak artists was the 17th Tatra banka Foundation Art Awards.

I only briefly summarised the main areas to which we have devoted our attention. You will learn much more in other parts of this Annual Report. I close by thanking our customers for their trust and our shareholders for their support. You provide the basis for our success. I would also like to thank my colleagues and fellow workers for their ongoing commitment and efforts and the inspiring environment we jointly managed to create. Even though the general economic environment continues to be challenging, I am certain that we will continue to be successful in 2013.

Igor Vida
Chairman of the Management Board and CEO

Statement by the Supervisory Board President



Ladies and Gentlemen,

from an overall economic perspective, 2012 was a challenging year in both the Eurozone and Central and Eastern Europe (CEE), but for completely different reasons. After the ongoing sovereign debt crisis, the Eurozone slid into a deep systemic crisis. This crisis extends from political disagreements over the means to overcome debt burden to the growing social unrest in the European peripheral countries. The political elite‘s inability at both the national and European level to communicate their decisions to the public in a transparent and comprehensible manner also contributes to the crisis.

CEE, in part, also suffers from the consequences of the euro crisis, reflected for example in declining exports due to lower demand in the West. While countries in CEE also faced declines in real GDP growth, they were still significantly over the average of the ones recorded in the Eurozone. However, with only few exceptions the countries in the CEE region have done their homework: they are less dependent on external financing due to relatively low balance of payments deficits, their productivity has improved thanks to moderate wage increases, and, with the exception of Hungary, the region has considerably less debt than Western Europe. Moreover, the region continues to benefit from the catching-up process, which remains the engine for economic development and thus the development for entire Europe.

Despite a year dominated by renewed economic decline and tighter capital regulations, the RBI Group can be proud of posting a profit before tax of €1.0 billion. However, I have to mention the significant one-off effects that were recorded in the first quarter: Among other things, we sold high-quality securities to achieve the capital ratio required by the European Banking Authority (EBA). While the sale cost us a portion of our net interest income in subsequent quarters, it also resulted in significant net proceeds. I am very pleased that we succeeded in fulfilling the higher capital ratio requirements with a core tier 1 ratio of well over 10 per cent, which makes us even more resilient to adverse economic conditions.

As for Tatra banka, I am glad to say that the bank sustained its third position on the Slovak market. Tatra banka has been applying a long-term cost reduction strategy for years, which was continued in 2012. This fact is especially important in the light of the extraordinary bank levy imposed on banks irrespective of their results. Another very important factor especially in the current economic situation is Tatra banka‘s ability to keep non-performing loans on a low level.

Tatra banka‘s permanent focus on innovations is another positive feature I appreciate. In the 22 years of its existence, the bank has been clearly presenting itself as a local leader in this area. Apart from bringing new solutions, Tatra banka‘s ability to actively support the utilisation of these innovations by its clients and thereby enhance also their adaptability is very important. Just one result that goes to prove this is the extent of utilisation of contactless payments or mobile applications.

As the chairman of the Supervisory Board, I would like to thank all our shareholders, business partners and clients for their trust in the past year. I also would like to express my gratitude to my colleagues from Tatra banka‘s top management as well as to all employees whose enthusiasm and drive yield meaningful and systematic results our clients, above all, profit from.

On behalf of the Supervisory Board
Herbert Stepic, Chairman

Tatra banka Confirmed Its Stability

The development of the Bank's fundamental indicators confirmed the stability and continuing financial performance of the Bank. The quality of risk management and liquidity, profitability of the Bank and the level of capital adequacy reflected in the A3 long-term deposit rating assigned by the Moody's Investors Service rating agency, which ranks Tatra banka among the best banks in Slovakia.

The year 2012 witnessed a fast fall of interest rates, which in the first months of the year reached historic lows since Slovakia's entry into the eurozone. In terms of the maturity structure of the Bank's assets and liabilities, this development brought more challenging interest rate risk and liquidity management, in order to ensure the lowest possible interest income decrease on the background of low interest rates. We successfully reduced the volume of funds held in the central bank and on financial markets earning low interest, and with almost unchanged volume of client loans we recorded only a slight decrease in net interest income.

In my opinion, the key challenge for 2013 in terms of financial management will be to find the sources of net interest income growth with a simultaneous reliable fulfilment of all liquidity criteria of the Bank.

Miroslav Uličný
Vice-chairman of the Management Board and Deputy CEO, Head Office III

Tatra banka achieved good risk result in 2012 and will continue to work on upgrading risk infrastructure going forward

In 2012 we were able to achieve very good results given the challenging economic environment, which were only possible thanks to a consistent conservative risk approach. Loan Loss Provisions increased in comparison to the extraordinary year 2011 but are still below historical average. The Non Performing Loan Ratio increased slightly but is still outperforming the market.

In 2012 we focused on strengthening the Risk Infrastructure, centralization of Collateral Management, upgrade of the Credit Control functionality and on the early identification and handling of problematic cases as well as on recovery out of our defaulted exposures where extraordinary results could be achieved.

In 2013 we expect to be a challenging year, given the continuing challenging economic environment, where we are expecting reduced GDP growth and rising unemployment. In 2013 we will continue to focus on the implementation of Lean principles and streamlining of processes within Risk Management and will work on further upgrading the Collateral Management and Fraud Detection functionality in the bank. We will also further develop our rating and scoring models - be it on Retail, Corporate or SME side.

Bernhard Henhappel
Member of the Management Board, Head Office VI

2012 was rather cautious

In corporate banking, 2012 can generally be characterised as a cautious year. Despite the slight economic growth in Slovakia driven mainly by the automotive industry, the prevailing debt crisis of eurozone countries and the ensuing uncertainty as to further developments were reflected in a substantial curbing of corporate investments with reduced demand for financing. The inflow of direct foreign investments was also markedly lower compared to the previous period. Overall, corporate loans in Slovakia fell 2.4%, while at Tatra banka 3.85%.

Capital adequacy regulations laid down by the European regulator forced banks to apply a more selective risk approach and to adjust credit margins. The risk exposure of the loan portfolio remained the same as the year before, despite the successful handling of non-performing loans from the period when the crisis began.

Marcel Kaščák
Member of the Management Board, Head Office VII

In 2012 Tatra banka Continued to Expand the Borders of Slovak Banking

In recent years, Tatra banka has maintained its stable network of branches and ATMs. And we are proud to have a newly set-up Tatra banka branch on Facebook, which has been appreciated mainly by virtual clients. Here they can get basic information and online consultancy anywhere in the world, day or night, seven days a week, 365 days a year. Our innovations also include our on-street bank branches. In spring, our clients were offered a new service in terms of “time and space”, although it is the basic product of almost every bank. All those that have opened a current account know what I am referring to. During a single visit to a branch, a client immediately gets a fully functional current account with Internet banking and activated payment card for the account. When the client leaves the branch, the client can immediately use the account. Long waiting for login details and issue of a payment card, separate card PIN generation and repeated branch visits have become history forever. Nevertheless, our branches were visited by many clients interested in a favourable mortgage or general purpose consumer loan, for whom we again paid the first instalment as a pre-Christmas bonus.

Dynamically developing technologies are increasingly used by the wider public, and this is where we introduced many innovative elements in 2012, which will make life more comfortable and easier. Smartphone owners no longer need the regular reader to generate codes if they want to use Internet Banking on their computer. Just download to the smartphone the Reader Application that supports additional Internet Banking payment authorisation by means of a QR code. The real challenge for us was to enable clients to pay by mobile phone on contactless payment terminals. IPhone users have been able to use the service since March 2012. At the beginning of 2013, the service was also offered to Android owners with NFC technology. Today, it is easy for me to talk about new services such as the payment of postal remittance just by scanning a barcode, or the simple drawing of a pre-approved loan with a smartphone.

I myself am curious what challenges we will be facing in the coming year, and which of our visions will be brought to life even at extremely great effort. However, I firmly believe that clients will continue to be loyal in 2013, and we will retain our stable position on the Slovak banking market.

Michal Liday
Member of the Management Board, Head Office IV

We Build on Firm Lean Foundations

The purpose of units under Head Office VIII is to provide all the necessary activities associated with the operation of the Bank, in order to support the delivery of the overall bank strategy.

In executive function units - processing centers in Prešov and Bratislava - in 2012 we continued activities focused on increasing productivity and efficiency, and setting the necessary process standards.

In 2012 we paid closer attention to our client satisfaction. In February, we launched the live operation of an application which facilitates the uniform collection and evaluation of suggestions which clients can make via various channels (branch, Internet banking, etc.). The regular monitoring of these evaluations allows us a more focused and faster response to the topics deemed important by our clients, and areas of client discontent.

Thanks to the SEPA programme, we took more necessary steps in the payments system in 2012, so the completion of these projects will provide benefit to our clients as uniform rules and forms for payment transactions within Europe.

Units with supporting functions kept pace in 2012. The year-round focused effort of the Central Procurement Division, in close cooperation with the newly set-up Cost Management Department directed towards the responsible management of our investments and costs, resulted in an excellent result of the Bank's operating expenses. These optimisation activities were reflected both in the maintenance of stable operating expense spending and in as CIR at 55.26%.

In the area of facility management and services, we continued the trend set the year before.

The Security Division and Project Management Department set their respective strategies in line with overall direction of the Bank.

Concerning Lean, in 2012 we built on the firm foundations from previous years. A great success in terms of process management and Lean principles is the creation of the position of End-to-End owner for the corporate credit process. In the last quarter, we set up the Corporate Credit Excellence Center, which integrates all units within the business funding process.

Natália Major
Member of the Management Board, Head Office VIII

Transparency is the Basic Prerequisite for Customer Satisfaction

Tatra banka's IT organisation retained the course set in the previous period. This means that we focused on the satisfaction of our internal clients by increasing transparency in relation to clients, and by further enhancing our productivity, while simultaneously meeting the agreed quality requirements of our services and implementing systemic measures for better IT cost management.

We continued the consistent implementation of enterprise architecture of management processes for its more efficient utilisation in order to achieve Tatra banka's business targets. Specific outputs include e.g. the integrated strategy of further IT infrastructure development in Tatra banka, the upgrade of our IP backbone on the MPLS technology, and the new infrastructure of data depositories, which provides higher performance and reduces the unit costs of respective services.

Last year we also managed to fulfil a special task inbuilding the technological basis of Raiffeisen Bank, i.e. the new bank in twelve months, and fully integrate it with Tatra banka systems.

Vladimír Matouš
Member of the Management Board, Head Office V

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.

Tatra banka – Strong Memger of a Strong Group

Tatra banka is a subsidiary of Raiffeisen Bank International AG (RBI), which regards Central and Eastern Europe (including Austria), as its home market. For more than 25 years, RBI has been operating in the Central and Eastern Europe (CEE) region, where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. As a universal bank, RBI ranks among the leading banks in the region. The powerful role played by the bank is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. Over time, RBI has positioned itself as a fully integrated corporate and retail banking group in CEE. The bank not only has good access to retail and corporate customers, but also boasts a comprehensive product offering. At the end of 2012 around 57,000 staff served approximately 14.1 million customers in around 3.100 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international as well as major multinational clients operating in CEE. Moreover, RBI is represented in the world‘s financial centres and operates branches and representative offices in Asia. All in all, RBI employs about 60,000 staff and has total assets of around € 136 billion.

RBI operates subsidiary banks in the following CEE markets:

- Albania *Raiffeisen Bank Sh.a.*
- Belarus *Priorbank JSC*
- 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 *Raiffeisen Bank Aval JSC*

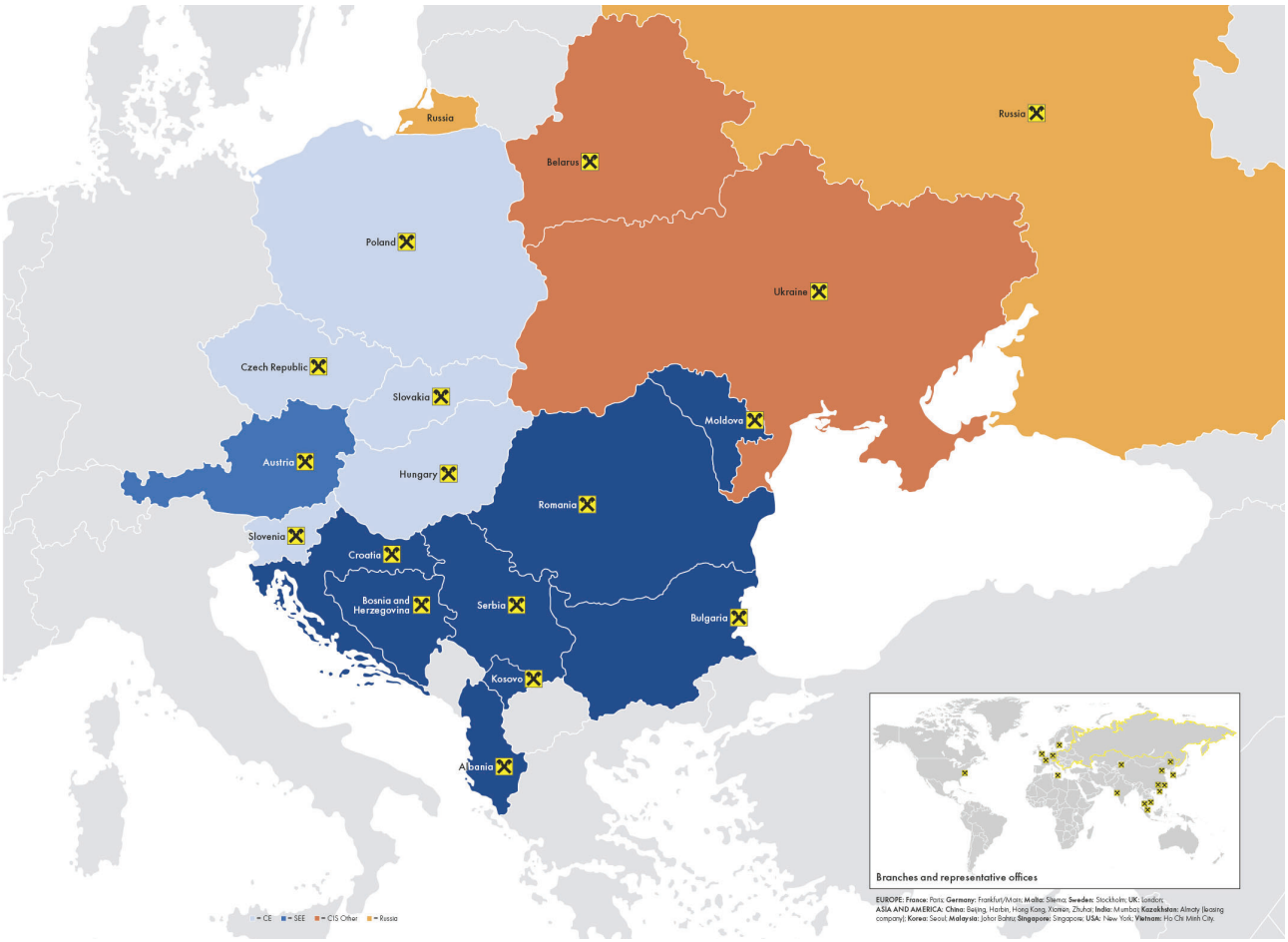
As the parent company of these banks, RBI‘s shareholding in them is at or near to 100 per cent in most cases.

RBI’s development

RBI was established in October 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB). RBI‘s position as one of the leading banks in CEE (including Austria) was further reinforced by the merger. RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI‘s shares are in free float.

RZB was formed in 1927 as “Genossenschaftliche Zentralbank” (GZB). Raiffeisen gained its first foothold in Central and Eastern Europe back in 1987, when it established its first subsidiary bank in Hungary. Other own subsidiaries have since been established; from 2000 onwards, Raiffeisen‘s expansion in the CEE countries has mainly been achieved by acquiring existing banks, which are combined into a holding company that from 2003 until October 2010 operated under the name Raiffeisen International. Raiffeisen International listed on the stock exchange in April 2005 in order to finance its future growth as efficiently as possible. RBI was subsequently established in 2010 through the merger of Raiffeisen International with the principal business areas of RZB.

For more information please refer to **www.rbinternational.com** and **www.rzb.at**.



Raiffeisen Glossary

Gable Cross

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well-recognized brand in CEE.

Raiffeisen Bank International

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (CEE), including Austria, as its home market. 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 markets. At the end of 2012 around 57,000 staff served approximately 14.1 million customers in around 3,100 business outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. Moreover, RBI is represented in the world's financial centres and operates branches and representative offices in Asia. All in all, RBI employs about 60,000 staff and has total assets of approximately € 136 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB is the majority shareholder holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI‘s shares are in free float. With its long-term „A“ (S&P, Fitch) and „A2“ (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.

Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria‘s largest banking group by total assets. As per year-end 2011, RBG‘s consolidated balance-sheet total amounted to more than € 269.6 billion. It represents about a quarter of all banking business in Austria and comprises the country‘s largest banking network with more than 2,200 business outlets and 25,000 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 90 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.

The Slovak Economy in 2012

The most prominent feature of the Slovak economy was definitely the growth of the automotive industry. An early election took its toll in the form of slowing consolidation. The second half of the year was marked by a number of non-systemic measures to maintain the status quo in public finance. The principal announcement by the ECB President gradually started to turn the mood on the market, and for the time being dispelled any doubts as to the functioning of the common European currency.

The very close link to the eurozone and its substantial impact on Slovakia is affecting the course of both the real and financial part of the economy. At the beginning of the year, the markets were full of optimism, mainly thanks to three-year unlimited tenders provided to commercial banks in December 2011 and at the end of February 2012. In this way, the ECB lent the banking sector over EUR 1.02 trillion (10% of the M3 monetary aggregate). On the other hand, the ECB did not renew certain shorter borrowings, so the total volume of borrowings increased by "only" EUR 500 billion (5% of M3). There was a sharp drop in short-term borrowings (seven-day) with virtually the entire volume, that is 85% of the total volume lent for the said three years.

Added liquidity by the central bank practically had a healing effect on the markets for almost three months. This did not change even after the expected collective downgrading of the credit rating of nine countries by Standard and Poor's at the beginning of the year. Among others, the basket of affected countries included Slovakia, whose A+ rating was downgraded to A with a stable outlook. Nevertheless, the situation started to return to the old tracks along with reports of the necessary restructuring of the Spanish banking sector, and an inability to consolidate public finance in this country.

This did not escape the attention of the rating agencies, and based on the above, S&P decided to downgrade Spain's rating by two grades to BBB+ with a negative outlook. Spain became the subject of increasingly serious suggestions as a candidate for EFSF aid, i.e. the first temporary eurozone aid fund. Greece added fuel to the fire with its political parties unable to agree on the forming of a government, which resulted in a new election in June. After 17 June, many European politicians breathed a sigh of relief when pro-European parties seized power. However, this development was only beneficial for the short-term relief of the tense situation. Greece, also as a result of the repeated election, failed to fulfil the consolidation plan set by the so-called Troika, therefore the probability of further aid for the country became very likely, adding to uneasiness in the markets.

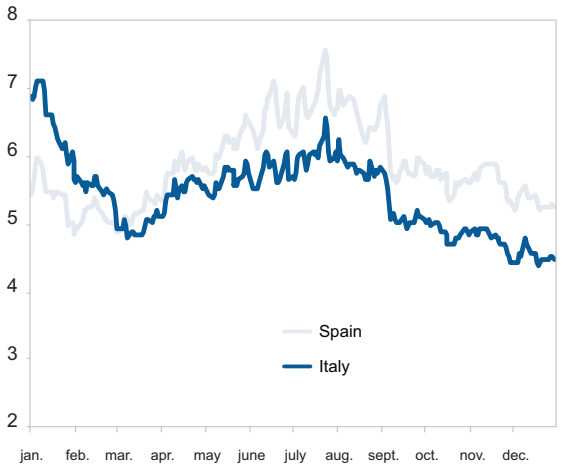
During the first half of the year, the European Central Bank maintained a wait-and-see attitude with meetings bringing almost no news, and the basic rate remaining unchanged at 1% during the first six months. In the meantime, however, besides the already mentioned problems, the leading eurozone indicator dropped from 50.4 points in January to 46.4 points in June, and it was more than clear that the eurozone would face a fall in economic performance. Southern countries were naturally the most affected, but the worsening outlook also concerned Germany and France in particular. During the last year, France lost the highest rating by two leading rating agencies. The first ECB step after six months of quiet was decreasing the key interest rate from 1.00% to 0.75%, while the deposit rate achieved 0.00% for the first time ever. At the end of June, M. Draghi stated: "Within its mandate, the ECB is prepared to do whatever is necessary to save the euro. And believe me, it will be enough." By this he indicated that the ECB is preparing something big, and the markets remained full of expectation. However, the conference with Mario Draghi following the August meeting was a disappointment. The main rate remained unchanged at 0.75%, and the announced reactivation of the purchase of bonds on the secondary market was subject to an official request for help under one of the bailout schemes (EFSF/ESM). By this, the ECB wants to force the countries that need to reduce their bond rates to undertake to fulfil their consolidation homework. Only the presentation of the detailed plan of the direct purchase of government bonds in September, which replaced the former programme, managed to definitely calm the markets. The main difference between the two programmes lies in the fact that the new programme is combined with the fulfilment of predefined strict conditions. The purpose of the programme is to achieve the transmission of monetary policy across the monetary union, which translates into lower rates in countries like Spain and Italy. From this moment until the end of the year, the bond yields of problematic countries gradually decreased.

After the hot and successful summer, the ECB again withdrew into the background. However, it created a sufficiently calm environment for the return of politicians to the stage. This concerned national politicians, whose role is to improve the competitiveness and health of the public finance of problematic countries, and European politicians who started discussions about the creation of common banking supervision.

Greece remained another open issue. The weak ability of the country to fulfil the agreed consolidation plans was clear to all creditors, and the payment of further tranches was conditioned by the development of a new “feasible” plan of public finance recovery. November was thus marked by an effort to find a solution to fund the extension of the bailout programme for Greece by two years, in order to release other aid tranches for the country. After a couple of meetings of top eurozone officials, a compromise was reached whether to allow a prolonged repayment at all, and how to subsequently execute it. The assumptions of achieving this plan are even now considered optimistic, and the direction towards a sustainable indebtedness level is at most questionable.

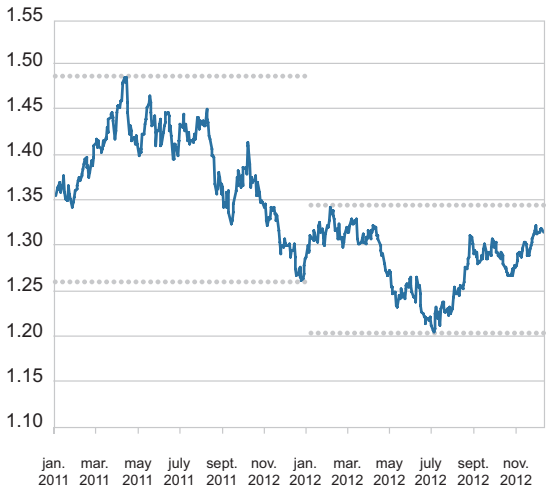
2012 was definitely anything but calm, and one would have expected the turbulent developments to also have been reflected in the EUR/USD pair. The opposite is true, and this new currency pair experienced the least volatile year. The common European currency was strongest at the end of February, when 1.34 dollars could be purchased for one euro. On the other hand, the euro was weakest at the end of June with the exchange rate at 1.20. Compared to the previous year, however, the euro was almost 8% weaker, which was also reflected in oil prices expressed in euros. At the beginning of the year, the price hit record levels which, naturally, was reflected in fuel prices in Europe.

10 Y government bonds yield in 2012



Source: Reuters

Low EUR/USD volatility in 2012



Source: Reuters

Slovak economic growth at this time was not driven solely by the wave of positive development of our main business partners and other western economies. Germany, our biggest trade partner, recorded economic growth of 0.7%, while the union as a whole declined by 0.6%, thanks mostly to the poor results of the southern countries. Several coinciding positive circumstances in the Slovak automotive industry, such as the commissioning of new production lines and the launch of new models, ensured not only the global competitiveness of this industry, but also more than 40% production growth. The number of manufactured cars climbed to 900 thousand, and Slovakia will remain the leading country with the most manufactured cars per thousand people.

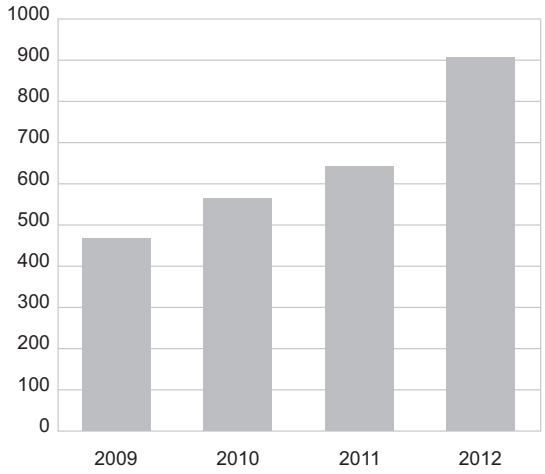
GDP growth in the last year was largely generated by the automotive industry. Of Slovakia’s annual growth of 2%, approximately half is contributed by this industry. Other components of the economy were less successful, starting with household consumption, which experienced a drop of 0.6% and continuing with investments –3.7%. Car manufacture growth was reflected in foreign trade growth by more than 8.6%. Export dynamics in the previous period increased also by the fast development of markets like China, Russia and South America. Lack of investments in the economy was demonstrated in slowed imports, in particular investment goods, as a result of which annual import growth represented only 2.8%. This development increased even more the positive trade balance of recent years, with 2012 being the record year with a surplus of EUR 3.6 billion. The service balance has not been in the black since 2008, which did not apply in 2012 with a surplus of EUR 0.3 billion.

The positive development of services is also documented by the development of sales. For several consecutive years, sales have increased by a double digit figure, and are gradually becoming more important to the economy. Their share of GDP in 2012 represented roughly 40%. Industrial revenues reached a healthy 8% year-on-year, mainly thanks to the aforementioned automotive industry. However, the situation in other industrial areas is very diverse, with many ending year-on-year in minus. The condition of the construction industry, which did not stop its decreasing revenues in 2012, is very poor and the industry faced a fall of 15%. The said decrease of household consumption was also reflected in retail sales, which were lower year-on-year by 0.7%.

The development of prices was more dynamic than initially expected, in particular thanks to housing related energy price increase. However, the prices of food and oil also significantly contributed to this growth. Prices increased on average by 3.6% for the year. Worse was the development of wages, remaining under the pressure of a high unemployment rate (14%). Their nominal growth represented only 2.4%, which represents a decrease in real wages by 1.2%.

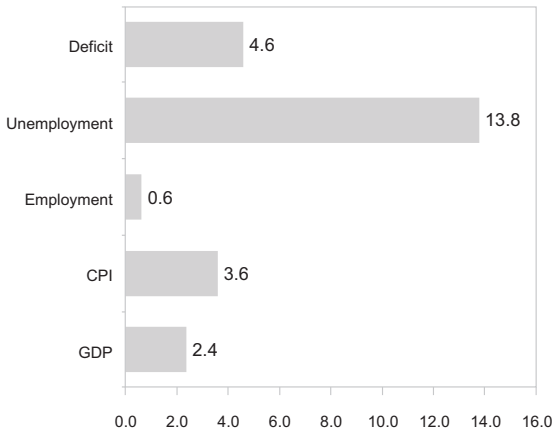
Although the Slovak economy in 2012 was doing relatively well, the year cannot be called very successful regarding public finance. The consolidation objective of 4.6% of GDP was not too ambitious, and its fulfilment was also problematic thanks to the early election, which required a number of ad hoc measures. The situation of public finance during the year was complicated in particular by weak value added tax and corporate income tax collection. The ministry thus resorted to one-off levies concerning banking institutions and entities operating in regulated industries. While providing income for the current budget of the public finance, consolidation plans for 2013 were also under preparation. The most significant measures adopted in the last year include reduced allocations to the second pillar pension scheme, followed by an increased cap for compulsory wage payments to the fivefold of average wage, reintroduction of concession fees, and increased corporate tax rates and levies for banks.

Car production in SR



Source: Car manufacturers

Key macroeconomic indicators in 2012, %

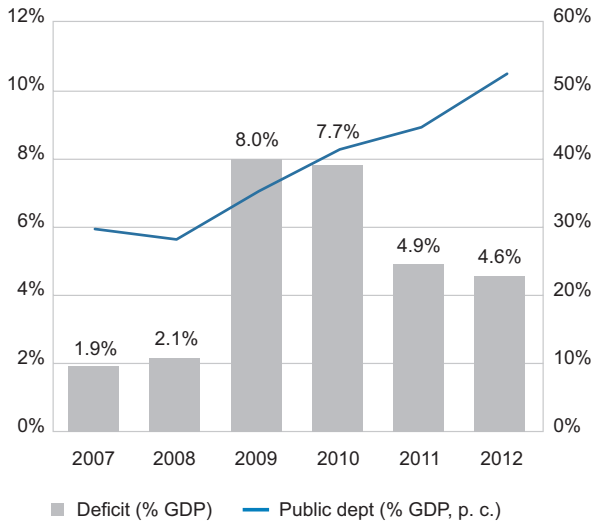


Source: Štatistický úrad SR (Statistical office of the Slovak Republic)

In the last year, we also experienced unusually high debt growth, coincidentally in the year that the Council for Budgetary Responsibility was set up. The development of government debt (gross public administration debt) increased by almost EUR 7.3 billion in 2012, which is a record amount in the history of Slovakia. The biggest growth contributor is the state budget deficit contributing EUR 3.8 billion, followed by Slovakia's participation in the eurozone aid funds (EFSF and ESM) with EUR 1.3 billion, and a simultaneous increase of state borrowings from the State Treasury. Borrowings from the State Treasury were understood as an effort to pre-stock the ARDAL (Debt and Liquidity Management Agency) to redeem the bond issue maturing in the first quarter of 2013, with a volume of EUR 3.2 billion. It was also an effort to make use of the positive market situation at the end of 2012, when Slovak bond yields reached record lows.

From several perspectives, 2012 can be viewed as a successful year for the Slovak economy, in particular with regard to external conditions. On the other hand, public finance brought little joy. The preceding year also enhanced our orientation towards European structures, when through the eurozone aid funds we became even more firmly bound with the eurozone, the success of which will be even more crucial for us in the future.

Public debt and deficit in SR



Source: Eurostat

Banking Sector in 2012

Developments in the banking sector are closely linked to the overall economic situation. The growth of the Slovak economy slowed in the last year, and the reduced economic activity was also felt in the banking sector.

Increase of client loans slowed to 3.4 per cent, the lowest growth since 2009. Lower demand for loans was caused by the situation in the corporate sector. Economic growth in the last year was driven mainly by the automotive industry, with the remaining industries experiencing only slight growth or teetering on the brink of recession. Low production and investment volume also reduced demand for loans. As a result, the volume of corporate loans in the previous year experienced a year-on-year drop of 2.4%, which was the second worst result since 2009. The growth of personal loans, on the other hand, has maintained high stability also during the phase of low economic growth. Personal loans in 2012 increased by 9.6%. This result was mainly achieved due to mortgage loans with an over 12% increase, which constituted 80% of the total increase in the volume of personal loans.

Lower activity in the segment of non-financial businesses was also evident in the development of the volume of deposits, which were, nevertheless, up 1.7% year-on-year. Increased uncertainty perceived by people contributed to the fact that personal bank deposits grew by a steady 6%, despite low interest rates. The drop in interest rates was demonstrated by term deposits growing more slowly than the amount of deposits in current accounts.

The net profit of the banking sector was EUR 488 million, which translates to a year-on-year drop of 27%. The results of the banking sector in the past year was adversely affected by the introduction of an additional and special levy on selected liabilities. As a result, banks paid an additional EUR 170 million. A significant impact on the results of the banking sector was attributed to 2.7% decrease of net interest income. The reason being that the lower interest rates demonstrated more in the collected interest income, which only increased 1%, with a simultaneous 7% increase in interest expense.

Risk Management and Basel II

A well-organised and consolidated system of risk management plays a crucial role in 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 the 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 also plays an equally important a role in multilateral meetings with regulatory authorities and other organisations.

The concept, methodology and documentation of 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. The 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 are 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 possible the most accurate evaluation, quality management and mitigation/elimination of credit, market, operational risks and other risks the Bank is exposed to. Achieving this goal depends chiefly on:

- identifying the risks resulting from Bank products and processes
- ensuring the quality collection and preservation of relevant and potentially-relevant data,
- producing a reliable methodology for measuring individual types of risk,
- ensuring effective and quality processes for the prudent management of individual types of risk,
- ensuring quality and secure IT systems for automating processes, and the collection and analysis of data,
- making 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, since 1 January 2008 the Bank has been using a Standardised procedure, the aim of which has been 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 management, and the quantification and reporting of individual types of credit-related risks in line with its Implementation plan.

From 1 January 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 a 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. Even during the recent turbulent economic times, this approach enabled the Bank to include in its capital requirement the effect of the period of economic decline on its portfolio. In connection with the application of the IRB approach, the Bank and the Group continuously work on rating models with the aim to maximize their prediction strength.

Based on the Implementation Plan, the Bank also approved the use of the IRB approach from 1 April 2010 for the retail part of its portfolio, which also allows the Bank to calculate 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. In 2011 - 2012, the Bank also intensively and successfully worked on optimising estimates of these parameters.

An essential part of the activities in 2012, besides continuing the implementation of comprehensive change management, also comprised optimisation and standardisation with regard to key non-retail risk processes with the aim of achieving their long-term stability, reliability and processing speed.

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 targets, 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 provisioning process, and in addition to individual provisions it also creates portfolio provisions for the non-retail credit portfolio.

Regarding retail risk, in 2012 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 also greatly helps to have reliable and consistently managed portfolios. The goal of building up infrastructure is to create a reliable solution that enables flexible reactions to external changes. A fundamental part of this is to define targets for individual components of credit risk management, as well as employees themselves. This process can be characterised as a comprehensive approach that comprises the thorough preparation and subsequent application of the principles of credit risk, credit policy and guidelines, as well as effective management tools.

Market risk

During 2012, the situation in the market slightly stabilized, although skepticism as to the quality of government bonds and uncertainty as to the stability of the banking sector still prevailed. The Bank continued to apply a prudent approach to investments in securities, introduced new types of limits to ensure protection against the risk of securities being downgraded, and applied a very conservative approach to the assessment of bank counterparties and limits on the respective counterparties. Important factors affecting market behaviour included the development of euro interest rates, which reached historical lows, and volatility in currency markets lower than in 2011. The Bank responded to this situation by a slight lifting of the limits for foreign currency positions, strengthening the limits on interest rate risk, and extending the stress testing of interest rate risk.

The careful monitoring of all types of market risk remains a high priority. The methods and models used for monitoring market risk are therefore still subject to strict supervision, both external and internal, and the parameters affecting the outputs are regularly reassessed and approved by the Bank's committees so as to reflect the current situation on the financial and capital markets as accurately as possible. The limits protecting the Bank against turbulence on the markets are reassessed and set prudently and conservatively in order to constrain losses in the event of negative developments.

Liquidity risk is thoroughly monitored and is subject to the internal limits of the bank, the limits of the RBI group, and the limits of the National Bank of Slovakia, which were all fulfilled during the year. The Bank pays attention to and actively comments on new EU legislation regarding liquidity within the Basel III framework, and is compliant in advance with the Liquidity Coverage Ratio limit and the Net Stable Funding Ration Limit.

Operational risk

Calculation of the amount of regulatory capital to cover operational risk is done in the Bank using the standardised approach method. As the Bank is well aware of the seriousness and possible impact of operational incidents on the profit and value of the Bank, it uses a set of qualitative and quantitative methods for identifying and managing operating risks. In 2012, the Bank managed to consolidate the quality of operating losses collection, which led to the more precise identification and measurement of operating losses in the Bank's processes and products. This activity subsequently facilitates the implementation of adequate measures to mitigate operating losses.

The risk of external credit fraud, with the associated losses also posing risks, remained the most significant risk and the risk with the greatest impact in terms of operational risks. The Bank's priority is to ensure the elimination of fraud to the greatest possible extent, and in 2012 the Bank worked on improving the standard of the tool for automatic detection of credit fraud.

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 (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 that the Bank is willing to take, and the projected formation of capital and subsequent reporting for the Bank's management.

In the course of 2012, 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 the expected level of Return on Risk Adjusted Capital (RORAC) performance indicator. 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 as the prerequisite of the healthy growth of the Bank will continue to be the priority in 2013.

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 2012, 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. The integrated results of stress testing were presented to the Bank's management, and their results showed that the Bank has sufficient internal capital to cover losses arising from stress scenarios.

Summary of Consolidated Performance

The extraordinary and special levy for selected financial institutions in the amount of EUR 28.33 million, which was paid for the first time in 2012, had a substantial effect on the drop in profit. Further contributing factors included extremely low provisioning for consumer loans in 2011 affected by releasing a portion of provisions, and lower interest income.

The consolidated after-tax profit of the Tatra banka Group decreased year-on-year by 25.56%, i.e. EUR 35.5 million to EUR 103.5 million. Cost-income ratio increased from 53.9% to 56.2%. In January 2013, the international ratings agency Moody's confirmed Tatra banka's A3 credit rating.

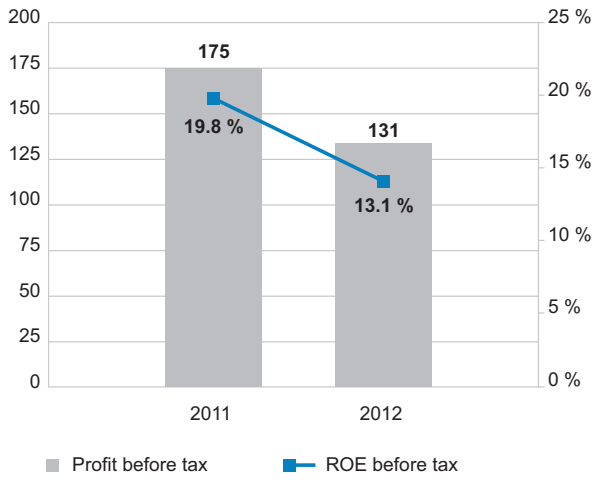
Development of income and expenses

The overall decrease in interest income was caused by falling rates on the financial markets. Such rates did not reflect in the entire portfolio in longer term deposits in 2012, which caused higher interest expense year-on-year. Falling interest on assets was reflected faster due to shorter fixations. Both these factors were demonstrated in the decreased net interest income by 4.34% to EUR 278.2 million.

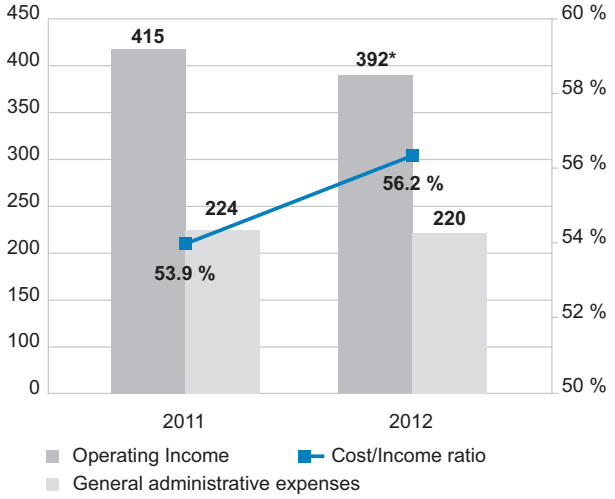
Net commission and fee income was up 6.3% year-on-year to EUR 110.2 million. Net trading result increased by 44.2 per cent year-on-year to reach EUR 21.8 million. Income on sold securities and the revaluation of securities both improved.

General administrative expenses decreased by 1.60% to EUR 220.39 million. In particular there was a decrease in the contribution to the deposit protection fund, which was suspended in the second half of the year in relation to the introduction of the extraordinary and special levy for selected financial institutions. After the adjustment for changes in the contribution to the deposit protection fund, expenses also decreased, which demonstrates the continuous effort to ensure efficient resource spending.

Development of profit and return on equity
(mil. €)



Development Cost/Income
(mil. €)



*Operating income for Y2012 includes Special Bank levy.

Development of assets

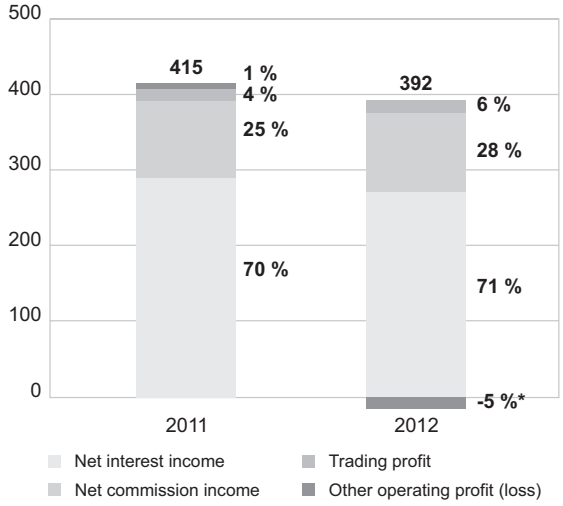
The consolidated assets of the Tatra banka Group were stable year-on-year, with a marginal decrease of 0.96% to EUR 9.07 billion, due to the asset structure optimisation. The volume of funds earning low interest and deposited in the central bank and in financial markets decreased. Loans granted to clients increased by 0.5% to EUR 6.39 billion, and the share of non-performing loans of the total portfolio is below the sector value, despite slight growth from 5.0% to 5.2%.

This shows the prevailing high quality of the portfolio. The increase in non-performing loans was affected by slowing economic growth. The increase in client loans was mainly attributed to housing loans (by EUR 147 million) and general-purpose consumer loans. There was a decrease in loans provided to the corporate segment.

Development of liabilities and equity

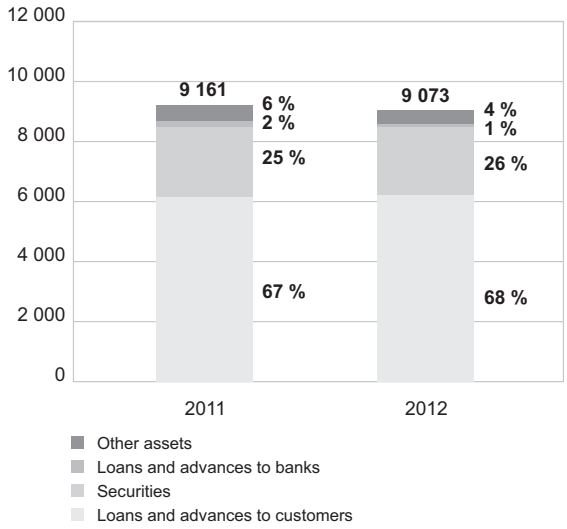
Client deposits maintained an almost unchanged level of EUR 6.86 billion. The main decrease was in passbooks and term deposits. The drop in the balance sheet total can also be attributed to the repayment of a subordinated dept of EUR 75 million in Tatra banka. The consolidated ratio of loans to deposits as at 31 December 2012 was 93.1%, which gives the Group sufficient space for credit portfolio growth. The capital adequacy ratio of the Tatra banka Group was 15.23% as at 31 December 2012.

Structure of profits
(mil. €)

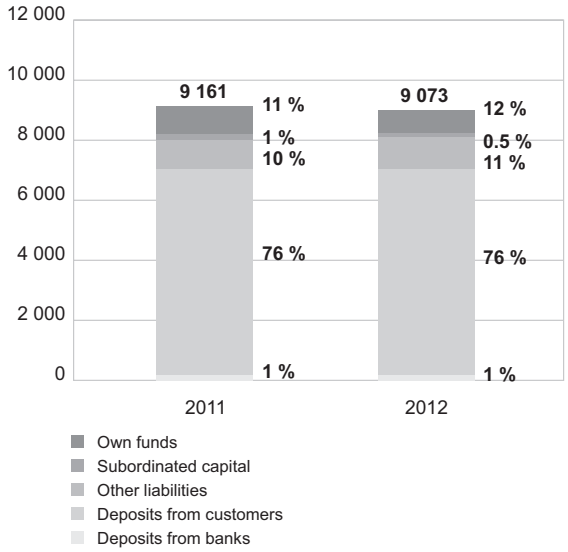


* Other operating profit (loss) for Y2012 includes Special Bank levy expenditure.

Structure of balance sheet assets
(mil. €)



Structure of balance sheet liabilities
(mil. €)



Objectives for 2013

In 2013, Tatra banka will still continue its ambition to be the first to introduce innovative products to its clients. The Bank will keep ensuring that innovations launched onto the market find as many satisfied and regular users as possible. Another great challenge is the effort to keep the world of retail banking products straightforward and affordable to clients without being too complex, despite the increasing number of legislative changes to both local and EU regulations.

Given the growing popularity of contactless payments, the Bank will promote this innovative payment method also this year. In January, the Bank extended contactless mobile payments to include additional phone types. This process will continue during the year, with the aim to bring the service to the widest possible number of clients. The Bank will also focus on expanding the acceptance network for the use of contactless payment terminals so that they are available to clients at additional points of sale nationwide.

Thanks to technological innovations in the online environment, the Bank can further simplify its services - for example arranging a loan - with more comfort in a shorter time. Emphasis is also put on increasing user comfort in mobile applications, for instance application login. After introducing the bar code scanner to facilitate the easier payment of postal money orders, there will be an additional option to make payments by scanning the QR code. In addition to making Internet banking environment more attractive, attention will also be paid to the implementation of SEPA legislative requirements. Tatra banka's website is also an important contact point for client's work with the Bank, therefore attention will be paid to improving navigation, search, and contact form, as well as making the mobile version of the website more convenient thanks to a responsive design.

In products for small and medium-sized enterprises, Tatra banka brings customised solutions for selected industries that meet the needs of enterprises starting or developing their business. The Bank will continue to further simplify client access to loans, also by reducing the number of documents needed for loan application.

In the large corporate client segment, the Bank´s priority will also be in particular to ensure further growth of business with an emphasis on the healthy growth of the loan portfolio and the sale of other corporate products meeting client needs. Attention will also be paid to the further improvement of internal processes and Lean implementation, which should ultimately lead to higher client satisfaction. Innovations will also cover treasury and capital market products, in particular concerning commodity hedging, as well as the simpler process of client communication with the Bank in trading.

Statement for Corporate Governance

The corporate governance system of Tatra banka is regulated by the Code of Corporate Governance in Slovakia (hereinafter referred to as the "Code"), which was developed by the Central European Corporate Governance Association (CECGA). It is publicly available at http://www.bsse.sk/.

Specifically, the applied governance methods are based on the Code and on the regulations laid down in the internal guidelines of the Bank and its subsidiaries, such as competency guidelines, branch procedures, and 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, as well as out-of-process control. The internal control system of the Bank is currently based on the guidelines of the group, which together with internal manuals and procedures, constitute one of the basic pillars of this system. In line with the group policy in this area, in 2012 the Bank continued the implementation of a standardised process of analysing risks in processes, which has led to their improvement and monitoring of the effectiveness of the set process controls. The results of the monitoring are presented on a regular basis to the respective authority, as well as to the Supervisory Board exercising the activities of the Audit Committee, which among other things monitors the effectiveness of internal controls and the risk management system. An Internal Control System Officer with responsibility for implementing the process of analysis, setting the control system and reporting, is operative at the Integrated Risk Management Department.

Internal controls are designed to ensure the security 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 the applicable regulations, and to eliminate risks in the interest of preventing losses or damage.

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 the specific processes.

Indirect control means all forms of ongoing control measures, procedures and mechanisms in individual units of the Bank and 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 that are responsible for the controlled processes and for the results of controls, or by the 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 the 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 Division reports to the Management Board 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 Management Board is informed about conducted audits and controls in progressive audit and control reports. The Director of the Internal Control and Internal Audit Division informs the Management Board 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 a 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 the limits of capital exposure, which are evaluated daily and reported to the NBS on a monthly basis. Retail debtors are assessed using the 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 activities aimed at mitigating operational risks.

More information about individual risks that the Bank (the Group) is exposed to can be found in the Notes to the Financial Statements for the Year Ended 31 December 2012, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These Financial Statements form an integral part of the 2012 Annual Report.

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 2012, the Annual General Meeting of the Company was convened on 28 June. The right to attend the General Meeting and exercise other rights was used by 80.44% of holders of ordinary shares. Among other things, the shareholders approved the Annual Separate and Consolidated Financial Statements and the Annual Report for 2011, decided on the distribution of profit and determination of remunerations, approved a change to the Articles, elected members of the Supervisory Board appointed by the General Meeting for the following term, withdrew the authorisation of the Management Board to issue preference shares, and approved the pledge over own shares. The shareholders were paid dividends to the amount approved by the General Meeting in the ratio of their respective shares in the share capital.

The Management Board 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 Management Board. In 2012 the Management Board had six members until 30 March 2012, and seven members from 1 April 2012. The Management Board usually convenes once a week. The Management 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.

The share capital of the company amounts to EUR 64,326,228. It is split into 60,616 ordinary shares with a par value of EUR 800 per share, which accounts for 75.39% of the share capital, 2,095 ordinary shares with a par value of EUR 4,000 per share, accounting for 13.03% of the share capital, and 1,863,357 preferred shares with a par value EUR 4 per share, which accounts for 11.59% 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 CEE Region Holding GmbH based in Austria.

Each holder of ordinary shares is a company 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 also acknowledges voting rights 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 Management Board. The Management Board 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

Dr. Herbert Stepic
Chairman of the Supervisory Board (from 23 August 2012)
Vice-chairman of the Supervisory Board
(until 23 August 2012)
CEO Raiffeisen Bank International AG, Vienna

Dr. Karl Sevelda (from 1 July 2012)
Vice-chairman of the Supervisory Board
(from 23 August 2012)
Deputy CEO Raiffeisen Bank International AG, Vienna

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

Aris Bogdaneris
Member of the Supervisory Board
Member of the Management Board, Raiffeisen Bank International AG, Vienna

Ing. Pavol Feitscher
Member of the Supervisory Board
Advisor to the CEO, Tatra banka, a.s., Bratislava

Mag. Renate Kattinger (from 1 July 2012)
Member of the Supervisory Board
Executive Director, Head of Controlling (Group & RBI AG), Raiffeisen Bank International AG, Vienna

Mag. Dr. Hannes Mösenbacher (from 1 July 2012)
Member of the Supervisory Board
Head of Risk Controlling, Managing Director, Raiffeisen Bank International AG, Vienna

Ing. Ján Neubauer, CSc.
Member of the Supervisory Board
Financial Director of FIT PLUS, s. r. o. Bratislava

Dkfm. Rainer Franz (until 30 June 2012)
Chairman of the Supervisory Board

Mag. Dr. Hubert Figl (until 30 June 2012)
Member of the Supervisory Board
Head of Workout Division,Raiffeisen Bank International AG, Vienna

Mag. Reinhard Karl (until 30 June 2012)
Member of the Supervisory Board
Executive Director, Raiffeisenlandesbank Niederösterreich-Wien AG, Vienna

Bank management

Management Board

Ing. Igor Vida
Chairman of the Management Board and CEO

Ing. Miroslav Uličný
Vice-chairman of the Management Board and Deputy CEO

Ing. Marcel Kaščák
Member of the Management Board

Mgr. Michal Liday
Member of the Management Board

Mgr. Natália Major
Member of the Management Board

Ing. Vladimír Matouš
Member of the Management Board

Mag. Bernhard Henhappel (from 1 April 2012)
Member of the Management Board

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Ing. Zuzana Koštialová

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Segment reports

Corporate Clients

(in EUR thousands)	12/2012[1]	12/2011[2]	12/2010[3]	12/2009	12/2008	12/2007	12/2006	12/2005
Net interest income	97 070	96 870	72 636	68 141	60 180	48 111	38 991	32 345
Net provisioning	(24 683)	(11 152)	(33 318)	(23 186)	(19 990)	(7 428)	(10 046)	5 272
Net interest income after provisioning	72 387	85 718	39 318	44 955	40 190	40 683	28 945	37 617
Net income from commission and trading	21 710	24 645	19 252	17 636	35 601	33 565	28 375	26 740
Operating expenses	(40 069)	(45 545)	(32 542)	(33 774)	(37 073)	(32 883)	(29 606)	(25 364)
Other operating profit (loss)	(8 158)	-	-	-	-	-	-	-
Profit before tax	**45 870**	**64 818**	**26 028**	**28 817**	**38 719**	**41 365**	**27 714**	**38 994**
Cost/Income ratio	36.22%	37.48%	35.41%	39.37%	38.71%	40.26%	43.95%	42.93%

Note: Large & Mid Market corporates

(1) Other operating profit (loss) for Y2012 includes Special Bank levy expenditure.

(2) Due to a change in the administration of small enterprises with a yearly turnover up to 3,3 mio € a change in the reporting had been made since 2011 - a part of small enterprises has been moved from the segment retail customers to the segment corporate customers. In a year-on-year comparison (2011 vs. 2010) this caused a decrease in retail and a growth in the corporate segment.

(3) In the results of the year 2010 a retroactive change has been made in the volume of operating expenses, in line with the methodology valid since 2011 (shift of VAT from other operating result to operating expenses). This change has affected also profit before tax and Cost/Income ratio. Figures of older periods are shown according to the original methodology.

In the provision of services to the corporate segment, Tatra banka puts great emphasis on building a high-quality relationship with clients and providing professional care both to a company and the persons within such company. As a result of such purposeful building of extraordinary care for corporate clients, the Bank can meet even the most demanding requirements. Almost 90 relationship managers together with assistants and product specialists comprise a 190-member experienced team to take care of corporate segment clients.

Medium-sized company clients are serviced through nine corporate centers of Tatra banka, which together with branches form a network of 17 sales points in Slovakia. Professionals at the Tatra banka headquarters are responsible for large corporate clients. All products for corporate clients are processed by 44 product specialists at the newly-set-up Corporate Client Product and Support Division in Bratislava.

Large Corporate Clients

2012 presented a difficult challenge for the Large Corporate Clients Division. Despite macroeconomic conditions and the effect of the new banking legislation, the bank managed to sustain stable results.

Unfortunately, the first half-year was marked by pressure on asset optimisation, due to the new regulation on the capital adequacy of banks. As a result, the increase of assets was substantially regulated with new loans provided particularly to current long-term corporate clients.

Resources were directed to energy projects, to increasing the current operating lines, and partially to technology renewal. In 2012 clients were also very careful and demand for resources was still significantly limited.

Liquidity costs remained stable, long-term liquidity was also limited in the previous year, which also resulted in the higher cost of long-term resources.

Tatra banka managed to maintain liabilities in this segment at the previous year's level, although the year was characterised by significant competition growth and an even greater fight for the maintenance of deposits.

In the second half-year, there was a higher increase in assets with the funding of several new projects. Tatra banka arranged e.g. a syndicated loan for Železnice Slovenskej republiky (Slovak Railway Company) in the total amount of EUR 139 million.

The bank also continued the successful sale of treasury products; and interest risk hedging alternatives became popular due to the development of interest rates. Substantial trading income was constituted by FX transaction revenues.

During the previous year, attention was paid to internal process improvement, with the bank being one of the few financial institutions to implement Lean Methodology in corporate banking. The purpose is not only the constant improvement of internal processes, but in particular the increased satisfaction and comfort of our clients.

As part of the Multiplying Success concept, Tatra banka started a series of presented discussions with distinguished persons who contribute to the innovations so typical of Tatra banka. The intention of this is to acquaint clients with persons who are so exceptional and successful that they inspire the people around them.

The overall result of the Large Corporate Clients Division was also substantially affected by risk and non-performing loan development. New non-performing loans appeared particularly in the third quarter of 2012, which reflects the current market situation and the ongoing crisis.

Small and Medium-sized Enterprises (SME)

The segment of clients administered by Corporate Centers faced significant challenges in 2012, in particular due to the prevailing economic uncertainty, falling interest rates, and new legislative measures (bank levy on deposits of legal entities).

Despite lower demand for investment financing by legal entities and the continuing prudent approach to risk assessment, assets increased by EUR 26 million, which ensured the retention of more than 20% market share in loans to legal entities. New loans were provided in particular in the automotive industry, real estate, agriculture, power industry and services. A slight 1.8% year-on-year drop was recorded in liabilities (down EUR 14 million).

Revenues in the segment of small and medium-sized enterprises dropped by almost EUR 3.8 million, mainly as a result of the decreasing net interest margin, and the bank levy noted above. On the other hand, the Bank achieved impressive success in the area of operating expenses, with a drop of more than EUR 1 million (4%), mainly due to reduced personnel expenses and information technology costs.

The philosophy of the Bank is to be a reliable business partner for the client, so emphasis is placed on the intensity of client meetings and the delivery of exceptional service. Relationship managers are equipped with mobile offices, which enables them to lead the majority of business meetings at client premises. The competence of relationship managers is supported by continuous training in banking products, annual certification process, and rotation to the Bank's other units. The new information system - operational CRM - concentrates all key client information for relationship managers in one place, which has achieved huge time saving in the preparation of internal documents and records for meetings. To give clients access to other technical information, they had the opportunity to participate in a series of lectures mainly devoted to economic development, funding options from European Union resources, as well as risk management approaches to client credibility.

The Bank is constantly working on the optimisation of its internal functioning. In 2012, the Bank started to implement the Lean Methodology in the segment of small and medium-sized companies. This cultural change brought tangible success in a relatively short time, with a substantial efficiency increase of key processes, in particular the credit process. The implementation of daily morning meetings aimed at the clarification of daily priorities, the visualisation of objectives and achieved results, as well as issue-solving meetings are new features that have been fully applied in day-to-day working life.

In 2012, one of the segment's top priorities was also the introduction of innovations and their delivery to clients. Besides retail innovations, our clients were introduced to product statements in the second half-year of a unique nature in the Slovak banking market, as such contain all the important information concerning the relationship with the Bank in a single document, such as the list of a client's authorised persons, the type and structure of individual products, account history, etc.

In 2013, the bank intends to further expand and improve the quality of services in the segment of small and medium-sized enterprises. The main priorities will include client satisfaction, high-quality and comprehensive service supported by delivering further attractive innovations.

Corporate Client Products

The segment of products for corporate clients was subject to a number of changes in 2012, with external and internal client satisfaction at the very core of these changes.

The major change concerned the organisational structure, with all departments administering credit and trade financing products for corporate clients being integrated under a single organisational unit. Based on this organisational change, the trade financing, project financing and support and methodology departments were integrated under a single division. The aim of creating the new division was to group products and supporting functions in order to achieve more efficient and coordinated development of new products and supporting systems, alignment of processes and people management, improved coordination between units, and more transparent communication between product, support and trade.

The Corporate Client Products Division of Tatra banka covers areas such as the factoring and financing of receivables, bill trades, project financing, letters of credit and bank guarantees, trade and export financing, agri-financing and EU projects.

In terms of business results, 2012 was affected by the low economic growth of the Slovak economy, and the ensuing low demand for loans and other trade financing products by corporate entities. Slower economic growth had an adverse effect on the development of risk costs.

Due to the low client demand, there was only a slight 4% growth in the volume of loans. As regards letters of credits and guarantees issued, there was an 11% year-on-year decrease, which is closely related in particular to corporate performance in the building industry. Revenues experienced a slight 7% year-on-year decrease. The main reason for this decrease can be attributed to weaker client demand, which intensified competition and increased price pressure.

Project financing confirmed its dominant market position. In the first half of the previous year, the activities were mainly focused on stabilising the portfolio in the area of financing renewable energy source projects, with a significant increase in the amount of loans granted in the previous year. During the year, there was a relatively high number of funded projects of biogas stations. In terms of property financing, the year was characterised by the low number of new business opportunities.

Despite the growing competition, Tatra banka was evaluated for the fourth time as the Best Trade Finance Provider by the international Global Finance magazine. Since 2008, Tatra banka has been the largest provider of factoring products and services in the Slovak market. In the area of bank guarantees and letters of credit, as a result of stable relations and flexibility, Tatra banka managed to confirm the position of leader in the volume of guarantees issued in Slovakia and in the volume and number of accepted export letters of credit, despite growing competition. The growth of market share was also experienced by agri-financing and the co-financing of EU projects. Trade and export financing mainly succeeded in funding investments abroad.

Treasury and Capital Market Products

In 2012, the Bank also strived by means of its capital market products to assist corporate clients in the management and optimising of their cash liquidity, as well as to secure exchange rates, interest rates and commodity risks to which they are exposed in their business activities.

As for products, the trend of moving away from more complex derivatives to basic products was even more visible. This was demonstrated with respect to the exchange rate risk by a slight drop of FX options at the expense of FX spot deals and forwards.

In 2012 the Bank also registered continued client interest to hedge interest rate risks. In nominal terms, clients hedged an approximately identical nominal volume of loans as the year before, but the volume of trades significantly grew against the previous year (by 63%). This growth resulted from increased client interest in interest rate hedging from the segment of small and medium-sized enterprises. While in 2011, the main reason for interest rate hedging by clients was increased interest rate volatility, during this year clients tried to utilise the decrease of interest rates along the entire curve to their historic lows, and ensure cheap funding for a longer period. Products were again dominated by hedging by means of a simple interest rate swap, or by securing the maximum floating interest rate through the purchase of interest rate options.

The Bank continues intensive co-operation with the parent bank RBI with the aim of providing its clients with a wider range of products, especially in the area of structured products.

Retail clients

(in EUR thousands)	12/2012[1]	12/2011[2]	12/2010[3]	12/2009	12/2008	12/2007	12/2006	12/2005
Net interest income	178 961	168 977	187 436	176 312	166 295	140 503	117 218	106 690
Net provisioning	(13 699)	(3 118)	(11 096)	(28 626)	(23 356)	(10 981)	(6 371)	(14 327)
Net interest income after provisioning	165 262	165 859	176 340	147 686	142 940	129 521	110 847	92 362
Net income from commission and trading	82 202	80 837	85 540	73 961	112 464	100 020	84 062	82 775
Operating expenses	(152 345)	(157 505)	(166 304)	(153 977)	(171 446)	(153 331)	(127 801)	(126 241)
Other operating profit (loss)	(9 967)	-	-	-	-	-	-	-
Profit before tax	**85 152**	**89 190**	**95 576**	**67 670**	**83 958**	**76 211**	**67 108**	**48 896**
Cost/Income ratio	60.65%	63.05%	60.92%	61.52%	61.50%	63.75%	63.49%	66.63%

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

(1) Other operating profit (loss) for Y2012 includes Special Bank levy expenditure.

(2) Due to a change in the administration of small enterprises with a yearly turnover up to 3,3 mio € a change in the reporting had been made since 2011 - a part of small enterprises has been moved from the segment retail customers to the segment corporate customers. In a year-on-year comparison (2011 vs. 2010) this caused a decrease in retail and a growth in the corporate segment.

(3) In the results of the year 2010 a retroactive change has been made in the volume of operating expenses, in line with the methodology valid since 2011 (shift of VAT from other operating result to operating expenses). This change has affected also profit before tax and Cost/Income ratio. Figures of older periods are shown according to the original methodology.

2012 was marked by changes which confirmed the Bank's leading innovative position. At the beginning of the year, the bank supported personal and professional client approach by a unique experience with the opening of the **Tatra Personal**TB service package. The basis of the package is the explanation of service package functions to provide the client with all information, and ensure client satisfaction with the account and its active use from the very first moment. Tatra banka is the only bank in Slovakia to provide clients with an Issued Card (Karta **na počkanie**TB) upon account opening. Comfortable account use is also facilitated by Cashless Mobile Payments (**Bezkontaktné mobilné** platbyTB) via smartphones.

In 2012, clients who prefer personal communication could use the services of staff in the network of 128 branches nationwide, with equally accessible specialised services of mortgage specialists and virtual mortgage specialists, who communicate with clients from various branches by teleconferencing.

The confidence of premium clients in the care of personal bankers was reaffirmed this year with more than 13% growth in their credit exposure. The main reason for this growth included favourable product solutions in mortgage loans and specialised credit card campaigns oriented on rewarding clients, supplemented by the professional consulting of Tatra banka personnel. The balance of assets prepared specially for Premium Banking clients is extremely popular. It provides a simplified and transparent overview of the whole range of products both on the assets and liabilities side used by the client in the Bank. Equally popular is the Rewarding Programme, which allows clients free current account maintenance. This benefit is used by the majority of premium clients.

Private Banking

2012 was a year which was again perceived as dynamic in the private banking of Tatra banka. Despite high uncertainty on the financial markets, the confidence of private banking clients has experienced significant growth. This fact is also confirmed by the figures, with the volume of managed assets showing an almost 11% increase year-on-year to EUR 1.65 billion. Growth was also evident from the number of clients in the care of private banking. In 2012, the number increased by more than 400 new clients. Altogether, more than 3,600 Tatra banka clients benefit from private care.

A wide range of innovations at the beginning of 2012 was launched by an automatic system for dealing order processing. The primary objective was to mitigate operating risk and increase comfort not only for actively dealing clients. Thanks to the new system, there has been a significant shortening of order processing time, and reduced operating risk in securities trading.

Risk mitigation and maximum effort to ensure long-term client satisfaction led the Private Banking Department to successfully continue investment consulting for clients. The fundamental **Wealth** management™ pillar introduced in 2011 was successfully enriched with completely customized settings for each client. A customized view of income, risk, horizon and overall asset cash flows create an absolute competitive advantage and the maximum satisfaction of each client who receives a direct investment recommendation to purchase selected diversified solutions.

Another activity undertaken by private banking was setting-up of an opportunistic team. The main reason for this was to eliminate risk. The secondary reason was the creation of new products and also the ambition to seek attractive market opportunities and solutions for demanding clients.

Clients wishing to invest on the stock market had the opportunity of efficient market timing via the principle of Best Entry Certificates. These are certificates that enabled the best entry time to the market, and allowed clients to buy at lowest prices. There are, naturally, a number of other product advantages offered by private banking. In view of monetary policies setting, the Bank offered clients many solutions to cover inflation risks. The product range was extremely wide in this respect. They include very safe inflation bonds, and bonus certificates with a very attractive yield linked to inflation. Clients could choose from fifteen innovative opportunistic products, with more than EUR 50 million successfully placed.

Tatra Asset Management remained the main partner for private banking clients, and clients invested almost EUR 100 million of new resources in the company, totalling more than EUR 376 million. The product range used by private banking clients is unlimited. The only limit is market size, since a client can purchase any freely negotiable security. Aware that the investment portfolio should also contain commodity strategy, Tatra Asset Management prepared a solution that limits the maximum risk of the commodity markets, while retaining the opportunity to achieve above-average profit, called the Commodity Fund (**Komoditný** fond™).

This year, private banking was again the leader in the sale of gold, in particular thanks to the comprehensive service provided in the sale. In addition to gold purchase, the Bank offers clients the option of repurchase, and storage in safe deposit boxes in the bank vault available 24/7. Clients have the opportunity to insure gold prices through options, or to draw a loan secured by gold stored in the bank vault. In 2012 private banking clients also bought record amounts of gold, with a volume of more than EUR 30 million.

Nevertheless, the product range includes not only standard products. Tatra banka supported artistic taste by creating the mobile application **Art** Consulting™. Currently, the Private Banking Division is working on a whole range of non-standard products and services for clients in order to satisfy even the most demanding and exclusive future requirements.

Our market leader position was also confirmed by the international Euromoney magazine, which presented Tatra banka Private Banking with several distinguished awards: In regional awards presented for individual countries, Tatra banka Private Banking was the best in Slovakia with four awards, which was the most of all Slovak banks. The awards included the Best Private Banking Services Overall, Best Relationship Management, Best Net-Worth-Specific Services Super Affluent (services for private clients with assets of USD 0.5 - 1 million) and Best Net-Worth-Specific Services High Net Worth I (services for private clients with assets of USD 1 - 10 million).

Current and term deposit accounts, insurance

In 2012, the deposits market experienced no significant turbulence, being instead marked by expectations as to what the future would bring. Clients preferred shorter terms up to one year than longer term deposit products. Flexible saving options without fixed periods and with a simple way of making deposits and withdrawals became attractive. Due to the gradual decrease of interest rates, no current term accounts, clients seeking long-term appreciation of their savings opted to a larger extent for other means of savings appreciation, such as investment funds or securities.

Tatra banka had a successful year in terms of deposits. During the year, the Bank offered a wide range of saving products in its portfolio. Clients could choose whether they wanted to save short-term, for a certain purpose, or create a reserve for the future. A popular option is a convenient saving account with a favourable interest rate for every client with a current account. It enables clients to put their money in a “piggy bank”, and use it at any time for a larger purchase or holiday, or transfer the money to other term products after having saved a larger amount. The majority of clients appreciate the innovative method of saving by card, when with each payment by the payment card, clients save to the saving account the amount chosen by the client itself.

In 2012 Tatra banka also introduced significant innovations and superior service to the financial sphere of its clients. As the first and only Bank on the market, Tatra banka has issued instant Visa Electron debit cards to the account since May. A new client opening a current account with the Bank thus receives a comprehensive bank account with the **Tatra Personal**TB service package, which is fully functional and ready to use. On the first visit a client can try Internet banking, find out how the SMS payment notification works, and in a shop opposite the branch can pay with the new payment card immediately. Client feedback about this bank experience is positive and clients are not only satisfied, but many leave the bank thrilled. And clients have one less worry with an instant card - if a card is lost, a replacement card is immediately available at a branch.

Significant growth in the use of the smartphones of Tatra banka clients has also brought strong interest in the use of mobile bank applications. Tatra banka, which prepared for this market trend, provided clients with everything they need from a bank in this innovative way, and also with something more. Specifically developed applications tailored to smartphone users have created a completely new user experience with the Bank and everyday bank services. In this way, Tatra banka is always in a client’s pocket. Thanks to Tatra banka as the only Slovak bank, a client can have the card for the account in the mobile phone and pay by card using the contactless method at payment terminals in Slovakia and abroad. A client can make fast money transfers from the account, has an overview of client transactions on the account and the credit card, and can even draw a quick loan by mobile phone after a couple of clicks wherever a client wants to buy something.

The **Tatra Personal**TB service package adapts to client needs, and rewards active clients who choose Tatra banka as their main bank. A client saving in the Bank, who often pays by card and who chooses from the loans on offer, lowers his/her expenses on every-day banking services, and often has the service package completely free of charge. Moreover, the service package offers additional customised advantages for children, students, graduates and spouses. Still more clients also appreciate the advantages of the package if they manage their corporate and private finances in Tatra banka. More than half of clients were given a substantial discount on the service package fee in Tatra banka in this way.

This year clients could also choose from attractive payment card designs, including stylish designs for teenagers and students featuring Roxy and Quiksilver.

Banking insurance products are traditionally on offer in Tatra banka, in particular as an important loan accessory. In cooperation with Uniqua insurance company, we bring a feeling of better security in the repayment of mortgage and other loans with special dedicated insurance. A company owner can also insure himself/herself or other key person within the company in relation to the loan taken for business development, and insure the liability to the Bank in the case of unexpected events. The offer is supplemented with assets insurance for mortgage loans, and a popular travel insurance with payment cards.

Payment cards

Payment cards in Tatra banka are the standard focus of innovation. According to the market share achieved by Tatra banka in this segment, it can be said that the Bank has taught Slovak card holders to make cashless payments. The Bank's share of cashless cards on the domestic market is almost 50%. The Bank has made the most significant contribution to the fact that Slovakia is the first in Europe in the ratio of cashless cards to total issued cards. Contactless chip card is available to 80% of debit card holders, and almost 60% of credit card holders.

The first unique innovation of 2012 was the instant card. While during the past 20 years clients had to wait for a card to be issued, as of this year, Tatra banka is the only bank in Slovakia where cards wait for clients. This means that on a single visit, the Bank provides a client with a fully functional current account with a debit card and **Internet** banking[TB], which a client can use immediately. Should a client lose a card or if a client travels and needs an international payment card immediately, a client will also get such card at Tatra banka conveniently and instantly at any time.

Contactless payments and instant cards have opened the door to another unique innovation - mobile payments. Tatra banka was the first not only in Slovakia, but also in the European Union to bring a new and very convenient form of contactless payments by payment card via mobile phone. The first to facilitate such payments was the iPhone device with added iCarte feature. Other types of telephones will facilitate such payments and thanks to the NFC antenna, they no longer need an additional device to make payments. Tatra banka introduced contactless mobile payments in cooperation with O2 mobile operator at the beginning of 2013, and intends to extend the service to cover clients of other mobile operators.

Since the Bank considers simplicity and transparency as vital, it has also brought several improvements for credit card holders - the payment cycle and Reward Programme are linked to the calendar month, and the length of interest-free period has been extended up to 51 days.

Before the summer holiday season, Tatra banka introduced another standard limited credit card edition, the "Šillená karta" card designed according to a unique design by the Slovak artist Erik Šille, who was presented the Tatra banka Foundation Art Award. The launch of the card was connected with a campaign popular with clients and focused on the use of credit cards. For 300 euros spent on purchase, clients earned a bonus of 30 euros. This card has been the most successful with clients in the history of limited edition designs.

These changes contributed to the successful sale of credit cards during the year. The number of credit cards grew 7% and total sales grew 50% year-on-year. The volume of transactions made by payment cards increased by 8%, which represents a total value of card use of EUR 3.25 billion. Clients use their cards increasingly more often, and the number of transactions increased by 11%.

Payment card purchases maintain a stable high level. Clients use debit cards for more than one third of the total volume and two thirds of all card transactions made. In the long term, credit cards have been used in particular for purchases, and only one in twenty transactions is a cash withdrawal.

Fast contactless payments are also increasingly popular. Clients trust this innovative and fast payment method, and the volumes and numbers of transactions increased fivefold compared to the previous year.

The offer of a Gift Card with a range of attractive covers for various occassions sparked great interest in particular during the run-up to Christmas. The card also started to be offered through the DIALOG call centre of Tatra banka. In this way a client orders the card by telephone, and a courier delivers the card directly to the home of the recipient. Sales doubled against the previous year.

Loans

2012 was a successful year for retail loans. Due to the increase in the number and volume of newly granted loans and care for current clients, the Bank achieved growth of the total portfolio volume. Amidst difficult competition, Tatra banka also maintains its reliable third market position in the provision of retail loans.

The Bank pays special attention to retail loans. In 2012, as the only bank on the market, the Bank offered a unique benefit of an Accelerated Repayment for loans secured by property, along with several other innovations in the provision of products, which met with a positive client response. The most important include the introduction of the option to grant the Any Purpose Classic Loan (**Bezúčelový** úver^{TB}Classic) via the Tatra banka mobile application for smartphones on iPhone and Android platforms, without a personal visit to a branch. Tatra banka is the only bank on the Slovak market with the option of drawing a loan through a smartphone. Improved optional overdrafts for current accounts has brought clients better transparency and stability in the allocation and reassessment of overdraft limits. Innovations and the superior quality of provided services help increase client satisfaction.

At the end of 2012 individual products accounted for the following volumes in the loan portfolio – loans secured by property 83%, Any Purpose Classic Loan (**Bezúčelový** úver^{TB}Classic) 10%, Any Purpose Garant Loan 1% (**Bezúčelový** úver^{TB}Garant 1 %), optional overdraft and credit cards 6%.

In 2012, the Bank granted 2,898 American Mortgage Loans (**Americká** hypotéka^{TB}) in the volume of EUR 95.77 million, and a further 6,581 housing loans of EUR 366.69 million, thereof 2,012 loans of EUR 71.88 million attributed to loans with state bonus for young people. Compared to the previous year, the volume of new loans secured by property granted to private individuals increased by 8% as a result of which the Bank maintains a stable market share in mortgage loans.

The any purpose Classic loan (**Bezúčelový** úver^{TB}Classic) was also very popular with clients in 2012. The total volume of loans granted during 2012 soared to EUR 136.9 million with 35 thousand loans, which is 5% growth compared to the previous year. The sale was also promoted by the interesting offer “We will pay the first instalment for you!”

In the segment of any purpose loans, the product portfolio was complemented by an any purpose loan secured by cash. In 2012, the total volume of the Any Purpose Garant Loan (**Bezúčelový**úver^{TB}Garant) was EUR 5.226 million.

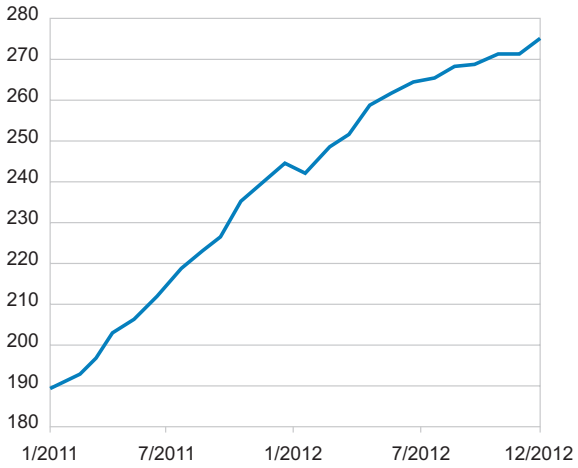
Small Corporate Clients

In 2012, Tatra banka continued the trend set in 2011, to support the segment of small corporate clients and be closer to clients through a wide range of branches and corporate banking specialists and business advisers.

Tatra banka managed to achieve growth in the volume of loans granted to this segment, despite lower demand by companies for loans due to the uncertain economy and lower demand for company products. The 13% year-on-year increase in the volume of loans mainly consisted of financing via the Express Business Loan (**Business**Uver[TB] Expres) and the Variant Business Loan (**Business**Úver[TB] Variant).

In 2012, we prepared a number of simplifications for our clients, in particular concerning the number of documents necessary to arrange a loan. We also made changes in the Hypo Business Loan (**Business**Úver[TB]Hypo) in order to meet client needs and reflect pressure on corporate cash flow as a result of the slowing economy. 2013 will probably again be characterised by weak economic growth and related low demand for loans by small corporate clients.

Loan drawing – legal entities, retail
(v mil. €)



	2010	2011	2012	Abs. Diff 2012/2011	% diff
Number of clients	103 999	106 159	109 940	3 781	3.6%
Number of clients with loans	8 117	8 944	9 343	399	4.5%
Loan volume in EUR ths.	166 626	224 121	276 541	52 420	23.4%
Deposits volume in EUR ths.	974 798	994 657	986 222	(8 435)	(0.8%)
Revenues in EUR ths.	52 683	56 136	56 641	505	0.9%

Internet Banking, Mobile Applications, Acceptance of Payment Cards

Tatra banka pays close attention to electronic distribution channels. As a result, the Bank has won a number of awards and first places in this area. For Internet bankingTB, the Bank was presented its tenth consecutive award for the best Internet banking in Slovakia (Best Consumer Internet Bank in Slovakia) by the international Global Finance magazine in 2012. The Reader application (**Čítačka**TB) was nominated as a finalist in the international Sesames Awards competition, which awarded this software solution. Not least, the Bank again confirmed its position of market leader in the payment card acceptance market, which is also documented by its over 40% share in the total turnover generated by payment cards, and almost 60% share in the number of contactless payment terminals in the Slovak market.

Internet Banking

In 2012, the new beta version of **Internet** bankingTB was supplemented with a number of new features, giving clients even greater ease working with the new application. Overviews of loans and term accounts have been added, copying options within the application and the display of help over icons and buttons. The reason for a failed payment has also been added to the details of Payments made by **Internet** bankingTB, the option to execute a single payment order directly from a standing order, the creation of a standing order directly from the detail of a domestic payment made via**Internet** bankingTB, visualisation of the frequency of standing order payments, modification of the credit card list sorting, the option to zoom the graph for a given period and the graph for term accounts. The new prominent partner Orange Slovensko joined the innovative service Advice of Invoices.

Reader activation was implemented in **Internet** bankingTB in order to simplify work with the mobile Reader (**Čítačka**TB), previously only possible via the DIALOG service, as well as the QR code to load the payment order parameters for the simpler generation of authorisation codes via the mobile Reader (**Čítačka**TB). Clients, non-clients and visitors to the Tatra banka web pages can also use a fully interactive demo of the new **Internet** bankingTB application, on which they can try using the **Internet** bankingTB application.

In September 2012, this enriched new version of **Internet** bankingTB was switched from the beta version to the primary version for Tatra banka clients. The original version of **Internet** bankingTBis still available, with projected termination of operation by the end of 2013.

Internet bankingTB continuously confirms its position as the key service distribution channel, and with more than 18 million domestic transactions it is the most-used bank channel with an increasingly growing share. Approximately 20% of preapproved campaign general-purpose consumer loans are provided via **Internet** bankingTB.

The conversion of clients to the Card and Reader (**Karta** a čítačkaTB) tool continues with almost one hundred thousand additional clients converted in 2012, which means that almost 100% of clients use these authorisation tools for **Internet** bankingTB.

In e-commerce services, **Tatra**Pay and **Card**Pay both have an average 40% year-on-year growth in transaction volume.

Mobile Applications

Electronic banking has also brought innovations to Tatra banka clients in the area of mobile applications. Since May 2012, the software alternative of the Card and Reader (**Karta** a čítačkaTB) authentication tool - Reader (**Čítačka**TB) can also be used by clients with iOS devices. In this way, Tatra banka has simplified the login to **Internet** bankingTB for the majority of its clients.

The Tatra banka application for iPhone/Android brought several new features last year. Clients can make a payment order from a postal money order, SIPO (joint collection of utility payments) order or a mobile operator's invoice faster, using the payment order scanner integrated directly into the application.

Active users of the Advice of Invoices service will find their invoices together with the payment option directly in their smartphones.

In December 2012, as part of the Christmas campaign for the general purpose Consumer Loan (**Bezúčelový** úver[TB]), Tatra banka was the first bank in Slovakia to launch for a group of its clients the option not only to apply for a pre-approved consumer loan by mobile phone non-stop, but in most cases also to draw the loan within minutes.

After the launch of the contactless technology and an unprecedented innovation in the Slovak market - the instant issuance of debit cards - Tatra banka also intensively worked on the development of unique mobile payments in 2012. It is a new and very convenient form of contactless payments by payment card in the mobile phone. The first type that facilitated such payments was the iPhone device with an added iCarte feature in May 2012. This made Tatra banka the first bank not only in Slovakia, but also in the European Union to do so.

For Tatra banka's Private Banking clients, the Bank introduced a special **Art** Consulting[TB] application in June 2012. The application presents a catalogue of art works by Slovak painters designed for iOS mobile devices - iPad and iPhone. An interesting feature of the application is the "Live view" function (only for iPad), which allows art collectors to virtually hang their painting on the wall at home or at work.

Acceptance of Payment Cards

2012 was another year in which Tatra banka dominated the Slovak market for payment card acceptance. Tatra banka's clients generated turnover of EUR 1.73 billion with payment cards (particularly at payment terminals and the e-commerce payment gateway). This represents almost 42% of the total turnover by payment cards in the Slovak Republic. The volume of transactions recorded annual growth of 11.1%. The number of transactions increased to 53.5 million, representing growth of 17.5%.

In line with the innovation leadership strategy, Tatra banka continued to promote the growth of contactless transactions. One of the promotions is the extension of the coverage of the payment terminal network with technology that allows the acceptance of contactless payments. At the end of 2012, almost 7,000 (i.e. more than 68% of the total) Tatra banka payment terminals were ready for contactless payments, which is almost 60% of the contactless terminals in Slovakia. As at 31 December 2012, Tatra banka had 10,534 active payment terminals, which is first among Slovak banks (28% share).

The trend in the use of payment cards in 2012 was the same as the previous year – the average amount of transaction paid by credit card gradually decreased from EUR 34.15 to EUR 32.29. The decreased average payment amount reflects the growing popularity of payment card use. Buyers also use payment cards for smaller purchases, which until recently had not been the case. This trend will also probably be enhanced in the future through the growing use of contactless technology. The Bank's total turnover generated by contactless payments on its payment terminals in the commercial premises of the Bank's clients exceeded EUR 16 million, with 1.8 million transactions in 2012.

The total number of Tatra banka's ATMs was 313, and Tatra banka maintains long-term third place in the Slovak market with a 12% share in ATM volume.

In 2012, in order to increase the efficiency of the ATM network, Tatra banka uninstalled ten ATMs (mainly due to low profitability of operation) and installed ten ATMs in new locations based on Tatra banka's pro-client orientation.

More than 13 million cash withdrawals were made at Tatra banka's ATMs, which is more than 1% year-on-year growth. The total volume of transactions amounting to almost EUR 1.9 billion represents 5% growth year-on-year. In order to deserve the long-term trust of our clients and offer them exceptional products, Tatra banka continued to modernise its ATM network, replacing 67 outdated ATMs with the latest models.

DIALOG Contact Centre

In addition to the comprehensive client service, in 2012 the DIALOG Contact Centre started to also extend the services provided by intermediating the sale of Tatra banka retail products.

In 2012, DIALOG started to provide the sale of Gift Cards (a Tatra banka product) through a process as a part of which a client can buy a Gift Card directly by phone for himself/herself or his/her nearest without visiting a branch. The purchased Gift Card is delivered by courier to the address given by the client.

In 2012, the new Tatra **Chat**TB service, which DIALOG started to offer clients in 2011, experienced growing client use by 74% compared to 2011.

The DIALOG Contact Centre continued to perform active telemarketing, credit card sale and the sale of general purpose loans.

Payments System

In 2012, Tatra banka continued to undertake activities which helped the Bank maintain its significant position on the Slovak banking market, as well as the growing trend in the number of processed transfer orders.

The number of domestic transfer orders increased, despite the unstable economic situation, by almost 4%, while foreign payment transactions experienced even more notable growth which exceeded 14%.

This can be attributed especially to payment orders sent via electronic distribution channels, which account for 95% of the total number of executed transactions. The share of transactions executed via these distribution channels confirms that innovations brought to the Slovak market by Tatra banka in this area, whether the new version of Internet banking or the launch of several mobile applications, immediately grew popular with clients and became a standard part of their lives. It is therefore apparent that the Bank will further strive to ensure the further development of electronic banking in order to meet the requirements and expectations of its clients.

In addition to the development of distribution channels, Tatra banka continued to optimise the processes of transfer order processing with a view to facilitate more efficient and faster order processing for clients.

The Bank also continued to support the European initiative and launched the final phase of the European market integration in the area of cashless payments, with the aim of creating the SEPA (Single Euro Payment Area). Within this area, clients will be able to make and receive euro payments both in a single country and between countries (27 EU Member States, Iceland, Lichtenstein, Norway and Switzerland) in the same simple, fast and efficient way as within a single country.

Equity Participations

Tatra Asset Management

TAM (in EUR mil.)	2010	2011	2012
Total revenues	14	15.1	14.9
Profit after tax	3.4	4.3	3.8
ROE	12.30 %	15.30 %	15.80 %

2012 brought a positive mood to the collective investments market in Slovakia after the preceding turbulent year. New products on the market and the healthy performance of mutual funds raised interest in investments, which resulted in a higher volume of assets managed in Slovakia compared to the previous year by 16%, from EUR 3.8 billion to EUR 4.4 billion. The total volume of assets under the management of asset management companies, including assets in individual portfolios and assets in funds for institutional investors, increased to EUR 6.1 billion at the end of the year. Annual net sales totalled EUR 422 million. This was an extremely positive change given the outflow of EUR 588 million from mutual funds in 2011.

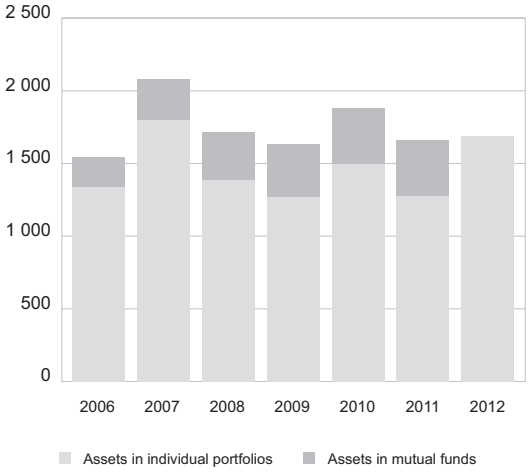
In 2012, similarly to the previous year, net sales of mutual funds were dominated by the categories of special funds, namely new public special mutual funds and special professional investor funds opened under the new legislation, which generated net sales volume of EUR 513 million and EUR 121 million respectively, followed by special real estate mutual funds generating net sales of EUR 137 million. The category of bond funds also recorded positive net sales of EUR 43 million together with another category of special funds opened under the new legislation, namely alternative investment funds which recorded net sales of EUR 19.5 million. Other categories of mutual funds achieved negative net sales led by the most conservative funds (short-term money market funds, money market funds, short-term investment funds), which ended 2012 with total negative net sales of EUR 287 million.

In 2012, Tatra Asset Management (TAM) continued to enhance its leading position in the open mutual fund market, again managing to increase its market share and leave its main competitors even further behind. TAM recorded positive net sales of EUR 346 million in 2012, profiting from the fund portfolio structure where in addition to the new successful funds opened in 2011 and 2012, investors showed interest in solutions investing in the bond market, real estate market, and also in active strategies investing in global markets. The situation was significantly different from 2011, which ended with negative net sales of EUR 201 million. Investor interest contributed to a 5% increase in TAM's share in the open mutual fund market, from 33.5% at the end of 2011 to 38.5% at the end of 2012.

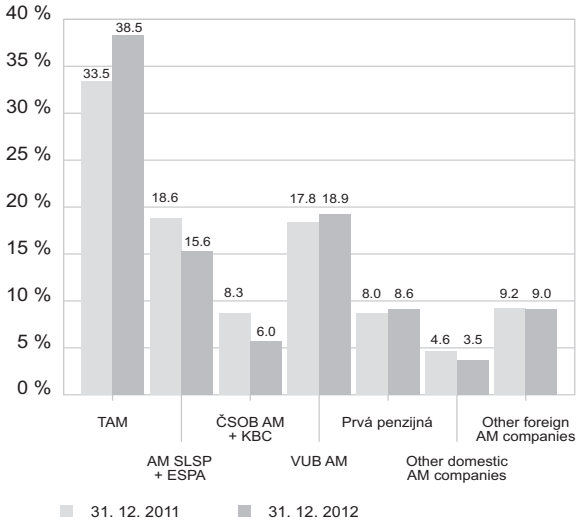
Total gross sales of TAM mutual funds amounted to EUR 1.014 billion in 2012. The increase of gross sales of TAM mutual funds was positively influenced in particular by the new investment solutions offered by TAM, and also by the positive development in both the share and bond markets. The highest sales were recorded by cash funds and deposit funds (78%), followed by Euro Bond PLUS Fund (**Euro dlhopisový PLUS** fond^{TB}) with 8%, Real Estate Fund (**Realitný** fond^{TB}) with 4% and Smart Fund (**Smart** fond^{TB}) with 2% share in sales.

In 2012, the total volume of assets in TAM open mutual funds was up 32% to EUR 1.69 billion from EUR 1.28 billion in the previous year.

Development of assets administered by TAM
(mil. EUR)



Development of assets administered by TAM



In the previous year, company revenues totalled EUR 14.9 million, with the decisive share originating from the management of mutual funds and managed portfolios (93%). The company's total costs totalled EUR 10.2 million in the previous year, with the biggest portion of costs spent, like the year before, on the brokerage of mutual fund sale (74%), while the remainder of total costs in 2012, i.e. 26%, was made up of operating expenses with a 3% drop against the previous period. In 2012, the company generated an after-tax profit of EUR 3.8 million.

Doplnková dôchodková spoločnosť Tatra banky

DDS Tatra banky (in EUR mil.)	2010	2011	2012
Total revenues	6.7	7.3	9.2
Profit after tax	0.9	1.1	2.5
ROE	13.8 %	21.5 %	49.5 %

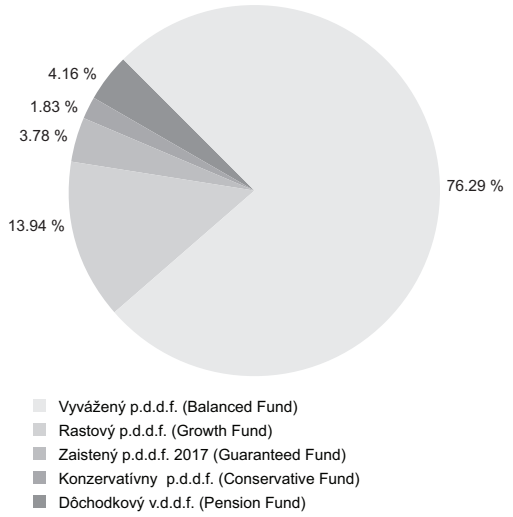
The total number of people opting for supplementary pension saving in all supplementary pension insurance companies in Slovakia reached 685,000 at the end of 2012. The total volume of assets under management in supplementary pension funds increased to EUR 1.3 billion, which is an 11% year-on-year growth.

As one of the market leaders, DDS Tatra banky (Supplementary Pension Company of Tatra banka) retained its 31% market share in the assets managed by supplementary pension insurance companies in Slovakia.

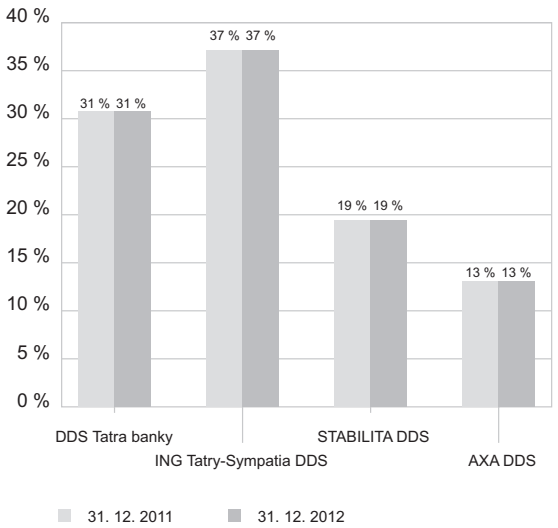
The total volume of assets in supplementary pension funds managed by DDS Tatra banky was up 9.8% year-on-year and reached over EUR 400 million on the last day of 2012. The highest volume of assets was held in the Balanced Fund (76% of total assets in supplementary pension funds) and in the Growth Fund (14%).

In 2012, supplementary pension funds managed by DDS Tatra banky benefited from the growth of stock markets in the USA, Europe and developing countries. Balanced, Guaranteed and Conservative Funds reached their respective historically highest levels in terms of the value of supplementary pension unit. A significant contribution to the appreciation in supplementary pension funds was the increase in bond prices, with DDS Tatra banky investing solely in bonds issued by safer countries. DDS Tatra banky confirmed its strong position in the supplementary pension saving market.

Net value of assets in funds
as of 31. 12. 2012



Market shares



Last year, the total number of client contracts in DDS Tatra banky reached 196 thousand. This slight increase against the previous calendar year was mainly due to the repeated increase in the number of supplementary pension saving benefit payment requests (in particular supplementary pension insurance compensation), which is the trend continuing from 2011. The total number of employer contracts amounted to 8,157 at the end of last year.

	2010	2011	2012
Contracts with employers	7 480	7 696	8 157
Contracts with individuals	197 248	195 583	196 295
DDS contributions (in EUR ths.)	57 825	57 572	57 909
Paid out DDS pensions (in EUR ths.)	23 202	29 123	38 849

The revenues of DDS Tatra banky amounted to EUR 9.2 million last year, which represents 25% growth against 2011. The highest portion of revenues was generated from revenues for the management of supplementary pension funds (90%). This year-on-year growth was caused by the increase in assets managed by DDS Tatra banky, and the related increase in revenues for the management of supplementary pension funds, as well as growth in the supplementary pension insurance compensation due to the higher number of client supplementary pension insurance compensation payment requests. The company's total costs amounted to EUR 6.1 million, an increase of EUR 0.1 million compared to the previous year. The structure of total costs is very similar to 2011, with 68% share of total costs attributed to the brokerage of sale of the supplementary pension saving, and 32% of total costs constituted by operating costs in 2012. In 2012, DDS Tatra banky generated an after-tax profit of EUR 2.5 million, which compared to the previous calendar year represents growth of EUR 1.4 million.

In 2012, the supplementary pension saving was subject to no legislative changes that would affect the activity of supplementary pension insurance companies. The new legal regulation of the supplementary pension saving is expected at the end of 2013 or the beginning of 2014.

Tatra Leasing

While 2011 was the year of business restarts, “the brake was applied” in 2012, which was reflected in the results of the leasing market with a slight drop (of 0.37%) in the volume of acquisition cost of financed items.

Business volumes achieved on the Slovak leasing market in 2012 are the result of an increase in trades of passenger and service cars and transport machinery commodities, with other commodities in the machines and equipment segment and real estate experiencing a year-on-year drop.

The twentieth anniversary of Tatra Leasing, which the Company commemorated in 2012, was a period of retrospection and a challenge to seek new opportunities for its business on the Slovak leasing market.

In view of the achieved results, it is positive that Tatra Leasing managed to retain its top five position among all companies associated in the Association of Slovak Leasing Companies. This position is the more valuable as it was achieved by the Company when the Slovak market resisted another wave of the crisis, which caused reduced demand of corporations for funds. The contributing factors of Tatra Leasing’s place on the market also included a conservative strategy and shareholder confidence.

The structure of the portfolio of financed items in 2012 (by acquisition cost excl. VAT):

- passenger cars 34.23%
- machinery and industrial equipment 32.01%
- freight vehicles, trailers, buses, transport machinery 18.06%
- real estate 6.10%
- utility vehicles 5.86%
- medical equipment 3.73%

The structure of products financed in 2012 (also expressed in acquisition cost of items excluding VAT):

- finance lease 64.01%
- credit finance 31.28%
- operating lease 4.62%
- hire purchase 0.10%

Raiffeisen Brand Has Arrived in Slovakia

2012 brought a new player to the Slovak banking market. Raiffeisen Bank International AG (RBI) introduced the Raiffeisen brand to the Slovak market. After more than 20 years of operating in Slovakia, the Group opened branches under the Raiffeisen Bank brand name for the first time, with the aim to attract new groups of clients. Last year, Raiffeisen celebrated its 125th anniversary of operation in Austria.

The Bank opened its first branch in line with the plan set at the beginning of the project, i.e. on 5 November in Skalica. By the end of the year, the Bank had gradually opened branches in the following towns: Šaľa, Žilina, Prievidza, Topoľčany, Veľký Meder, Krupiny, Zvolen, Bratislava, Malacky and Banská Bystrica. Each branch opening was accompanied by a large opening ceremony. In this way, the Bank brought culture and entertainment to every town, while also presenting its core values.

Alongside Tatra banka, which started to operate in 1991 and Zuno bank launched on the market at the end of 2010, Raiffeisen is the third bank in Slovakia within the RBI Group. Thanks to the franchise model and sharing of expenses and operating activities with Tatra banka, the Bank can maintain costs at a very low level, and thus devote its endeavours to growth.

Raiffeisen Bank is the first bank in Slovakia to use the franchise model, where branch managers - franchisees who have succeeded in a challenging selection process - operate branches under a licence purchased from the Raiffeisen Bank. They must follow strict rules concerning brand name use and service quality standards, and also achieve the business targets set by the Raiffeisen Bank as the franchiser. The Bank perceives the franchise model as an opportunity for significantly faster expansion, while keeping operating expenses as low as possible. Thanks to the franchise model and the use of the Raiffeisen brand name, the Bank can focus on a different client segment - people requesting value for money, who prefer a closer rapport with the Bank branch in their town. The franchisee as a person from the respective location is a natural sales accelerator and attracts new clients.

Particularly experience from recent years has shown that the ideal banking products are those that are simple and straightforward. This is also the basis for the product offer of the Raiffeisen Bank in Slovakia. The Bank offers three products - account, loan and term deposit, which are easy to arrange at a branch with subsequent simple and straightforward use by the Bank's clients. The Bank has prepared everything for clients, from branches and products, through to the Infoline and written documents, in order to bring truly simple and convenient banking. Contracts fit on a single sheet of paper, just like the brief tariff. Cosy branches with coffee and tea available is a standard feature, as are colourful children's area and flowers.

The Bank profiles as a retail bank with a focus on natural persons. It does not serve entrepreneurs or corporations. The legal form of the Raiffeisen Bank business is a branch of Tatra banka, a. s., which means that the Bank operates under a Tatra banka licence. This form allows the use of current Tatra banka structures to cover operating activities, which is an efficient solution in terms of service and expenses for the operation of Raiffeisen Bank.

Human Resources

In the field of human resources, 2012 was characterised by the continued implementation of several key systems and processes that should assist in the further implementation steps of the Bank's strategy.

The project Job Families, which started in 2010, continued in 2011 with the implementation and communication phase. In 2012, Tatra banka entered another implementation phase - human resource processes resetting to the Job Families concept. In collaboration with the Bank's line mangers, the performance criteria assigned to individual jobs based on their categorisation into job families were defined. During 2012 a number of transformation projects took place within the Bank, in line with the new setting of operation models for certain units. An integral part of these projects was the setting of new roles, the definition of basic outcomes, and performance criteria for these roles. All these elements were executed with regard to Job Families.

Improved leadership quality remained one of the priorities concerning human resources in 2012. In 2012, the introductory parts of the "new" manager academy took place, the content and scope of which is focused on enhancing the leadership of new managers. An important aspect of the implementation of the academy was internal coverage of the main parts by senior bank managers.

Several measures have been taken in recent years focused on the launch of job rotations within the Bank. In 2012, the Human Resources Department continued to implement job rotations in the Bank by identifying those people with rotation potential, and including them in the group of people actively used as the primary source of candidates for filling vacant positions in the Bank.

The employee structure has remained unchanged. Tatra banka employs 70% women and 30% men. The Bank is a young organisation with an average age of approximately 33, and over 60% share of university graduates. Tatra banka is a sought-after employer, in 2012 it received more than 48,000 job applications.

Support of Art and Education

Also in 2012, Tatra banka maintained its strategic orientation on art and education. Through support, the Bank purposefully builds stable partnerships in these areas. As a large company with a stable market position, the Bank can appreciate success. Besides activities to achieve outstanding financial indicators, the Bank also promotes the sustainable development and values of a healthy ethical society.

Support of theatres is a key area of art promotion. In addition to cooperation with regional theatres (Tatra banka Foundation), Tatra banka once again became the general partner of the Slovak National Theatre and funded a unique dance performance Czech in: Kylián, Vaculík, comprised of shorter opuses of prominent Czech choreographers - Jiří Kylián and Libor Vaculík in the interpretation of Bratislava Balet dancers.

As regards exhibition art projects, Tatra banka continued its long-term cooperation with Bratislava City Gallery as the general partner of the exhibition Homage to Picasso, and also supported contemporary Slovak painters. At the SOGA Auction Company, the Bank assisted in arranging Laco Teren's exhibition, Great Guardian.

Tatra banka also regularly contributes to the development of education by supporting established conferences for the best specialists and industries. In 2012 it was once again the exclusive partner of the TREND conferences, and the main partner of professional conferences of Hospodárske noviny (Economic News) daily. In the .týždeň (Week) weekly, Tatra banka became the partner of the science section.

The support of education and art is a long-term strategy, which needs to be stable and continuous to be successful. The results of this work are not visible year after year. The Bank's strategy is based on the philosophy that investment in areas like education and social refinement through art serve to shape individuals and their values, which has indisputable significance for our society.

Nadácia Tatra banky (Tatra banka Foundation)

The Foundation creates an active space for the implementation of good ideas, innovative approaches and activities that are beneficial to their respective area and encourage the advancement thereof. The Foundation continued its strong strategic orientation on the promotion of university education and art in 2012.

In 2012, the Foundation prepared and supported 252 projects with EUR 557,260.85 in total.

In addition to the five established grant programmes, the Foundation introduced a completely new grant called More Art. Another visit by a Pulitzer Prize winner was organised in 2012.

Through its programmes and grants, the Foundation provides long-term assistance to Slovak students at foreign universities, brings world scientists to Slovakia, and develops activities to support education and top educational events. The Foundation supports active groups of professors and students at universities who go beyond the compulsory syllabus in their education, and strive to extend the educational process, enhance their specific fields of study, or link the educational process to the actual needs of the respective industry.

Video about Tatra banka Foundation activities: http://youtu.be/3dqQcFhfquU

Grant Programmes

The Foundation's grant programmes are designed for everyone who wants to constantly improve, learn and achieve something in life. The ambition of the Foundation is, through grant programmes, to bring new inspiring meetings with extraordinary people, support the best students - thus creating attractive opportunities to increase the quality of education.

Programmes	Total amount in EUR	Number of projects
Persons in person	97 981	8 projects
GRANT: Students to the World	57 424	24 projects
GRANT: Knowing more	38 000	17 projects
GRANT: Business Idea	20 000	4 projects
GRANT: More Art	40 800	23 projects
GRANT: Quality of Education	24 927	9 projects
GRANT: E-Talent	30 000	9 projects
Tatra banka Foundation Art Awards	59 416.25	10 projects
Good heart (**Dobré srdce**TB - employee programme)	52 579.60	126 projects
Regional theatre support	53 488	10 projects
Tatra banka Foundation Book Edition	14 795	1 project
Best Diploma Thesis Award	2 050	2 projects
Other grants	65 800	9 projects
Total amount in EUR	**557 260.85**	**252 projects**

Students to the World Grant Programme
The grant programme supports the best university students by giving them the opportunity to study at foreign schools and gain experience that they can apply in Slovakia. As part of the grant programme, the Foundation provides financial grants to cover part of the costs linked to the study stays abroad, summer schools, work experience and research assignments at a renowned university abroad.

Knowing More Grant Programme
A programme in support of the activities, projects and programmes of non-governmental organisations that were established with the aim of advancing education at Slovak universities. The purpose of the programme is to support active groups at universities that "want to know more" and are involved in the educational process beyond the compulsory syllabus, and who strive to utilise and extend the educational process to the maximum degree, to facilitate the professional growth of teachers and students, to link the educational process to industry needs, or to enhance the social status of universities, their teachers, scientific and management employees, and students.

Business Idea Grant Programme
The aim is to support the best and most feasible student business plans, and so help students to fulfil their business dream. The programme is designed to support the education and integration of future university graduates into the labour market by supporting business as a tool for social change. In this way, the Foundation gives students and recent graduates the opportunity to start up their own business ideas, so that once they finish university they have employment, and need not seek employment below their educational level. This grant is open to any colleges and universities regardless of their field.

Quality Education Grant Programme
The ambition of this grant programme is to bring the educational process at Slovak universities up to the modern education standards at world renowned educational institutions, and more in line with real practical needs.

E-Talent Grant Programme
Grants can be applied for by students, teachers and research workers who deal with research in the field of applied and industrial information science, in order to support their creativity and innovativeness.

More Art Grant Programme
This is the first grant programme aimed at supporting artistic creation in the areas that are also awarded the Tatra banka Foundation Art Award. The programme is directed towards the support of active student groups at all three school levels, teachers and independent artists who create artistic works. It aims to introduce this creative process from the perspective of experienced teachers to students as future artists.

Personalities in Person

Thanks to the support of the Foundation's open programme "Personalities in Person", Slovakia welcomed the winner of the Pulitzer Prize for international news, as well as distinguished professors and scientists from foreign universities, to lecture Slovak university students and the professional community. The Foundation supported 8 projects as part of the open programme with EUR 97,981.

The Foundation supported 8 projects - visits of foreign professors and scientific figures, a professional economist conference, live stream lectures.

Bratislava Open Lectures

- David Schmidtz (University of Arizona, USA)
- Roland Vaubel (Mannheim University, Germany)
- Alejandro Chafuen (President of the Atlas Economic Research Foundation, USA)
- Christopher Sims (University of Princeton, USA)
- Paul Milgrom (Stanford University, USA)
- Reform forum with the topic: Fighting Deficit: Taxes versus Savings

The invitation was accepted by the Pulitzer Prize winner for international reporting

- Tim Weiner (former New York Times reporter)

We supported the professional economist conference: Bratislava Economic Meeting 2012

Online Lectures
Live stream from the lectures of prominent persons enriched the programme strategy of the Foundation in 2012. General public and professional community was given a unique opportunity to watch the lectures of prominent professors live - online.

In 2012, the lectures of two US professors were streamed:

- Christopher Sims (University of Princeton, USA)
- Paul Milgrom (Stanford University, USA)

Tatra banka Foundation Book Edition

The Foundation's book edition is designed for all people who want to know more, love to read and learn, and wish to advance. Our aim is to select books that set the trends in education and enrich the educational process.

In 2012, the Foundation funded the issue of the book:
Jean G. Stead - W. Edward Stead: Management for a Small Planet: Strategic Decision Making and the Environment - 2000 copies. The book was presented as a book grant to Slovak colleges and universities.

Charity Projects

Good Heart (Dobré srdce^{TB}) Employee Programme
The programme supports the activities of Tatra banka employees that lead to a higher quality of life in their families, various human societies and communities, and the quality of the environment in which they live. In this way, the Foundation creates opportunities and provides support to employees who want to actively change their environment and influence it with their voluntary work or financial donations. This programme supported 126 projects with EUR 52,579.60.

Poppies (Divé maky)
Divé maky is a project aimed at improving the quality of education of talented gypsy children. As part of the project, 53 gypsy children were given the opportunity to develop their talents professionally (education, music, art, etc.). The aim of the project includes appeasing the negative attitude of the majority society towards this ethnic minority, and pointing out that by providing access to education, we facilitate the integration of these children into society.

The Foundation financed the activity of Divé maky with EUR 30,000.

Partnerships in Regions

Thanks to the Partnerships in Regions, 10 theatres received EUR 53,488 in support.

Tatra banka Foundation Art Awards

This programme awards persons and young artists (35 years and younger) who with their work in the past year contributed towards the development of Slovak art in 5 main categories: Literature, Music, Theatre, Fine Art, Audiovisual Work, Film, TV and Radio. The aim of the Foundation is to support the most talented Slovak artists. For seventeen years, the Foundation has been achieving this goal, especially thanks to the Academy, whose members keep abreast of the Slovak art scene. Nominated artists are selected on the basis of their works and artistic output in the past year.

The objective is to motivate artists and young authors in their further work, and provide a stimulus for new projects in all artistic genres. The priority of the Foundation is to present awards in a transparent manner, and to award only the very best.

Tatra banka Foundation Art Awards presented awards of EUR 59,416.25 to 10 cultural figures and young authors.

Main prize laureates:

- Audiovisual work, film, TV and radio: Zuzana Liová, director and script, the film Dom (House)
- Theatre: Rastislav Ballek, director, the theatre production Kukura, Aréna Theatre
- Music: Michal Kaščák, music dramaturgy, Pohoda Festival 2012
- Literature: Vladimír Balla, book: V mene otca (In the Name of the Father), publ. Koloman Kertész Bagala
- Fine art: Rudolf Sikora, exhibition: Light Years, The Art Institute of Chicago

Laureates of the Young Artist Award (artists aged 35 and younger):

- Audiovisual work, film, TV and radio: Jakub Kroner, production, theme, script, the film Lóve (Love)
- Theatre: Daniel Fischer, playing the character of Žadov in the production of Výnosné miesto (Profitable Job), Lab Theatre, Theatre Faculty, Academy of Performing Arts (VŠMU)
- Music: Vladislav “Slnko“ Šarišský, composition, production of Novocento - Legenda o pianistovi (Novocento - Legend of a Pianist), Divadlo v podpalubí (Underdeck Theatre)
- Literature: Zuska Kepplová, book: Buchty švabachom (Sweet Rolls Written in Schwabacher Font), publ.: Koloman Kertész Bagala
- Fine art: Tomáš Ďžadoň, exhibition: The Race/ Preteky, Offenbach, Germany

Martin Hrča was the young fashion designer of the dress worn by award ceremony muse Adela Banášová.

Consolidated Statement

Auditor‘s Report

Deloitte.

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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 2012, 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 2012, 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, 18 March 2013

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

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

Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

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

(in EUR thousands)	Note	2012	2011
Interest and similar income		356 693	367 275
Interest and similar expenses		(78 497)	(76 444)
Net interest income	**(1)**	**278 196**	**290 831**
Provisions for impairment losses	(2)	(45 147)	(15 092)
Net interest after provisioning		**233 049**	**275 739**
Fees and commissions income		133 825	125 564
Fees and commissions expense		(23 618)	(21 889)
Net fees and commission income	**(3)**	**110 207**	**103 675**
Net profit (loss) from trading instruments	(4)	21 778	15 103
Net profit (loss) from financial instruments at fair value through profit or loss	(5)	4 063	(2 784)
Net profit (loss) from investments in associated undertakings	(6)	684	1 301
General administrative expenses	(7)	(220 392)	(223 984)
Special levy of selected financial institutions	(8)	(28 330)	-
Other operating profit (loss)	(9)	10 357	5 605
Profit before income taxes		**131 416**	**174 655**
Income taxes	(10)	(27 880)	(35 571)
Consolidated profit after tax		**103 536**	**139 084**
Other components of comprehensive income, after income tax		**-**	**-**
Comprehensive consolidated profit after tax		**103 536**	**139 084**
Basic and diluted earnings per ordinary share (face value EUR 800) in EUR	**(11)**	**1 297**	**1 899**
Basic and diluted earnings per ordinary share (face value EUR 4 000) in EUR	**(11)**	**6 485**	**9 497**
Basic and diluted earnings per preference share (face value EUR 4) in EUR	**(11)**	**6.5**	**9**

Consolidated Statement of Financial Position for the year ended 31 December 2012

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

(in EUR thousands)	Note	2012	2011
Assets			
Cash and deposits in central banks	(12)	174 693	349 287
Loans and advances to banks	(13)	118 469	168 972
Loans and advances to customers, gross	(14)	6 388 106	6 357 055
Impairment losses for loans and advances	(15)	(207 407)	(187 913)
Derivative financial assets	(16)	101 336	106 024
Held for trading financial assets	(17)	368 875	341 362
Financial assets at fair value through profit or loss	(18)	138 854	133 893
Held-to-maturity financial investments	(19)	1 782 413	1 697 480
Available-for-sale financial assets	(20)	623	644
Investments in associated undertakings	(21)	19 661	13 074
Non-current intangible assets	(22)	42 913	41 060
Non-current tangible assets	(22)	77 922	80 839
Investment property	(22)	11 298	7 799
Current income tax asset	(23)	3 184	-
Deferred income tax asset	(10, 24)	21 207	16 685
Other assets	(25)	30 880	34 550
Total assets		**9 073 027**	**9 160 811**
Equity and liabilities			
Deposits from banks	(26)	118 001	101 414
Deposits from customers	(27)	6 864 783	6 932 867
Derivative financial liabilities	(28)	118 750	120 451
Liabilities from debt securities	(29)	794 120	753 312
Provisions for liabilities and charges	(30)	37 182	35 383
Other liabilities	(31)	32 583	45 434
Subordinated debt	(32)	45 312	120 423
Total liabilities		**8 010 731**	**8 109 284**
Equity (excluding current year profit)	(33)	958 760	912 443
Comprehensive consolidated profit after tax		103 536	139 084
Total equity		**1 062 296**	**1 051 527**
Total equity and liabilities		**9 073 027**	**9 160 811**

Consolidated Statement of Changes in Equity for the year ended 31 December 2012

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

(in EUR thousands)	Share capital	Share capital - own shares	Share premium	Share premium - own shares	Reserve fund and other funds	Retained earnings	Compre-hensive consolidated profit after tax	Total
Equity as at 1 January 2012	**64 326**	**(116)**	**291 052**	**(1 234)**	**13 335**	**545 080**	**139 084**	**1 051 527**
Transfer to retained earnings	-	-	-	-	-	52 407	(52 407)	-
Increase of the legal reserve fund	-	-	-	-	1 733	61	(1 794)	-
Dividends paid	-	-	-	-	-	-	(84 883)	(84 883)
Sale of own preference shares	-	-	-	-	-	-	-	-
Amortisation of discount on preference shares	-	-	2 754	-	-	-	-	2 754
Repurchase of preference shares	-	(816)	-	(9 822)	-	-	-	(10 638)
Comprehensive consolidated profit after tax	-	-	-	-	-	-	103 536	103 536
Equity as at 31 December 2012	**64 326**	**(932)**	**293 806**	**(11 056)**	**15 068**	**597 548**	**103 536**	**1 062 296**

(in EUR thousands)	Share capital	Share capital - own shares	Share premium	Share premium - own shares	Reserve fund and other funds	Retained earnings	Compre-hensive consolidated profit after tax	Total
Equity as at 1 January 2011	**55 358**	**(76)**	**161 741**	**(744)**	**13 175**	**525 831**	**94 165**	**849 450**
Transfer to retained earnings	-	-	-	-	-	19 249	(19 249)	-
Increase of the legal reserve fund	-	-	-	-	160	-	(160)	-
Dividends paid	-	-	-	-	-	-	(74 756)	(74 756)
Issue of ordinary shares	8 320	-	121 680	-	-	-	-	130 000
Issue of preference shares	648	-	5 754	-	-	-	-	6 402
Sale of own preference shares	-	523	-	4 643	-	-	-	5 166
Amortisation of discount on preference shares	-	-	2 794	-	-	-	-	2 794
Loss on sale of ordinary and preference shares	-	-	(917)	917	-	-	-	-
Repurchase of preference shares	-	(563)	-	(6 050)	-	-	-	(6 613)
Comprehensive consolidated profit after tax	-	-	-	-	-	-	139 084	139 084
Equity as at 31 December 2011	**64 326**	**(116)**	**291 052**	**(1 234)**	**13 335**	**545 080**	**139 048**	**1 051 527**

Consolidated Cash Flow Statement for the year ended 31 December 2012

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

(in EUR thousands)	2012	2011
Cash flows from operating activities		
Profit before tax	131 416	174 655
Adjustments (Note 35):	(212 883)	(245 285)
Cash flow used in operating activities before changes in working capital, interest received and paid and income taxes paid (Note 35)	**(81 467)**	**(70 630)**
(Increase)/decrease in operating assets:		
Obligatory reserve with National Bank of Slovakia	(54 637)	52 677
Loans and advances to banks	22 480	424 962
Loans and advances to customers	(54 950)	(619 941)
Derivative financial assets and liabilities	3 488	(2 028)
Held-for-trading financial assets	(93 720)	(140 022)
Financial assets at fair value through profit and loss	(3 170)	74 259
Available-for-sale financial assets	21	-
Other assets	4 513	(3 282)
Increase/(decrease) in operating liabilities:		
Deposits from banks	16 636	39 874
Deposits from customers	(71 499)	121 811
Liabilities from debt securities	40 174	32 268
Other liabilities	(12 961)	65
Cash (used in) earned from operations before interest paid and received and income taxes paid	**(285 092)**	**(89 987)**
Interest paid	(76 735)	(66 890)
Interest received	299 618	313 862
Income taxes paid	(36 219)	(30 323)
Net cash flows from operating activities	**(98 428)**	**126 662**

(in EUR thousands)	2012	2011
Cash flows from investing activities		
Net (increase) in held-to-maturity financial investments	(377 764)	(354 922)
Net decrease in held-to-maturity financial investments	282 994	335 839
Interest received from held-to-maturity financial investments	66 817	48 319
Proceeds from sale or disposal of non-current tangible and intangible assets	1 860	7 803
Purchase of non-current tangible and intangible assets	(23 202)	(47 048)
Acquisition of investment property	(6 991)	(1 227)
Establishment of an associated undertaking	(5 903)	-
Sale of a subsidiary	6 551	-
Dividends received	13	9
Net cash flows from investing activities	**(55 625)**	**(11 227)**
Cash flows from financing activities		
(Redemption) or sale of preference shares	(10 638)	(1 447)
Issue of preference shares	-	6 402
Issue of ordinary shares	-	130 000
Subordinated debt	(75 000)	-
Dividends paid	(84 883)	(74 756)
Net cash flows used in financing activities	**(170 521)**	**60 199**
Effects of exchange rate changes on cash and cash equivalents and other effects	48	(1 603)
Change in cash and cash equivalents	**(324 526)**	**174 031**
Cash and cash equivalents, beginning of the year (Note 35)	497 787	323 756
Cash and cash equivalents, end of the year (Note 35)	**173 261**	**497 787**

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 10 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 2012	31 December 2011
Raiffeisen CEE Region Holding GmbH, Wien	89.11%	-
Raiffeisen Bank International AG	-	74.39%
Tatra Holding GmbH	-	14.48%
Other	10.89%	11.13%
Total	**100.00%**	**100.00%**

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

	31 December 2012	31 December 2011
Raiffeisen CEE Region Holding GmbH, Wien	78.78%	-
Raiffeisen Bank International AG	-	65.77%
Tatra Holding GmbH	-	12.80%
Other	21.22%	21.43%
Total	**100.00%**	**100.00%**

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

(in EUR thousands)	31 December 2012	31 December 2011
Raiffeisen CEE Region Holding GmbH, Wien	50 678	-
Raiffeisen Bank International AG	-	42 305
Tatra Holding GmbH	-	8 236
Other	13 648	13 785
Total	**64 326**	**64 326**

With effect from 2 February 2012, Raiffeisen CEE Region Holding GmbH, Vienna, Austria became the Bank's immediate parent company. In May 2012, 8 650 ordinary shares of the Parent Company with a face value of EUR 800 and 329 ordinary shares with a face value of EUR 4 000 were transferred from Tatra Holding GmbH to Raiffeisen CEE Region Holding GmbH.

On 20 September 2012, the Parent Company established an organisational unit – Tatra banka, a.s., odštepný závod Raiffeisen banka (hereinafter the "Organisational Unit of Raiffeisen Bank"). At the end of 2012, the Organisational Unit of Raiffeisen Bank opened 11 branches through which it performs its core activities: the receipt of deposits, provision of loans, provision of payment services and clearing, financial brokerage and processing of banknotes and coins. The financial results of the Organisational Unit are included in the Group's financial statements.

The Parent Company performs its activities in the Slovak Republic through its 147 branches, corporate centres and corporate centre sub-agencies, Centrum bývania^{TB} and Centrum investovania^{TB}, and 11 branches of the Organisational Unit of Raiffeisen Bank.

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 2012:

Supervisory Board	
Chairman:	Rainer FRANZ (until 30 Jun 2012)
	Herbert STEPIC (since 1 Jul 2012)
Vice-Chairman:	Herbert STEPIC (until 30 Jun 2012)
	Karl SEVELDA (since 1 Jul 2012)
Members:	Peter BALÁŽ
	Ján NEUBAUER
	Pavol FEITSCHER
	Reinhard KARL (until 30 Jun 2012)
	Aris BOGDANERIS
	Hubert FIGL (until 30 Jun 2012)
	Renate KATTINGER (since 1 Jul 2012)
	Hannes MOSENBACHER (since 1 Jul 2012)

Board of Directors	
Chairman:	Igor VIDA
Vice-Chairman:	Miroslav ULIČNÝ
Members:	Marcel KAŠČÁK
	Michal LIDAY
	Vladimír MATOUŠ
	Natália MAJOR
	Bernhard HENHAPPEL (since 1 Apr 2012)

Changes in the Parent Company's (Group's) Supervisory Board in 2012:

The election term of the Supervisory Board's members elected by the General Meeting terminated on 30 June 2012. The General Meeting held on 28 June 2012 elected five members of the Supervisory Board for the next five-year term.

Renate Kattinger – start of office as Member of the Supervisory Board on 1 July 2012
Hannes Mosenbacher – start of office as Member of the Supervisory Board on 1 July 2012
Karl Sevelda – start of office as Member of the Supervisory Board on 1 July 2012
Herbert Stepic – re-election as Member of the Supervisory Board for the following period beginning on 1 July 2012
Aris Bogdaneris – re-election as Member of the Supervisory Board for the following period beginning on 1 July 2012
Peter Baláž – re-election as Member of the Supervisory Board for the following period beginning on 1 October 2012
Ján Neubauer – re-election as Member of the Supervisory Board for the following period beginning on 1 October 2012
Pavol Feitscher – re-election as Member of the Supervisory Board for the following period beginning on 1 October 2012

Rainer Franz – termination of office as Member of the Supervisory Board on 30 June 2012
Reinhard Karl – termination of office as Member of the Supervisory Board on 30 June 2012
Hubert Figl – termination of office as Member of the Supervisory Board on 30 June 2012

Changes in the Parent Company's (Group's) Board of Directors in 2011:

Bernhard HENHAPPEL – start of office of Member of the Board of Directors on 1 April 2012

Business name of the ultimate parent company:
Raiffeisen-Landesbanken Holding GmbH, Vienna, Austria

Business name of the ultimate parent company preparing the consolidated financial statements:
Raiffeisen Zentralbank Österreich AG, Vienna, Austria

Business name of the immediate parent company:
Raiffeisen CEE Region Holding GmbH, Vienna

Business name of the immediate parent company preparing the consolidated financial statements:
Raiffeisen Bank International AG, Vienna, 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.

1. Definition of the consolidated group:

As at 31 December 2012, 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
ELIOT, a. s.	100%	100%	N/A	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
Tatra Office, s. r. o.	-	100%	ELIOT, a. s.	35 780 860	IT support	Full consolidation method	Bratislava
CENTRUM BÝVANIA, s. r. o.	-	100%	ELIOT, a. s.	35 707 682	Asset leasing and management	Full consolidation method	Bratislava
TL leasing, s. r. o.	-	100%	ELIOT, a. s.	31 398 456	Leasing	Full consolidation method	Bratislava
Tatra Residence, s. r. o.	-	100%	ELIOT, a. s.	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
Raiffeisen penzijní společnost, a.s.*	-	49%	Tatra Asset Management, správ. spol., a. s.	N/A	Pension insurance	Equity method	Prague, Czech Republic

*In accordance with the provision of Article 3 (2) of Act No 563/1991 Coll. on Accounting (valid in the CR), Raiffeisen penzijní společnost a.s. did not prepare separate financial statements as at 31 December 2012, because under the referred provision, the reporting entity established within three months prior to the calendar year-end may decide that the reporting period will be longer for the relevant period from the date of incorporation until the calendar year-end. Therefore, the disclosed financial information was not audited by the entity's auditor.

Sale of a Subsidiary

In November 2012, the Parent Company sold a 100% share in the subsidiary Tatra Billing, s. r. o. The net profit from the sale of the subsidiary is described in Note 9. The financial results of Tatra Billing, s. r. o. are included in the Group's financial statements until the sale date.

Other changes in the Group in 2012

In 2012, Tatra Asset Management, správ. spol., a. s. and Raiffeisenbank, a.s., Prague established an entity named Raiffeisen penzijní společnost, a.s. The entity's registered capital is in the amount of CZK 300 million. The ownership interest held by Tatra Asset Management, správ. spol., a. s. amounts to 49% of the registered capital of Raiffeisen penzijní společnost, a.s. Raiffeisen penzijní společnost, a.s. focuses mainly on offering pension funds in the newly-established second pillar in the Czech Republic.

As at 31 August 2012, ELIOT, s. r. o. merged with Tatra Group Servis, a. s. and Tatra Group Servis, a. s. became the successor. Tatra Group Servis, a. s. was subsequently renamed ELIOT, a. s. and registered in the Commercial Register on 21 December 2012.

The original entity ELIOT, s.r.o. was deleted from the Commercial Register, including all data recorded in the Commercial Register, as at 16 January 2013.

Distribution of the Parent Company's profit for 2011

Dividends – ordinary shares	75 356
Dividends – preference shares	9 876
Allotment to statutory reserve fund	1 794
Contribution to retained earnings from previous years	59 010
Total	**146 036**

A dividend per ordinary share with a face value of EUR 800 was paid in the amount of EUR 1 060. A dividend per ordinary share with the face value of EUR 4 000 was paid in the amount of EUR 5 300. A dividend per preference share with the face value of EUR 4 was paid in the amount of EUR 5.30.

The annual separate and consolidated financial statements for 2011, the Annual Report for 2011, the profit distribution and the determination of royalties to the Supervisory Board members for 2011 were approved by the Parent Company's General Meeting held on 28 June 2012. Dividends to which no title arose as at the date of the General Meeting in the amount of EUR 349 thousand were recognised in the retained earnings from previous years as at 31 December 2012.

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 2012, 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 (hereinafter also the "financial statements") for 2012 and comparatives for 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") in Commission Regulation (EC) 1126/2008, and 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

The Group has 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 EU and that are relevant to its operations and are effective for accounting periods beginning on 1 January 2012. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

- **Amendments to IAS 1 *"Presentation of Financial Statements"*** - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- **Amendments to IFRS 7 *"Financial Instruments: Disclosures"*** – Transfers of Financial Assets, (effective for annual periods beginning on or after 1 July 2011).

The adoption of the new standards and interpretations has not led to any changes in the Group's accounting policies that would have an impact on the amounts recognised for the current and preceding reporting periods. At the date of authorisation of these financial statements, the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 *"Consolidated Financial Statements"*** (effective for annual periods beginning on or after 1 January 2014);
- **IFRS 11 *"Joint Arrangements"*** (effective for annual periods beginning on or after 1 January 2014);
- **IFRS 12 *"Disclosures of Interests in Other Entities"*** (effective for annual periods beginning on or after 1 January 2014);
- **IFRS 13 *"Fair Value Measurement"*** (effective for annual periods beginning on or after 1 January 2013);
- **IAS 27 (revised in 2011) *"Separate Financial Statements"*** (effective for annual periods beginning on or after 1 January 2014);
- **IAS 28 (revised in 2011) *"Investments in Associates and Joint Ventures"*** (effective for annual periods beginning on or after 1 January 2014);
- **Amendments to IFRS 1 *"First-time Adoption of IFRS"*** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 1 *"First-time Adoption of IFRS"*** – Government Loans (effective for annual periods beginning on or after 1 January 2013);

- **Amendments to IFRS 7 *"Financial Instruments: Disclosures"*** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IAS 12 *"Income Taxes"*** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IAS 19 *"Employee Benefits"*** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IAS 32 *"Financial Instruments: Presentation"*** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application. The International Accounting Standards Board (IASB) also endorsed the following standards, amendments to the existing standards and interpretations that were not endorsed for use by the EU at 31 December 2012:

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

The Group's management anticipates that the 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 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 Group'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 these annual consolidated financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll. The Group prepares its separate and consolidated financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS). The separate and consolidated financial statements prepared in compliance with IFRS as at 31 December 2012, dated 18 March 2013, will be available at the Collection of Deeds after they are prepared. 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 the 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 f) paragraph 1 below and disclosed in detail in Note 2 and 15, 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 Parent Company's management about estimated future cash-flows. Given the current economic conditions, the result of such estimates may differ from the impairment provisions recognised as at 31 December 2012.
- 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 any potential review conducted by the tax authorities.

b) Consolidation principles

Subsidiary undertakings are 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 a share in the share capital and voting rights of more than 20% but less than 50%, and in which the Parent Company has 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 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 in 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 of 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) 2c) 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 investments"*.

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 six 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 at fair value through profit or loss
    a. Financial assets held for trading
    b. Derivative financial instruments
    c. Financial assets at fair value through profit or loss
3. Held-to-maturity financial investments
4. Available-for-sale financial assets
5. Hedging derivatives
6. Financial liabilities

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. A loan is recognised in the statement of financial position when the funds are provided to debtor. 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. For unused retail credit lines no provisions are recorded.

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 Parent Company records two types of provision: 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 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, liquidation or statutory restructuring, 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 and income from loan collateral 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 Parent Company 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.

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). For receivables that are not in saturation status, the Parent Company applies the so-called vintage-based recovery rate with the horizon capped at 36 months. For receivables in saturation status, the Parent Company creates 100% provisions, except for collateralised loans where the collateral value, less a liquidation coefficient, is deducted for such receivables.

For both the flow rate model and the vintage based recovery, the Parent Company uses portfolio segmentation by product and type (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 Parent Company adjusts the measurement of retail receivables on a monthly basis or when the receivable demonstrates indicators of its impairment. If the Parent Company identifies such indicators (fraud, debtor's death, foreclosure in the specific amount), the Parent Company creates a specific provision.

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 Parent Company 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 Parent Company 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 Parent Company places great emphasis mainly on valuing and revaluing individual items of collateral, 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 Parent Company mainly accepts the following types of collateral:

- Financial collateral
- Guarantees
- Real estate
- Chattel
- Receivables
- Life insurance

In terms of legal instruments, the Parent Company 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 Parent Company's internal regulations. The method of determining the value of collateral is specific for each type of collateral, and the Parent Company 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 Parent Company 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 Parent Company 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 Parent Company'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 Parent Company decides which security instrument will be used in the specific case.

The Parent Company mainly uses the following forms of enforcement of collateral:

- Voluntary auction
- Foreclosure procedure
- Realisation of the collateral for the 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 to utilise short-term price fluctuations in order to generate profits. In this category, the Group recognises securities - equity investments, debt securities, treasury bills and 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". Certain financial derivative transactions, while providing effective economic hedges under the Parent Company's risk management policy, do not qualify for hedge accounting under the specific rules stipulated by IAS 39.

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 45 *"Financial derivatives"*.

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 the 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 investments

This portfolio is a non-derivative financial asset with fixed or floating payments and fixed maturity that the Parent Company 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 investments 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 revenues/(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 2012, 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 has no intention to sell or otherwise dispose 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 revenues/(expenses) from available-for-sale financial instruments"*.

5. Hedging Derivatives

Hedging derivatives are derivatives designed in the Parent Company'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 statement of comprehensive income 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, the 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"*.

6. Financial Liabilities

All of the Group's liabilities, except for derivative financial liabilities and issued debt securities hedged by interest rate swaps (hedging under IAS 39), are stated at amortised cost.

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 the 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 46 *"Fair value of financial instruments"*.

With respect to the definition of the fair value of financial instruments 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 46 *"Fair value of financial instruments"*.

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 investments"*, 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, gross"* 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 – 8
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 22 *"Development of non-current tangible and intangible assets"*. The creation and release of provisions due to the impairment of investment property is recognised in Note 8 *"Other operating profit (loss)"* as *"Creation of provisions for investment property"* or *"Release of provisions for investment property"*.

The Group uses a proprietary 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 determined using an independent appraiser's calculation.

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 the 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 by 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) Assets held for development and construction

The Group applies the principles of IAS 2 to assets held for development and construction that are designated for subsequent sale. The aforementioned assets are measured at the lower of the cost and the net realisable value. The Group recognises assets held for development and construction in Note 25 "Other assets" as *"Assets held for development and construction"*.

n) 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.

o) 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 other debt securities. Interest expense arising on the issue of securities is included in the statement of comprehensive income line *"Interest and similar expenses"*.

p) Subordinated debt

Subordinated debt refers to the Parent Company's external funds and, in the event of bankruptcy, composition or Parent Company's liquidation, the entitlement to its repayment is subordinated to liabilities to other creditors. The Parent Company'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.

q) 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 with a residual maturity of up to three months, demand deposits with other banks, and short-term government bonds.

rr) 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.

s) Provision for employee benefits

The Parent Company has a long-term employee benefit program comprising a lump-sum retirement benefit. As at 31 December 2012, the Parent Company had 3 358 employees (full-time equivalent) who were included in the program (31 December 2011: 3 362 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 the post-employment defined benefit obligation 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	7 – 13%
Retirement age	Based on valid law

The Group also has a defined contribution plan for employees. All company contributions are included in personnel expenses in Note 7 *"General administrative expenses"*.

t) Accrued interest

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

u) Recognition of income and expense

1) Interest income and expense, and interest related charges

Interest income and expenses, and interest related charges arising on all interest-bearing instruments except for *"Held-for-trading financial assets"* 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"* 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 expenses 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 when the dividend is approved to the Group in the statement of comprehensive income line *"Interest and similar income"*.

v) Basic and diluted earnings per share

The Group reports earnings per share attributable to the holders of each class of share. 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 reporting period.

The profit attributable to each class of share is determined based on the face value of each class of share 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 2012 nor 31 December 2011.

w) Taxation and deferred taxation

The Group calculated income tax 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 expenses 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 the tax rates that have been enacted or substantively enacted by the reporting 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 23%. 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.

The effect of an increase in corporate income tax from 19% to 23% on deferred tax is stated in Note 10 *"Income tax"* as *"Effect of an increase of corporate income tax from 19% to 23% on deferred tax"*.

Deferred tax assets and liabilities are offset when there is a legally-enforceable right to offset 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 local taxes and value added tax (VAT). Various local taxes are recognised in the statement of comprehensive income line *"Other operating profit (loss)"*. VAT that is non-deductible for the Group is recognised as "General administrative expenses" and VAT on the acquisition of non-current tangible and intangible assets is included in the cost of non-current tangible and intangible assets.

III. SEGMENT REPORTING

When reporting by segment, the Group applies IFRS 8 – "Operating Segments". The accounting principles related to the reported segments are consistent with the Group's accounting principles.

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

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

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:

Banks/Supra-Nationals, which include all local and international banks 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 banks, and other banks 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. Banks that belong to the government are defined as financial institutions. Securities of the Slovak Republic are disclosed in the Investment Banking and Treasury 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 BusinessÚver^{TB} Expres, BusinessÚver^{TB} Hypo and BusinessÚver^{TB} Variant, company credit cards (VISA Standard/Gold/) and other products.

Retail customers – households were mainly provided with mortgage loans, equity home loans, hypotéka^{TB}, Bezúčelový úver^{TB} Classic, Bezúčelový úver^{TB} Garant, private credit cards (Visa Standard/Visa Gold/Visa Platinum and MercedesCard) and other products. Retail customers placed their financial funds mainly in current accounts and term deposits.

Treasury and Investment Banking consist of business transactions conducted on the Parent Company's own account and risk originated from managing market risk positions like FX-dealing, securities and derivatives trading, money market trading, liquidity management and funding, strategic placement 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 Parent Company. In the schemes, revenues and expenses are allocated under the principles of causality, ie revenues and expenses are allocated to individual segments based on their place of origin.

General administrative expenses consist of direct and indirect expenses. Direct expenses (personnel expenses and other administrative expenses) are allocated per individual segment and indirect expenses are allocated in line with the approved ratios.

Special levy of selected financial institutions was allocated to individual segments in the first half of 2012 through the amount of deposits for unprotected deposits using a rate of 0.4% according to the month-end balances of selected liabilities and their segments. In the second half of 2012, the bank levy was allocated to individual segments according to the daily balances of all liabilities and to all segments.

The structure of items presented in Note III "Segment Reporting" is consistent with similar items of the statement of comprehensive income.

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 38 *"Foreign assets and liabilities"*. The Group decided not to report the total amount of revenues from foreign entities owing to their immateriality.

The Parent Company's management monitors the interest income of individual segments on a net basis.

The consolidated statement of comprehensive income and other indicators by segment as at 31 December 2012:

(in EUR thousands)	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net interest income	83 437	8 369	178 961	(15 064)	22 493	278 196
Provisions and provisions for losses	(31 066)	(382)	(13 699)	-	-	(45 147)
Net interest income after provisioning	**52 371**	**7 987**	**165 262**	**(15 064)**	**22 493**	**233 049**
Net fees and commissions income	14 356	4 358	86 690	-	4 803	110 207
Net profit (loss) from financial trading instruments	7 354	419	6 806	7 199	-	21 778
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	4 063	-	4 063
Net profit (loss) from investments in subsidiaries and associated undertakings	-	-	-	-	684	684
General administrative expenses	(40 069)	(4 107)	(160 493)	(10 412)	(5 311)	(220 392)
Special levy of selected financial institutions	(8 158)	(3 555)	(9 967)	(2 249)	(4 401)	(28 330)
Other operating profit (loss)	-	-	-	-	10 357	10 357
Profit before income taxes	**25 854**	**5 102**	**88 298**	**(16 463)**	**28 625**	**131 416**
Total assets	**3 087 848**	**325 132**	**3 078 982**	**2 513 879**	**67 186**	**9 073 027**

The consolidated statement of comprehensive income and other indicators by segment as at 31 December 2011:

(in EUR thousands)	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net interest income	86 564	7 630	168 977	5 381	22 279	290 831
Provisions and provisions for losses	(11 632)	(342)	(3 118)	-	-	(15 092)
Net interest income after provisioning	**74 932**	**7 288**	**165 859**	**5 381**	**22 279**	**275 739**
Net fees and commissions income	15 530	1 481	83 440	-	3 224	103 675
Net profit (loss) from financial trading instruments	9 115	676	6 676	(1 364)	-	15 103
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	(2 784)	-	(2 784)
Net profit (loss) from investments in subsidiaries and associated undertakings	-	-	-	-	1 301	1 301
General administrative expenses	(45 545)	(2 954)	(165 428)	(7 411)	(2 646)	(223 984)
Other operating profit (loss)	-	-	-	-	5 605	5 605
Profit before income taxes	**54 032**	**6 491**	**90 547**	**(6 178)**	**29 763**	**174 655**
Total assets	**3 360 500**	**199 447**	**2 838 562**	**2 478 841**	**283 461**	**9 160 811**

IV. OTHER NOTES

1. Net interest income

(in EUR thousands)	2012	2011
Interest and similar income:	**356 693**	**367 275**
From loans and advances to banks	2 174	6 805
Of which: from loans and advances to central banks	*1 004*	*1 912*
From loans and advances to customers	292 836	297 825
From finance lease receivables	559	694
From held-to-maturity financial investments	56 980	56 051
From financial assets at fair value through profit or loss	4 131	5 891
From received dividends from available-for-sale financial assets	13	9
Interest and similar expenses:	**(78 497)**	**(76 444)**
On deposits from banks	(2 134)	(1 733)
On deposits from customers	(49 513)	(45 074)
On subordinated debts	(3 009)	(3 890)
On liabilities from debt securities issued by the Group	(23 841)	(25 747)
Net interest income	**278 196**	**290 831**

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 EUR thousands)	2012	2011
Specific provisions for loan receivables:	**(44 755)**	**(24 771)**
Additions to provisions	(60 098)	(56 477)
Released provisions	21 097	37 396
Written-off loans	(5 842)	(5 803)
Recovery from written-off loans	88	113
Portfolio provisions for loan receivables:	**(410)**	**9 222**
Additions to provisions	(3 703)	(469)
Released provisions	3 293	9 691
Specific provisions for off-balance sheet items:	**(3 383)**	**422**
Additions to provisions	(4 637)	(1 430)
Released provisions	1 254	1 852
Portfolio provisions for off-balance sheet items:	**3 401**	**35**
Additions to provisions	-	(189)
Released provisions	3 401	224
Total	**(45 147)**	**(15 092)**

More information on provisions for loan losses is stated in Note 15 *"Impairment losses for loans and advances"*; information on provisions for off-balance sheet items is stated in Note 30 *"Provisions for liabilities and charges"*.

3. Net fees and commission income

(in EUR thousands)	2012	2011
Fees and commission income:	**133 825**	**125 564**
From payment transfers business	78 257	75 048
From credit processing and guarantee business	18 350	17 563
From securities business	8 233	5 410
From activities regarding management of investment and pension funds	22 897	21 347
From activities regarding mediation for third parties	3 398	3 378
For other banking services	2 690	2 818
Fees and commission expense:	**(23 618)**	**(21 889)**
From payment transfers business	(21 171)	(18 531)
From credit processing and guarantee business	(847)	(1 007)
From securities business	(269)	(358)
From activities regarding management of investment and pension funds	(635)	(667)
From activities regarding banknotes, foreign exchange and coins	-	(142)
From activities regarding mediation for third parties	(64)	-
For other banking services	(632)	(1 184)
Net fees and commission income	**110 207**	**103 675**

4. Net profit (loss) from trading instruments

(in EUR thousands)	2012	2011
Interest-rate contracts – Securities:	**6 653**	**1 264**
Interest income, net	6 613	8 202
Revaluation to fair value	711	(3 161)
Profit (loss) from securities sold	577	123
Refinancing costs	(1 248)	(3 903)
Dividends	-	3
Interest-rate contracts – Liabilities from hedged debt securities:	**(2 127)**	**(1 404)**
Revaluation to fair value	(2 127)	(1 404)
Interest-rate contracts – Derivatives:	**(109)**	**(2 423)**
Interest income (expense)	(5 607)	4 087
Realised profit (loss) from derivatives	(136)	135
Revaluation to fair value	3 443	(7 895)
Revaluation to fair value – derivatives to hedge fair value	2 191	1 250
Currency contracts:	**1 493**	**14 635**
Realised profit (loss) from derivatives	6 589	5 523
Revaluation to fair value of derivatives	(5 096)	9 127
Exchange differences from securities held for trading	-	(15)
Index-related contracts:	**89**	**(462)**
Interest income (expense)	(1)	-
Revaluation to fair value – securities	-	-
Profit (loss) from securities sold	(2)	(84)
Realised profit (loss) from derivatives	97	(285)
Revaluation to fair value – derivatives	(5)	(93)
Commodity contracts:	**16**	**66**
Realised profit (loss) from derivatives	48	63
Revaluation to fair value – derivatives	(32)	3
Foreign exchange gains (losses)	**15 763**	**3 427**
Total	**21 778**	**15 103**

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

(in EUR thousands)	2012	2011
Interest-rate contracts – Securities:		
Revaluation to fair value	3 472	(2 784)
Profit (loss) from securities sold	591	-
Total	**4 063**	**(2 784)**

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

(in EUR thousands)	2012	2011
Share of profits of associated undertakings after taxes	743	1 301
Foreign exchange differences from associated undertakings denominated in a foreign currency	(59)	-
Total	**684**	**1 301**

7. General administrative expenses

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

(in EUR thousands)	2012	2011
Staff expenses:	**(108 832)**	**(109 312)**
Wages and salaries	(83 192)	(84 293)
Social security costs	(23 592)	(23 573)
Other social expenses	(1 957)	(2 119)
(Creation) release of provisions for anniversaries and other loyalty benefits	(91)	673
Other general expenses:	**(89 110)**	**(94 232)**
Costs on premises	(16 798)	(18 246)
Costs on information technology	(19 810)	(17 447)
Communication costs	(6 588)	(7 013)
Legal and consultancy costs	(5 793)	(5 551)
Of which: Costs of audit firm's services in respect of an audit of the financial statements	*(312)*	*(329)*
Of which: Costs of audit firm's services in respect of other assurance services	*(95)*	*(60)*
Advertising and entertainment expenses	(10 214)	(11 362)
Deposits guarantee fund	(3 955)	(7 236)
Consumption of stationeries	(2 689)	(2 591)
Transport and processing of cash	(653)	(636)
Travelling expenses	(1 257)	(1 561)
Education of employees	(880)	(999)
VAT	(12 357)	(12 311)
Sundry administrative expenses	(8 116)	(9 279)
Depreciation and amortisation of non-current tangible and intangible assets:	**(22 450)**	**(20 440)**
Non-current tangible assets	(13 366)	(12 609)
Investment property	(85)	-
Non-current intangible assets	(8 999)	(7 831)
Total	**(220 392)**	**(223 984)**

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.

8. Special levy of selected financial institutions

(in EUR thousands)	2012	2011
Special levy of selected financial institutions:		
Special levy of selected financial institutions	(28 330)	-
Total	**(28 330)**	**-**

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

9. Other operating profit (loss)

Other operating profit (loss) comprises revenues and expenses from non-banking activities, disposal of non-current tangible and intangible assets, creation and release of litigation provisions, other taxes and charges and other revenues and expenses from non-banking activities:

(in EUR thousands)	2012	2011
Other revenues/(expenses) from available-for-sale financial instruments	8	-
Profit from the sale of a share in a subsidiary	5 808	-
Revenues from non-banking activities	**22 825**	**19 196**
Revenues from release of litigation provisions	*9 733*	*2 242*
Revenues from disposals of tangible and intangible assets	*1 860*	*7 803*
Other revenues from non-banking activities	*11 232*	*9 151*
Expenses arising from non-banking activities	**(18 345)**	**(14 151)**
Other taxes and charges	*(323)*	*(315)*
Creation of litigation provisions	*(13 578)*	*(2 303)*
Creation of provisions for investment property	*(1 381)*	*(3 007)*
Disposals of tangible and intangible assets and investment property	*(3 063)*	*(8 526)*
Other operating income	**2 408**	**3 511**
Other operating expenses	**(2 347)**	**(2 951)**
Total	**10 357**	**5 605**

10. Income taxes

(in EUR thousands)	2012	2011
Current tax expense	(32 263)	(34 892)
Deferred tax (expense)/benefit	4 383	(679)
Total	**(27 880)**	**(35 571)**

Slovak legal entities must individually report taxable income and remit corporate income taxes thereon to the appropriate authorities. In 2012, the corporate income tax rate amounted to 19% (2011: 19%).

Act No. 395/2012 Coll. amending and supplementing Act No. 595/2003 Coll. on Income Tax, as amended, was approved on 4 December 2012 with effect from 1 January 2013. The act changes the corporate income tax rate valid in 2013 to 23%. The tax rate of 23% was applied to calculate deferred taxes.

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

(in EUR thousands)	2012	2011
Income before tax	**131 416**	**174 655**
Theoretical tax calculated at the tax rate of 19%	24 969	33 184
Tax effects of:		
Non-taxable income	(3 838)	(3 052)
Non-deductible expenses	3 019	5 254
Provisions for assets and provisions for liabilities, net	5 279	2
Effect of an increase in the corporate income tax rate from 19% to 23% on deferred tax	148	(23)
Effect of an increase in the corporate income tax rate from 19% to 23% on the uncertain utilisation of deferred tax assets	(3 577)	-
Additional taxation from previous periods	(4 853)	-
Creation/(release) of provisions for uncertain utilisation of deferred tax assets	5 712	(1 686)
Effect of non-tax losses	(22)	36
Effect of consolidation	1 043	1 856
Income tax expense	**27 880**	**35 571**
Effective tax for the reporting period	**21.21%**	**20.37%**

Deferred tax assets and liabilities as at 31 December 2012 and as at 31 December 2011 relate to the following items:

	Book value	Tax value	Temporary difference (gross)	2012	2011
Deferred tax assets					
Loans and advances to customers (net of impairment provisions)	6 180 699	6 381 243	199 314	45 842	35 391
Other assets	30 880	30 697	47	11	13
Provisions for liabilities and charges	37 182	-	7 084	1 629	1 771
Other liabilities	32 583	25 007	7 576	1 742	3 322
Total				**49 224**	**40 497**
Deferred tax liabilities					
Non-current tangible assets and investment property	89 220	86 003	3 217	(740)	(2 108)
Total				**(740)**	**(2 108)**
Net deferred tax asset/(liability)				**48 484**	**38 389**
Allowance for uncertain realisation of deferred tax asset				(27 905)	(22 193)
Net deferred tax asset/(liability)				**20 579**	**16 196**

As at 31 December 2012, the Group did not recognise deferred tax assets of EUR 27 905 thousand (2011: EUR 22 193 thousand), which mainly related to tax-deductible temporary differences resulting from provisions, due to their uncertain timing and realisation in future reporting periods.

11. Earnings per share

2012 (in EUR thousands)	**Ordinary shares Face value EUR 800**	**Ordinary shares Face value EUR 4 000**	**Preference shares Face value EUR 4**
Profit after tax in the accounting period attributable to	78 627	13 587	11 322
Weighted average number of shares outstanding during the period	60 616	2 095	1 745 655
Earnings per share in EUR	**1 297**	**6 485**	**6.5**

2011 (in EUR thousands)	Ordinary shares* Face value EUR 800	Ordinary shares* Face value EUR 4 000	Preference shares Face value EUR 4
Profit after tax in the accounting period attributable to	103 606	19 895	15 583
Weighted average number of shares outstanding during the period	54 549	2 095	1 640 932
Earnings per share in EUR	**1 899**	**9 497**	**9**

* In 2011, the Parent Company increased the share capital by the subscription of new ordinary shares. The 2011 issue holders are entitled to the same share in profit reported by the Parent Company for 2011 as if they were shareholders during the entire year.

Information on method of calculation of earnings per share is stated in Section II – Principal accounting policies v).

12. Cash and deposits in central banks

(in EUR thousands)	2012	2011
Cash in hand	86 193	75 421
Balances at central banks:	88 500	273 866
Obligatory minimum reserves	*88 500*	*33 863*
Short-term deposits with the NBS	-	*240 003*
Total	**174 693**	**349 287**

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 Parent Company. The Parent Company's ability to withdraw the reserve is restricted by the applicable legislation, and therefore it is not included in *"Balances at central banks - Short-term deposits with the NBS"* for the purposes of cash flow statement preparation (see Note 35*"Information for Cash Flow Statement"*).

13. Loans and advances to banks

(in EUR thousands)	2012	2011
Giro and interbank clearing business	84 568	112 589
Money-market business	27 604	39 596
Other loans to banks	6 297	16 787
Total	**118 469**	**168 972**

Loans and advances to banks broken down along geographical lines:

(in EUR thousands)	2012	2011
Slovak Republic	1 547	2 776
Other countries*	116 922	166 196
Total	**118 469**	**168 972**

* For further information on the Group's exposure to other states, see Note 38 "Foreign assets and liabilities".

An overview of the quality of loans extended to banks is stated in Note 47 *"Risk report"*.

14. Loans and advances to customers, gross

Analysis of loans and advances to customers:

(in EUR thousands)	2012	2011
Overdraft loans and current account overdrafts	971 609	904 679
Receivables from credit cards	95 067	92 264
Factoring and loans backed by bills of exchange	52 736	50 599
Housing loans	1 042 951	853 681
Mortgage loans	753 534	795 611
American mortgages	425 463	390 969
Consumer loans	274 618	244 687
Finance lease receivables	14 276	17 064
Investment, operating and other loans	2 757 852	3 007 501
Total	**6 388 106**	**6 357 055**

As of 31 December 2012, the total amount of syndicated loans sponsored by the Parent Company represented EUR 534 590 thousand (31 December 2011: EUR 423 206 thousand). The Parent Company's contribution represented EUR 207 360 thousand (31 December 2011: EUR 183 148 thousand). Syndicated loans are included in *"Investment, operating and other loans"*.

Analysis of loans by customer group:

(in EUR thousands)	2012	2011
Public sector	16 913	16 101
Corporate clients	3 463 756	3 629 023
Retail clients	2 907 437	2 711 931
Total	**6 388 106**	**6 357 055**

Analysis of loans by contractual maturity period:

(in EUR thousands)	2012	2011
Short-term loans (up to 1 year)	1 663 877	1 637 496
Medium-term loans (1 year to 5 years)	982 304	1 010 186
Long-term loans (over 5 years)	3 741 925	3 709 373
Total	**6 388 106**	**6 357 055**

Analysis of loans and advances to customers by geographical segment:

(in EUR thousands)	2012	2011
Slovak Republic	6 285 824	6 265 127
Other countries	102 282	91 928
Total	**6 388 106**	**6 357 055**

An overview of the quality of loans extended to customers is stated in Note 47 *"Risk report"*.

15. Impairment losses for loans and advances

The movement in provisions for loan losses during 2012 is as follows:

(in EUR thousands)	As at 1 January 2012	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2012
Specific provision	**157 486**	**60 098**	**(21 097)**	**(19 917)**	**-**	**176 570**
Public sector	225	-	(53)	-	-	172
Corporate clients	98 437	37 945	(11 376)	(14 928)	18	110 096
Retail clients	58 824	22 153	(9 668)	(4 989)	(18)	66 302
Portfolio provision	**30 427**	**3 703**	**(3 293)**	**-**	**-**	**30 837**
Corporate clients	23 574	3 494	(3 004)	-	-	24 064
Retail clients	6 853	209	(289)	-	-	6 773
Total	**187 913**	**63 801**	**(24 390)**	**(19 917)**	**-**	**207 407**

The movement in provisions for loan losses during 2011 is as follows:

(in EUR thousands)	As at 1 January 2011	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2011
Specific provision	**163 692**	**56 477**	**(37 396)**	**(25 289)**	**2**	**157 486**
Public sector	101	225	-	-	(101)	225
Corporate clients	106 037	38 955	(27 343)	(19 512)	300	98 437
Retail clients	57 554	17 297	(10 053)	(5 777)	(197)	58 824
Portfolio provision	**39 649**	**469**	**(9 691)**	**-**	**-**	**30 427**
Corporate clients	26 161	469	(3 056)	-	-	23 574
Retail clients	13 488	-	(6 635)	-	-	6 853
Total	**203 341**	**56 946**	**(47 087)**	**(25 289)**	**2**	**187 913**

16. Derivative financial assets

(in EUR thousands)	2012	2011
Positive fair value of financial derivatives for trading	**97 110**	**104 349**
Interest–rate contracts	83 470	70 915
Currency contracts	10 015	30 560
Index-related contracts	3 623	2 095
Commodity contracts	2	779
Positive fair value of financial derivatives for fair value hedging	**4 226**	**1 675**
Interest-rate contracts	4 226	1 675
Total	**101 336**	**106 024**

Fair value hedges relating to interest rate risk

The Parent Company uses interest rate swaps to hedge the interest rate risk related to issued debt securities – mortgage bonds and debentures from the debt securities portfolio. Changes in the fair values of these interest rate swaps as a result of interest rate changes set off, to a large extent, changes in the fair values of issued mortgage bonds and debentures 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 2012 the Parent Company recognised a net profit in the amount of EUR 2 191 thousand. With respect to the hedging instruments, as at 31 December 2011 the Parent Company recognised a net profit in the amount of EUR 1 250 thousand. Net loss from hedged items that related to hedged risk represented EUR 2 127 thousand. As at 31 December 2011, the Parent Company recognised a net loss in the amount of EUR 1 404 thousand. Both items are recognised in Note 4 *"Net profit (loss) from trading instruments"*.

17. Held-for-trading financial assets

(in EUR thousands)	2012	2011
Debt securities and other fixed-interest securities	**272 275**	**290 925**
Slovak government treasury bills	37 245	128 259
Slovak government bonds	235 030	162 666
Shares, debt and other floating-rate securities	**96 600**	**50 437**
Slovak government bonds	96 600	50 137
Unit trust certificates	-	300
Total	**368 875**	**341 362**

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

(in EUR thousands)	2012	2011
Debt securities and other fixed income securities	**138 854**	**118 084**
Slovak government treasury bills	24 988	-
Slovak government bonds	113 222	117 434
Bonds issued by the banking sector	644	650
Shares, debt and other floating-rate securities	**-**	**15 809**
Bonds issued by other sectors	-	15 809
Total	**138 854**	**133 893**

19. Held-to-maturity financial investments

(in EUR thousands)	2012	2011
Debt securities and other fixed income securities	**1 616 709**	**1 532 213**
Slovak government bonds	1 597 893	1 515 219
Bonds issued by the banking sector	18 816	16 994
Shares, debt and other floating-rate securities	**165 704**	**165 267**
Slovak government bonds	145 693	145 245
Bonds issued by the banking sector	20 011	20 022
Total	**1 782 413**	**1 697 480**

In November 2011, the Parent Company reclassified selected Slovak government bonds from the held-for-trading financial assets portfolio to the held-to-maturity financial investments portfolio. As at the reclassification date, the fair value of reclassified debt securities amounted to EUR 80 503 thousand (including accrued interest income). As at 31 December 2012, the carrying amount of the aforementioned held-to-maturity securities represented EUR 81 802 thousand (31 December 2011: EUR 80 752 thousand). The fair value amounted to EUR 84 695 thousand (31 December 2011: EUR 80 192 thousand)(including accrued interest income).

If the reclassification was not performed, the Parent Company would have recognised an additional net profit from revaluation for 2012 in the amount of EUR 4 609 thousand. In 2011, until the moment of reclassification, the Parent Company recognised a net loss from revaluation in the amount of EUR 1 250 thousand in the statement of comprehensive income. If the reclassification were not performed, as at 31 December 2011 the Parent Company would have recognised an additional net loss from the revaluation in the amount of EUR 449 thousand.

With respect to the reclassified securities there were no changes in future cash flows that would have an impact on the amount of the effective interest rate and their impairment at the end of 2012.

20. Available-for-sale financial assets

Company (in EUR thousands)	Group investment (%)	Cost	Provision	Carrying amount 31 December 2012	Carrying amount 31 December 2011
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., Belgium	0.03	52	-	52	73
International Factors Group s. c., Belgium	0.72	9	-	9	9
D. Trust Certifikačná Autorita, a. s.	10.00	37	-	37	37
VISA INC., USA	0.07	515	-	515	515
Total		**717**	**(94)**	**623**	**644**

In 2012, there were no changes in provisions for available-for-sale financial assets.

21. Investments in associated undertakings

(in EUR thousands)	2012	2011
At 1 January	13 074	11 773
Share in profits of associated undertakings after tax (Note 6)	743	1 301
Exchange differences from associated undertakings denominated in a foreign currency (Note 6)	(59)	-
Acquisition of an investment in an associated undertaking	5 903	-
Total	**19 661**	**13 074**

Associated undertaking (in EUR thousands)	Ownership interest in %	Cost	Provision	Net book value	Share in net assets at 31 December 2012	Share in net assets at 31 December 2011
Tatra-Leasing, s. r. o.	48.00%	3 186	-	3 186	14 105	13 071
Slovak Banking Credit Bureau, s. r. o.	33.33%	3	-	3	3	3
Raiffeisen penzijní společnost, a.s.	49.00%	5 903	-	5 903	5 553	-
Total		**9 092**	**-**	**9 092**	**19 661**	**13 074**

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

(in EUR thousands)	2012	2011
Total assets	292 597	321 839
Total liabilities	263 213	294 608
Net assets	29 384	27 231
The Parent Company's share in net assets	**14 104**	**13 071**
Contingent liabilities and other off-balance sheet items	**4 441**	**11 035**
Interest income and similar income	17 610	18 175
Profit (loss) after tax	2 153	2 711
The Parent Company's share in profit (loss) after tax	**1 034**	**1 301**

Basic financial information on associate Raiffeisen penzijní společnost a.s., Prague:

(in EUR thousands)	2012*	2011
Total assets	11 862	-
Total liabilities	529	-
Net assets	11 333	-
The Parent Company's share in net assets	**5 553**	**-**
Contingent liabilities and other off-balance sheet items	**-**	**-**
Interest income and similar income	-	-
Profit (loss) after tax	(594)	-
The Parent Company's share in profit (loss) after tax	**(291)**	**-**

*In accordance with the provision of Article 3 (2) of Act No 563/1991 Coll. on Accounting (valid in the CR), Raiffeisen penzijní společnost a.s. did not prepare separate financial statements as at 31 December 2012, because under the referred provision, the reporting entity established within three months prior to the calendar year-end may decide that the reporting period will be longer for the relevant period from the date of incorporation until the calendar year-end. Therefore, the financial information as at 31 December 2012 was not audited by the entity's auditor.

22. Development of non-current tangible and intangible assets

Development of non-current tangible assets as at 31 December 2012:

(in EUR thousands)	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 2012	**40 905**	**106 271**	**29 315**	**4 082**	**32 085**	**11 174**	**1 161**	**224 993**
Additions	-	-	-	-	12 262	-	6 991	19 253
Disposals	(1 117)	(19 828)	(1 394)	(1 085)	-	(1 167)	-	(24 591)
Transfer from investment property to inventories*	-	-	-	-	-	(1 971)	(162)	(2 133)
Transfer from tangible assets in progress	28 881	11 562	262	1 024	(41 729)	6 180	(6 180)	-
31 December 2012	**68 669**	**98 005**	**28 183**	**4 021**	**2 618**	**14 216**	**1 810**	**217 522**
Accumulated depreciation and provisions								
1 January 2012	**(18 703)**	**(87 993)**	**(22 672)**	**(2 451)**	**-**	**(4 536)**	**-**	**(136 355)**
Depreciation charge	(3 669)	(7 891)	(1 189)	(617)	-	(85)	-	(13 451)
Disposals	616	18 640	1 362	993	-	8	-	21 691
Provision	-	-	-	-	-	(1 381)	-	(1 381)
Transfer from investment property to inventories*	-	-	-	-	-	1 266	-	1 266
31 December 2012	**(21 756)**	**(77 244)**	**(22 499)**	**(2 075)**	**-**	**(4 728)**	**-**	**(128 302)**
Net book value at 1 January 2012	**22 202**	**18 278**	**6 643**	**1 631**	**32 085**	**6 638**	**1 161**	**88 638**
Net book value at 31 December 2012	**46 913**	**20 761**	**5 684**	**1 946**	**2 618**	**9 488**	**1 810**	**89 220**

* For further information, see Note 25 “Other assets”.

Development of non-current tangible assets as at 31 December 2011:

(in EUR thousands)	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 2011	**50 456**	**107 673**	**29 816**	**8 442**	**5 812**	**10 373**	**735**	**213 307**
Additions	-	-	-	-	37 987	-	1 227	39 214
Disposals	(11 363)	(9 398)	(963)	(5 804)	-	-	-	(27 528)
Transfer from tangible assets in progress	1 812	7 996	462	1 444	(11 714)	801	(801)	-
31 December 2011	**40 905**	**106 271**	**29 315**	**4 082**	**32 085**	**11 174**	**1 161**	**224 993**
Accumulated depreciation and provisions								
1 January 2011	**(20 964)**	**(89 793)**	**(22 307)**	**(5 312)**	**-**	**(1 446)**	**-**	**(139 822)**
Depreciation charge	(2 590)	(7 416)	(1 255)	(1 265)	-	(83)	-	(12 609)
Disposals	4 851	9 216	890	4 126	-	-	-	19 083
Provision	-	-	-	-	-	(3 007)	-	(3 007)
31 December 2011	**(18 703)**	**(87 993)**	**(22 672)**	**(2 451)**	**-**	**(4 536)**	**-**	**(136 355)**
Net book value at 1 January 2011	**29 492**	**17 880**	**7 509**	**3 130**	**5 812**	**8 927**	**735**	**73 485**
Net book value at 31 December 2011	**22 202**	**18 278**	**6 643**	**1 631**	**32 085**	**6 638**	**1 161**	**88 638**

As at 31 December 2012, the Group did not recognise any liabilities under contracts for the purchase of non-current tangible assets (2011: EUR 0 thousand).

As at 31 December 2012, the Group owns a building that is leased to third parties at the net book value of EUR 1 563 thousand (2011: EUR 1 641 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 148 thousand (2011: EUR 146 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 and intangible assets"* and amount to EUR 85 thousand (2011: EUR 82 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 2012, the estimated fair value of investment property amounted to EUR 14 372 thousand (2011: EUR 7 812 thousand). Owing to the decrease in the fair value of investment property as at 31 December 2012, the Group recorded a provision in the amount of EUR 1 381 thousand (2011: EUR 3 007 thousand).

Insurance coverage

Non-current tangible assets are insured covering EUR 161 214 thousand against natural disaster, EUR 171 556 thousand against fire damage, EUR 169 907 thousand against water damage, and EUR 22 083 thousand against theft and vandalism. Electronic equipment is insured covering a maximum risk of EUR 60 096 thousand. Based on the effective motor hull insurance, vehicles have been insured for up to EUR 5 257 thousand.

Development of non-current intangible assets as at 31 December 2012:

(in EUR thousands)	Software	Goodwill	Construction in progress	Total
Cost				
1 January 2012	89 773	10 122	7 098	106 993
Additions	-	-	10 940	10 940
Disposals	(2 795)	(969)	-	(3 764)
Transfer from intangibles in progress	12 026	-	(12 026)	-
31 December 2012	**99 004**	**9 153**	**6 012**	**114 169**
Accumulated amortisation				
1 January 2012	(64 831)	(1 102)	-	(65 933)
Amortisation charge	(8 719)	-	-	(8 719)
Disposals	2 707	969	-	3 676
Provision	-	-	(280)	(280)
31 December 2012	**(70 843)**	**(133)**	**(280)**	**(71 256)**
Net book value at 1 January 2012	**24 942**	**9 020**	**7 098**	**41 060**
Net book value at 31 December 2012	**28 161**	**9 020**	**5 732**	**42 913**

Development of non-current intangible assets as at 31 December 2011:

(in EUR thousands)	Software	Goodwill	Construction in progress	Total
Cost				
1 January 2011	80 074	10 122	7 784	97 980
Additions	-	-	9 061	9 061
Disposals	(48)	-	-	(48)
Transfer from intangibles in progress	9 747	-	(9 747)	-
31 December 2011	**89 773**	**10 122**	**7 098**	**106 993**
Accumulated amortisation				
1 January 2011	(56 967)	(1 102)	-	(58 069)
Amortisation charge	(7 831)	-	-	(7 831)
Disposals	(33)	-	-	(33)
31 December 2011	**(64 831)**	**(1 102)**	**-**	**(65 933)**
Net book value at 1 January 2011	**23 107**	**9 020**	**7 784**	**39 911**
Net book value at 31 December 2011	**24 942**	**9 020**	**7 098**	**41 060**

23. Current income tax asset

(in EUR thousands)	2012	2011
Tax asset – current	3184	-
Total	**3184**	**-**

24. Deferred income tax asset

(in EUR thousands)	2012	2011
Income tax asset – deferred	21 207	16 685
Total	**21 207**	**16 685**

Net deferred income tax asset resulted mainly from temporary deductible differences described in Note 10 *"Income taxes"*.

25. Other assets

(in EUR thousands)	2012	2011
Prepayments and other deferrals	4 859	4 587
Other receivables from the state budget	2 201	1 142
Values in transit	9 198	9 441
Assets held for development and construction	7 876	12 804
Other assets	6 746	6 576
Total	**30 880**	**34 550**

In *"Values in transit"* the Parent Company recognises a receivable from an entity that provides services related to the operation of ATMs and cash transports.

The Group recognises assets held for development and construction that are designated for subsequent sale in line *"Assets held for development and construction"*. In 2012, the Group reclassified to the aforementioned item assets in the net book value of EUR 867 thousand, which were recognised as investment property in 2011.

26. Deposits from banks

(in EUR thousands)	2012	2011
Giro and interbank clearing business	9 131	14 983
Money-market business	69	63
Loans received	108 801	86 368
Total	**118 001**	**101 414**

Deposits from banks by geographical segment:

(in EUR thousands)	2012	2011
Slovak Republic	2 758	2 825
Other countries	115 243	98 589
Total	**118 001**	**101 414**

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

Type of loan (in EUR thousands)	Currency	Type of loan according to maturity	Contractual maturity	2012	2011
Loans received from banks:					
– Commercial banks	EUR	Long-term	Jun 2014	329	975
– Reconstruction and development banks	EUR	Long-term	Oct 2027	83 075	54 705
– Reconstruction and development banks	EUR	Long-term	Mar 2016	25 397	30 688
Total				**108 801**	**86 368**

As at 31 December 2012, 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 138 654 thousand in favour of the following subjects (in thousand EUR):

Description (in EUR thousands)	Carrying amount of debt securities	Carrying amount of received loan	Guarantee expiry date	In favour of
Government bond EUR	138 654	83 075	Dec 2032	Reconstruction and development banks

As at 31 December 2011, 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 83 424 thousand in favour of the following subjects (in thousand EUR):

Description (in EUR thousands)	Carrying amount of debt securities	Carrying amount of received loan	Guarantee expiry date	In favour of
Government bond EUR	83 424	54 705	Jun 2020	Reconstruction and development banks

27. Deposits from customers

Deposits from customers by product group are as follows:

(in EUR thousands)	2012	2011
Current accounts	4 255 450	4 193 429
Time deposits	2 421 146	2 478 531
Savings deposits	180 800	220 746
Loans received	7 387	40 161
Total	**6 864 783**	**6 932 867**

Deposits from customers by customer segment are as follows:

(in EUR thousands)	2012	2011
Public sector	71 981	92 140
Corporate clients	2 559 944	2 444 095
Retail clients	4 232 858	4 396 632
Total	**6 864 783**	**6 932 867**

Deposits from customers by geographical segment are as follows:

(in EUR thousands)	2012	2011
Slovak Republic	6 724 872	6 788 332
Other countries	139 911	144 535
Total	**6 864 783**	**6 932 867**

Loans received by particular customer are as follows:

Type of loan (in EUR thousands)	Currency	Type of loan according to maturity	Contractual maturity	2012	2011
Loans received from customers:					
– Other financial institutions	EUR	Short-term	Jun 2013	7 387	40 161
Total				**7 387**	**40 161**

28. Derivative financial liabilities

(in EUR thousands)	2012	2011
Negative fair value of held-for-trading financial derivatives	**118 750**	**120 451**
Interest-rate contracts	104 107	94 996
Currency contracts	10 634	22 235
Index-related contracts	4 007	2 474
Commodity contracts	2	746
Total	**118 750**	**120 451**

29. Liabilities from debt securities

(in EUR thousands)	2012	2011
Issued debt securities – mortgage bonds	665 461	702 701
Issued debt securities – bonds	128 659	50 611
Total	**794 120**	**753 312**

In 2010, the Parent Company issued mortgage bonds, Issue 58, and in 2011, bonds, Issue 04, part of which is secured by an interest rate swap. The amount of secured mortgage bonds has a face value of EUR 38 000 thousand and the amount of secured bonds has a face value of EUR 39 000 thousand.

In 2012, the Parent Company sold mortgage bonds, Issue 66, part of which is secured by an interest rate swap. The amount of secured mortgage bonds represents the face value of EUR 22 000 thousand.

The fair value of an interest rate swap used for hedging is stated in Note 16 *"Derivative financial assets"*. The effect of the revaluation of mortgage bonds, bonds and interest rate swaps on the results of operations is outlined in Note 4 *"Net profit (loss) from trading instruments"*.

The Parent Company issued mortgage bonds with the following conditions:

Name (in EUR thousands)	Interest rate	Curr.	Number of mortgage bonds issued	Mortgage bonds unit face value in currency	Issue date	Maturity date	Coupon payment	2012	2011
MB 02 - repaid	5.50%	EUR	-	3 319	17 Dec 2012	17 Dec 2012	Annually	-	32 981
MB 05	5.00%	EUR	10 000	3 319	21 May 2003	21 May 2013	Annually	34 239	34 332
MB 22 - repaid	4.60%	EUR	-	33 194	25 Jun 2007	25 Jun 2012	Annually	-	16 992
MB 30	4.30%	EUR	10 000	3 319	25 Feb 2008	25 Feb 2013	Annually	34 444	34 714
MB 35 - repaid	0%	EUR	-	950	31 Oct 2008	31 Oct 2012	-	-	20 175
MB 46 - repaid	4.05%	EUR	-	1 000	27 Feb 2009	27 Feb 2012	Annually	-	16 505
MB 47	5.01%	EUR	24 470	1 000	1 Jul 2009	1 Jul 2014	Annually	25 093	25 093
MB 49	3.60%	EUR	387	50 000	28 Sep 2009	28 Mar 2013	Annually	19 525	19 606
MB 50	0%	EUR	8 823	1 000	19 Nov 2009	19 Nov 2013	-	8 546	8 286
MB 51	3.70%	EUR	340	50 000	1 Feb 2010	1 Aug 2013	Annually	17 576	17 574
MB 52	3M EURIBOR+1.30%	EUR	200	100 000	3 Feb 2010	3 Feb 2013	Quarterly	20 048	20 093
MB 53	Inflation – CPTFEMU	EUR	1 000	10 000	30 Apr 2010	30 Apr 2015	Bullet payment on maturity date	10 220	10 220
MB 54	3.60%	EUR	43 243	1 000	28 Jun 2010	28 Jun 2015	Annually	44 049	44 058
MB 55 - repaid	3M EURIBOR + 0.90%	EUR	-	10 000	1 Jun 2010	1 Jun 2012	Quarterly	-	25 050
MB 56	0%	EUR	50	1 000	4 Jun 2010	4 Jun 2015	-	46	45
MB 57 – repaid	3M EURIBOR +0.95%	EUR	-	100 000	30 Jul 2010	30 Jul 2012	Quarterly	-	80 353
MB 58	2.80%	EUR	47 480	1 000	7 Oct 2010	7 Oct 2014	Annually	48 720	45 587
MB 59	6M EURIBOR + 1.00%	EUR	3 000	10 000	18 Nov 2010	18 Nov 2013	Semi-annually	30 038	26 309
MB 60	6M EURIBOR + 1.00%	EUR	2 000	10 000	17 Dec 2010	17 Dec 2015	Semi-annually	20 011	20 022
MB 61	0%	EUR	1 675	10 000	4 Feb 2011	4 Feb 2014	-	16 187	15 594
MB 62	3.75%	EUR	58 239	1 000	31 Mar2011	31 Mar 2016	Annually	59 894	59 642
MB 63	6M EURIBOR + 0.80%	EUR	40 000	1 000	15 Apr 2011	15 Apr 2014	Semi-annually	40 003	40 044
MB 64	6M EURIBOR + 0.75%	EUR	3 000	10 000	9 Jun 2011	9 Jun 2013	Semi-annually	30 021	30 047
MB 65	6M EURIBOR + 1.20%	EUR	4 080	10 000	17 Aug 2011	17 Aug 2014	Semi-annually	41 034	41 179
MB 66	3.25%	EUR	2 200	10 000	19 Aug 2011	19 Feb 2015	Annually	22 527	-
MB 67	3.875%	EUR	870	10 000	14 Oct 2011	14 Oct 2018	Annually	8 683	8 216
MB 68	5.00%	EUR	1 000	10 000	14 Oct 2011	14 Oct 2031	Annually	9 988	9 984
MB 69	0%	EUR	8 500	10 000	9 Aug 2012	9 Aug 2013	-	84 410	-
MB 70	1.20%	EUR	4 000	10 000	14 Nov 2012	14 Nov 2014	Annually	40 159	-
Total MB								**665 461**	**702 701**

The Parent Company issued mortgage bonds with the following conditions:

Name (in EUR thousands)	Interest rate	Curr.	Number of debt securities issued	Face value per debt security in currency	Issue date	Maturity date	Coupon payment	2012	2011
BOND 03	0%	EUR	255	1 000	8 Mar 2010	8 Mar 2013	-	254	247
BOND 04	3.75%	EUR	39 225	1 000	22 Sep 2011	22 Sep 2016	Annually	41 550	40 042
BOND 05	0%	EUR	820	100 000	2 Apr 2012	21 Jan 2015	-	76 569	-
Tatra Residence03	4.50%	EUR	1 000	10 000	14 Apr 2010	14 Apr 2012	Annually	-	10 322
Tatra Residence04	4.00%	EUR	1 000	10 000	13 Apr 2012	13 Apr 2013	Annually	10 286	-
Total bonds								**128 659**	**50 611**
Total liabilities from debt securities								**794 120**	**753 312**

In accordance with Act on Banks No. 483/2001 Coll., the Parent Company 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 2012, the Parent Company 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 Parent Company are quoted on the Bratislava Stock Exchange.

As at 31 December 2012 and 31 December 2011, mortgage bonds and other bonds issued by the Parent Company were not secured by any form of collateral.

30. Provisions for liabilities and charges

As at 31 December 2012 movements in provisions for liabilities and charges were as follows:

(in EUR thousands)	1 January 2012	Allocated	Released	Used	Transfers, exchange differences	31 December 2012
Provisions for Long-service benefits	1 016	91	-	-	-	1 107
Legal disputes (Note 39)	23 893	13 578	(9 733)	(2 121)	-	25 617
Specific provision:	3 024	4 637	(1 254)	-	2	6 409
Guarantees	*2 167*	*4 479*	*(2 165)*	-	*(1)*	*4 480*
Irrevocable loan commitments	*857*	*158*	*911*	-	*3*	*1 929*
Portfolio provision for off-balance sheet items	7 450	-	(3 401)	-	-	4 049
Total	**35 383**	**18 306**	**(14 388)**	**(2 121)**	**2**	**37 182**

As at 31 December 2011, movements in provisions for liabilities and charges were as follows:

(in EUR thousands)	1 January 2011	Allocated	Released	Used	31 December 2011
Provisions for Long-service benefits	1 689	-	(673)	-	1 016
Legal disputes (Note 38)	26 067	2 303	(2 242)	(2 235)	23 893
Specific provision:	3 446	1 430	(1 852)	-	3 024
Guarantees	*2 651*	*910*	*(1 394)*	-	*2 167*
Irrevocable loan commitments	*795*	*520*	*(458)*	-	*857*
Portfolio provision for off-balance sheet items	7 485	189	(224)	-	7 450
Total	**38 687**	**3 922**	**(4 991)**	**(2 235)**	**35 383**

31. Other liabilities

(in EUR thousands)	2012	2011
Deferred items	1 771	1 791
Social fund	248	338
Employee liabilities	11 690	20 423
Current tax liability	384	1 156
Deferred tax liability	628	489
Other liabilities to state budget	798	2 220
Liabilities from unpaid dividends	241	323
Other liabilities	16 823	18 694
Total	**32 583**	**45 434**

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

(in EUR thousands)	2012	2011
At 1 January	338	629
Additions	1 138	1 038
Drawing	(1 228)	(1 329)
At 31 December	**248**	**338**

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 2012 were as follows:

(in EUR thousands)	1 January 2012	Allocated	Used	31 December 2012
Current tax	1 156	32 263	(33 035)	384
Total	**1 156**	**32 263**	**(33 035)**	**384**

Movements in the current corporate income tax liability as at 31 December 2011 were as follows:

(in EUR thousands)	1 January 2011	Allocated	Used	31 December 2011
Current tax	183	34 892	(33 919)	1 156
Total	**183**	**34 892**	**(33 919)**	**1 156**

Movements in the deferred income tax as at 31 December 2012 were as follows:

(in EUR thousands)	1 January 2012	Allocated	Used	31 December 2012
Deferred tax	489	139	-	628
Total	**489**	**139**	**-**	**628**

Movements in the deferred income tax as at 31 December 2011 were as follows:

(in EUR thousands)	1 January 2011	Allocated	Used	31 December 2011
Deferred tax	790	679	(980)	489
Total	**790**	**679**	**(980)**	**489**

32. Subordinated debt

(in EUR thousands)	2012	2011
Subordinated debt	45 312	120 423
Total	**45 312**	**120 423**

Subordinated debt analysed by individual bank:

Type of loan (in EUR thousands)	Curr.	Type of loan by maturity	Start of loan drawdown	Contractual maturity	2012	2011
Subordinated debt from banks:						
– Commercial banks	EUR	Long-term	Sep 2007	Sep 2012	-	75 004
– Commercial banks	EUR	Long-term	Oct 2008	Oct 2013	45 312	45 419
Total					**45 312**	**120 423**

33. Equity

Equity, except for the profit for the current year, breaks down as follows:

(in EUR thousands)	2012	2011
Share capital – ordinary shares	56 873	56 873
Share capital – preference shares	7 453	7 453
Own shares	(932)	(116)
Share premium – ordinary shares	226 612	226 612
Share premium – preference shares	67 194	64 440
Share premium – own shares	(11 056)	(1 234)
Reserve and other funds	15 068	13 335
Retained earnings (excluding current year net profit after tax)	597 548	545 080
Total	**958 760**	**912 443**

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

Type	Ordinary shares	Ordinary shares	Preference shares
Form	Registered	Registered	Registered
Nature	Non-certified	Non-certified	Non-certified
Number	60 616 shares	2 095 shares	1 863 357 shares
Par value	EUR 800	EUR 4 000	EUR 4
Issue No. (ISIN)	SK1110001502 01-05 series	SK1110015510	SK1110007186 SK1110008424 SK1110010131 SK1110012103 SK1110013937 SK1110014901 SK1110016237 SK1110016591

Description of rights:

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

- The right to share in the Parent 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 Parent 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 a 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.

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 EUR thousands)	2012	2011
Parent Company	855 565	801 480
Entities consolidated using full consolidation method	29 917	38 170
Entities consolidated using equity method	9 884	8 583
Total share premium, equity restricted funds, and retained earnings	**895 366**	**848 233**

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

(in EUR thousands)	2012	2011
Parent Company (bank)	108 927	146 036
Entities consolidated using full consolidation method	(6 076)	(8 253)
Entities consolidated using equity method	685	1 301
Consolidated profit after tax	**103 536**	**139 084**

34. Capital management

For capital management purposes, the Group defines regulatory capital, capital adequacy, 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 as amended), defining its structure and minimum amount.

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. As at 31 December 2012, the Group does not generate any additional or 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.

Capital adequacy is the adequacy ratio of the Group's own funds to its risk-weighted assets. The quantification methodology is regulated. Additional information on the Group's capital requirement calculation is stated in Note 47 *"Risk report" - "BASEL II"*.

Both the minimum and recommended levels determined by the National Bank of Slovakia for the Group were met in 2012.

The Parent Company also meets the limit for original own funds adequacy pursuant to the recommendation of the Financial Market Supervision Unit of the National Bank of Slovakia to support banking sector stability of January 2012, which is set at 9%.

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 2012, 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, 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 EUR thousands)	2012*	2011*
The original own funds (TIER 1)	**958 760**	**912 443**
Paid-up share capital	64 326	64 326
(-) Treasury shares	(932)	(116)
Share premium	293 806	291 052
(-)Share premium - treasury shares	(11 056)	(1 234)
Funds from profit and other capital reserves	15 070	13 335
Other specific items of the Bank's original own funds	597 546	545 080
(-) Items deductible from the original own funds	**(42 913)**	**(41 061)**
(-) Intangible assets	(42 913)	(41 061)
Additional own funds (TIER 2)	**-**	**45 000**
Subordinated debts	-	45 000
(-) Items deductible from the original and additional own funds	**(62 368)**	**(66 807)**
(-) From the original own funds	(62 368)	(33 404)
(-) From additional own funds	-	(33 403)
Total own funds	**853 479**	**849 575**

*) Since 1 January 2009 the Group 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 Group may add this positive difference to the original and additional own funds. If the difference is negative, it is deducted from own funds. These negative differences are included in "Items deductible from the Group's original and additional own funds" in the amount of EUR 42 710 thousand (2011: EUR 53 737 thousand).

(in EUR thousands)	2012	2011
Adequacy of own funds (%)	**15.23**	**13.24**
Own funds	**853 479**	**849 575**
Risk-weighted assets (RWA)	**5 605 213**	**6 417 876**
RWA from receivables recorded in the Banking book	4 780 100	5 557 085
RWA from positions recorded in the Trading book	128 475	176 312
RWA from operating risk – standardised approach	696 638	661 700
RWA from foreign exchange risk	-	22 779

35. Information for Cash Flow Statement

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

(in EUR thousands)	2012	2011
Cash flows from operating activities		
Profit before income taxes	131 416	174 655
Adjustments:	(212 883)	(245 285)
Interest expense	78 497	76 444
Interest income	(356 680)	(367 266)
Dividend income	(13)	(9)
Provisions for impairment losses on loans and advances and provisions for liabilities and charges, net	47 354	12 245
(Profit) loss on sale and other disposals of non-current assets	41	723
(Profit) loss on sale and other disposals of investment property	1 159	-
Unrealised (profit) loss from financial derivative instruments and held-for-trading securities	559	3 250
Unrealised (profit) loss from securities at fair value through profit or loss	(3 567)	2 784
Share in retained earnings of associated undertakings	(684)	(1 301)
Profit from the sale of a share in a subsidiary	(5 808)	-
Discount applicable to preference shares	2 754	2 794
Depreciation and amortisation non-current tangible and intangible assets	22 085	20 357
Depreciation and amortisation of investment property	85	83
Provision for investment property	1 381	3 007
(Profit)/loss from foreign exchange and other transactions with cash and cash equivalents	(46)	1 604
Cash flow of operating activities before changes in working capital, interest received and paid and income taxes paid	**(81 467)**	**(70 630)**

Cash and cash equivalents as at 31 December 2012, 31 December 2011, and 31 December 2010 comprise of the following:

(in EUR thousands)	2012	2011	2010
Cash in hand (Note 12)	86 193	75 421	65 175
State and other treasury bills due within 3 months	2 500	69 774	209 900
Balances at the central bank – short-term deposits with the NBS	-	240 003	-
Giro and interbank clearing business (Note 13)	84 568	112 589	48 681
Total	**173 261**	**497 787**	**323 756**

36. Related parties

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

a. **A person or a close family member of that person is related to the Group if that person:**

- Has control or joint control over the Parent Company;
- Has significant influence over the Parent Company; or
- Is a member of the key management personnel of the Parent Company or a parent of the Parent Company.

b. **An entity is related to the Group if any of the following conditions applies:**

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

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. These transactions were carried out on commercial terms and conditions and at market rates.

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2012:

Related Parties* (in EUR thousands)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board**	Other related parties	Total
Loans and advances to banks and customers	63 721	4 600	57 219	2 009	5 093	**132 642**
Receivables from financial derivative transactions	34 721	761	-	-	-	**35 482**
Other assets	216	496	-	-	-	**712**
Deposits from banks and customers	1 574	3 999	142	4 127	-	**9 842**
Liabilities from financial derivative transactions	61 634	1	-	-	-	**61 635**
Subordinated debt	-	45 312	-	-	-	**45 312**
Other liabilities	1 097	565	-	-	-	**1 662**
Guarantees issued	7 310	19 649	2 270	-	-	**29 229**
Commitments	-	7 555	57 918	275	1 089	**66 837**
Guarantees received	18 548	12 265	-	-	-	**30 813**

*Groups of related parties under the IAS 24 definition

**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 2011:

Related Parties* (in EUR thousands)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board**	Other related parties	Total
Loans and advances to banks and customers	93 513	31 179	61 530	2 132	4 694	**193 048**
Receivables from financial derivative transactions	31 673	482	-	-	-	**32 155**
Other assets	134	206	-	-	-	**340**
Deposits from banks and customers	4 530	2 420	106	2 630	-	**9 686**
Liabilities from financial derivative transactions	41 547	1 119	-	-	-	**42 666**
Subordinated debt	75 004	45 419	-	-	-	**120 423**
Other liabilities	1 697	399	-	-	-	**2 096**
Guarantees issued	19 535	24 296	3 995	-	-	**47 826**
Commitments	-	1 540	38 759	271	1 418	**41 988**
Guarantees received	28 672	14 170	-	-	-	**42 842**

*Groups of related parties under the IAS 24 definition

**Including members of RZB and RBI Boards of Directors

The following are revenues and expenses with related parties as at 31 December 2012:

Related Parties* (in EUR thousands)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	80	113	1 323	66	209	**1 791**
Fees and commissions income	278	776	139	-	-	**1 193**
Unrealised gain (loss) on financial derivative transactions	(15 220)	1 395	-	-	-	**(13 825)**
Operating revenues	1 271	978	249	-	-	**2 498**
Interest and similar expenses	(895)	(2 125)	-	(66)	(140)	**(3 226)**
Expenses on charges and commissions	(399)	(4 791)	-	-	-	**(5 190)**
Administrative expenses	(5 498)	(2 957)	-	(4 040)**	-	**(12 495)**
Total	**(20 383)**	**(6 611)**	**1 711**	**(4 040)**	**69**	**(29 254)**

* Groups of related parties under the IAS 24 definition

** Remuneration of the members of the Board of Directors, Supervisory Board and proxies

The following are revenues and expenses with related parties as at 31 December 2011:

Related Parties* (in EUR thousands)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	446	501	1 885	45	194	**3 071**
Fees and commissions income	91	355	120	-	-	**566**
Unrealised gain (loss) on financial derivative transactions	(2 251)	(436)	-	-	-	**(2 687)**
Operating revenues	285	830	292	-	-	**1 407**
Interest and similar expenses	(1 504)	(2 524)	-	(38)	(108)	**(4 174)**
Expenses on charges and commissions	(389)	(3 870)	-	-	-	**(4 259)**
Administrative expenses	(4 978)	(2 943)	-	(3 787)**	-	**(11 708)**
Total	**(8 300)**	**(8 087)**	**2 297**	**(3 780)**	**86**	**(17 784)**

* Groups of related parties under the IAS 24 definition

** Remuneration of the members of the Board of Directors, Supervisory Board and proxies

37. Foreign currency items

The Financial Statements contain the following volumes of assets and liabilities denominated in foreign currencies:

(in EUR thousands)	2012	2011
Assets	**103 389**	**109 786**
Of which: USD	*30 774*	*42 109*
Of which: CZK	*45 878*	*40 842*
Of which: other currencies (PLN, HUF, GBP and other)	*26 737*	*26 835*
Liabilities	**319 899**	**366 558**
Of which: USD	*210 908*	*218 994*
Of which: CZK	*36 936*	*41 801*
Of which: other currencies (PLN, HUF, GBP and other)	*72 055*	*105 763*

38. Foreign assets and liabilities

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

(in EUR thousands)	2012	2011
Assets	**283 700**	**340 175**
Of which: Austria	*127 449*	*145 386*
Of which: Czech Republic	*59 135*	*52 804*
Of which: Germany	*39 002*	*38 349*
Of which: Netherlands	*6 596*	*35 453*
Of which: USA	*855*	*19 130*
Of which: Hungary	*9 640*	*14 112*
Of which: United Kingdom	*4 880*	*9 003*
Of which: Croatia	*7 317*	*162*
Of which: Switzerland	*2 264*	*798*
Of which: Luxembourg	*-*	*8 438*
Of which: Poland	*1 267*	*954*
Of which: Slovenia	*3 868*	*10 943*
Of which: France	*1 608*	*3 121*
Of which: Other countries (mostly EU member states)	*19 819*	*1 522*
Liabilities	**351 907**	**461 685**
Of which: Austria	*79 103*	*136 879*
Of which: Other countries (mostly EU member states)	*272 804*	*324 806*

As at 31 December 2012 and 31 December 2011, the Group did not hold in its portfolio any securities issued by central governments, central banks, other banks or corporate clients based in Portugal, Italy, Ireland, Greece and Spain. As at 31 December 2012 and 31 December 2011, the Group had no other exposure to the aforementioned entities.

As at 31 December 2012, the Group recorded loan receivables mainly from retail customers from Portugal, Italy, Ireland, Greece and Spain in the amount of EUR 1 856 thousand (31 December 2011: EUR 2 546 thousand).

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

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

(in EUR thousands)	2012	2011
Contingent liabilities:	**376 271**	**484 319**
From guarantees	367 525	463 385
From letters of credit	8 746	20 934
Commitments:	**2 325 961**	**2 546 401**
From irrevocable loan commitments	1 127 436	1 544 859
Up to 1 year	*1 059 364*	*1 299 247*
More than 1 year	*68 072*	*245 612*
From revocable loan commitments	1 198 525	1 001 542
Up to 1 year	*1 032 833*	*859 853*
More than 1 year	*165 692*	*141 689*
Total	**2 702 232**	**3 030 720**

Off-balance sheet commitments from guarantees represent obligations that the Parent Company 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 Parent Company acting at the request of a customer (buyer) to make a 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 Parent Company 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 Parent Company issued the guarantee and taking into account the collateral obtained. As at 31 December 2012, the Parent Company created reserves for these risks amounting to EUR 10 458 thousand (2011: EUR 10 474 thousand), Note 30 *"Provisions for liabilities and charges"*.

An overview of the quality of contingent liabilities and other off-balance sheet items is stated in Note 47 *"Risk report"*.

Legal disputes

In the ordinary course of business, the Group is subject to legal actions and complaints. Each dispute is subject to 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 pending legal actions and to defend unjustified claims rigorously. 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 amounts to EUR 25 617 thousand (31 December 2011: EUR 23 893 thousand), Note 30*"Provisions for liabilities and charges"*.

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 EUR thousands)	2012	2011
Total non-cancellable payments for operating leases	**35 245**	**35 635**
Less than 1 year	10 351	9 645
1 year to 5 years	21 052	22 632
More than 5 years	3 842	3 358
Operating lease expense in other administrative costs	**11 049**	**12 247**

40. Finance lease

The movements in finance lease receivables are analysed as follows:

(in EUR thousands)	2012	2011
Gross investment	**15 007**	**18 793**
Up to 3 months	-	-
From 3 months up to 1 year	3 330	3 487
From 1 year up to 5 years	11 677	15 306
Unearned finance income	**731**	**1 729**
Up to 3 months	83	156
From 3 months up to 1 year	235	446
From 1 year up to 5 years	413	1 127
Net investment	**14 276**	**17 064**
Up to 3 months	(83)	(156)
From 3 months up to 1 year	3 094	3 041
From 1 year up to 5 years	11 265	14 179

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

41. Values in custody and management

(in EUR thousands)	2012	2011
Values in custody	**119 213**	**115 161**
Investment notes	58 821	38 880
Promissory notes	-	787
Merchandise and trust receipts	57 096	69 082
Gold	3 296	6 412
Values in management	**219 706**	**842 068**
Securities	219 706	842 068
Total	**338 919**	**957 229**

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

In addition to amounts in the table above, in accordance with the depository function for Tatra Asset Management, správ. spol., a.s. (TAM), as at 31 December 2012 the Parent Company reported deposited securities in custody of the TAM Unit Trusts in the amount of EUR 878 356 thousand (as of 31 December 2011: EUR 772 111 thousand).

42. Assets pledged as collateral

Liabilities secured by the Group's assets:

(in EUR thousands)	2012	2011
Deposits from banks (received loans)	83 075	54 705
Total	**83 075**	**54 705**

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

(in EUR thousands)	2012	2011
Loans and advances to banks	51 430	1 191
Financial assets at fair value through profit or loss	32 064	48 643
Held-to-maturity financial investments	1 082 822	1 219 359
Total	**1 166 316**	**1 269 193**

For information on securities pledged as collateral for the Group's liabilities, see Note 26 *"Deposits from banks"*, and Note 29 *"Liabilities from debt securities"*.

The Parent Company opened margin accounts as a collateral for derivative transactions. The amount of cash deposited by the Parent Company 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 Parent Company 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 in the amount of EUR 976 232 thousand (31 December 2011: EUR 1 184 577 thousand). For the pledged securities, the Parent Company can draw an intraday credit in the amount of EUR 400 000 thousand (31 December 2011: EUR 200 000 thousand) and has an additional option of refinancing in the amount of EUR 559 854 thousand (31 December 2011: EUR 900 000 thousand). The aforementioned amounts were not drawn as at 31 December 2012 or 31 December 2011.

43. 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 the repayment of a material portion of a receivable of 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 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 (balance sheet amounts) as at 31 December 2012:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Default loans	172	211 649	121 860	**333 681**
Provisions for default loans	172	109 846	66 100	**176 118**
Claim value of received collateral for default loans	-	65 257	58 367	**123 624**

The following summary analyses the default loan portfolio (off-balance sheet balances) as at 31 December 2012:

(in EUR thousands)	Corporate clients	Retail clients	Total
Default contingent liabilities and other off-balance-sheet items	13 275	6	**13 281**
Provisions for contingent liabilities and other off-balance-sheet items	6 400	6	**6 406**
Claim value of received collateral for contingent liabilities and other off-balance-sheet items	5 726	-	**5 726**

The following summary analyses the default loan portfolio (balance sheet amounts) as at 31 December 2011:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Default loans	225	202 427	113 298	**315 950**
Provisions for default loans	225	98 438	58 625	**157 288**
Claim value of received collateral for default loans	-	63 069	53 084	**116 153**

The following summary analyses the default loan portfolio (off-balance sheet balances) as at 31 December 2011:

(in EUR thousands)	Corporate clients	Retail clients	Total
Default contingent liabilities and other off-balance-sheet items	6 183	20	**6 203**
Provisions for contingent liabilities and other off-balance-sheet items	3 022	1	**3 023**
Claim value of received collateral for contingent liabilities and other off-balance-sheet items	2 193	-	**2 193**

44. Average number of staff

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

(in EUR thousands)	2012	2011
Group employees	3 477	3 500
Of which: Members of the Board of Directors	*7*	*7*
Total	**3 477**	**3 500**

45. Derivative financial instruments

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2012:

(in EUR thousand)	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 16)	Negative (Note 28)
a) Interest-rate contracts for hedging	**-**	**99 000**	**-**	**99 000**	**4 226**	**-**
OTC products:						
Interest rate swaps	-	99 000	-	99 000	4 226	-
b) Interest-rate contracts for trading	**798 355**	**1 546 654**	**505 842**	**2 850 851**	**83 470**	**(104 107)**
OTC products:						
Interest rate swaps	734 179	1 483 058	504 028	2 721 265	83 409	(103 662)
Interest rate options – buy	32 088	45 368	1 614	79 070	61	(385)
Interest rate options – sell	32 088	18 228	200	50 516	-	(60)
Stock exchange products:						
Interest rate futures	-	-	-	-	-	-
c) Currency contracts for trading	**1 157 233**	**789**	**-**	**1 158 022**	**10 015**	**(10 635)**
OTC products:						
Currency swaps	539 541	-	-	539 541	1 675	(4 137)
Currency forwards	297 084	749	-	297 833	4 888	(3 056)
Currency options-buy	162 621	20	-	162 641	3 452	-
Currency options-sell	157 987	20	-	158 007	-	(3 442)
Stock exchange products:						
Currency futures	-	-	-	-	-	-
d) Index-related contracts for trading	**50 693**	**188 752**	**-**	**239 445**	**3 623**	**(4 006)**
OTC products:						
Index options - buy	10 275	-	-	10 275	350	-
Index options - sell	10 236	-	-	10 236	-	(348)
Index swaps	30 182	188 752	-	218 934	3 273	(3 658)
Stock exchange products:						
Index futures	-	-	-	-	-	-
e) Commodity contracts for trading	**160**	**-**	**-**	**160**	**2**	**(2)**
OTC products:						
Commodity swaps	160	-	-	160	2	(2)
Total	**2 006 441**	**1 835 195**	**505 842**	**4 347 478**	**101 336**	**(118 750)**

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2011:

(in EUR thousand)	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	**-**	**77 000**	**-**	**77 000**	**1 675**	**-**
OTC products:						
Interest rate swaps	-	77 000	-	77 000	1 675	-
b) Interest-rate contracts for trading	**782 616**	**1 755 675**	**804 056**	**3 342 347**	**70 915**	**(94 996)**
OTC products:						
Interest rate swaps	782 016	1 619 822	783 637	3 185 475	70 732	(94 491)
Interest rate options – buy	300	80 446	6 624	87 370	183	(380)
Interest rate options – sell	300	55 407	3 109	58 816	-	(125)
Stock exchange products:						
Interest rate futures	-	-	10 686	10 686	-	-
c) Currency contracts for trading	**1 455 318**	**72 052**	**-**	**1 527 370**	**30 560**	**(22 235)**
OTC products:						
Currency swaps	686 584	31 022	-	717 606	9 307	(6 330)
Currency forwards	390 567	30 486	-	421 053	10 482	(5 140)
Currency options-buy	190 241	5 343	-	195 584	10 771	-
Currency options-sell	186 922	5 201	-	192 123	-	(10 765)
Stock exchange products:						
Currency futures	1 004	-	-	1 004	-	-
d) Index-related contracts for trading	**-**	**239 889**	**1 299**	**241 188**	**2 095**	**(2 474)**
OTC products:						
Index options - buy	-	10 275	-	10 275	368	-
Index options - sell	-	10 246	-	10 246	-	(367)
Index swaps	-	219 368	-	219 368	1 727	(2 107)
Stock exchange products:						
Index futures	-	-	1 299	1 299	-	-
e) Commodity contracts for trading	**29 254**	**-**	**-**	**29 254**	**779**	**(746)**
OTC products:						
Commodity swaps	29 254	-	-	29 254	779	(746)
Total	**2 267 188**	**2 144 616**	**805 355**	**5 217 159**	**106 024**	**(120 451)**

46. Fair value of financial instruments

Financial assets at fair value

The 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 Levels 1 to 3 based on fair value measurements as at 31 December 2012:

Financial assets at fair value	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**-**	**101 336**	**-**	**101 336**
Positive fair value of financial derivative instruments for trading	-	97 110	-	97 110
Positive fair value of financial derivative instruments for hedging	-	4 226	-	4 226
Held-for-trading financial assets	**218 649**	**150 226**	**-**	**368 875**
Debt securities and other fixed income securities	122 049	150 226	-	272 275
Shares, debt and other floating rate securities	96 600	-	-	96 600
Financial assets at fair value through profit or loss	**20 644**	**118 210**	**-**	**138 854**
Debt securities and other fixed income securities	20 644	118 210	-	138 854
Shares, debt and other floating rate securities	-	-	-	-
Available-for-sale financial assets	**-**	**-**	**623**	**623**
Available-for-sale securities	-	-	623	623
Total	**239 293**	**369 772**	**623**	**609 688**

Financial liabilities at fair value (in EUR thousands)	Level 1*	Level 2**	Level 3***	Total
Derivative financial liabilities	**-**	**118 750**	**-**	**118 750**
Negative fair value of financial derivative instruments for trading	-	118 750	-	118 750
Total	**-**	**118 750**	**-**	**118 750**

* 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 Levels 1 to 3 based on fair value measurements as at 31 December 2011:

Financial assets at fair value	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**-**	**106 024**	**-**	**106 024**
Positive fair value of financial derivative instruments for trading	-	104 349	-	104 349
Positive fair value of financial derivative instruments for hedging	-	1 675	-	1 675
Held-for-trading financial assets	**105 121**	**236 241**	**-**	**341 362**
Debt securities and other fixed income securities	54 684	236 241	-	290 925
Shares, debt and other floating rate securities	50 437	-	-	50 437
Financial assets at fair value through profit or loss	**58 918**	**74 975**	**-**	**133 893**
Debt securities and other fixed income securities	58 918	59 166	-	118 084
Shares, debt and other floating rate securities	-	15 809	-	15 809
Available-for-sale financial assets	**-**	**-**	**644**	**644**
Available-for-sale securities	-	-	644	644
Total	**164 039**	**417 240**	**644**	**581 923**

Financial liabilities at fair value (in EUR thousands)	Level 1*	Level 2**	Level 3***	Total
Derivative financial liabilities	**-**	**120 451**	**-**	**120 451**
Negative fair value of financial derivative instruments for trading	-	120 451	-	120 451
Total	**-**	**120 451**	**-**	**120 451**

* 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).

As the recent market quotation is not available, the Group transferred a portion of fixed-income debt securities from Level 1 to Level 2 in the amount of EUR 53 907 thousand as at 31 December 2011.

Financial assets recognised at amortised cost

Fixed-interest receivables from and payables to banks or customers were re-measured to fair values different from their carrying amount in the statement of financial position only 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 EUR thousands)	Fair value 2012	Carrying amount 2012	Difference 2012	Fair value 2011	Carrying amount 2011	Difference 2011
Assets						
Loans and advances to banks, net	118 469	118 469	-	168 972	168 972	-
Loans and advances to customers, net	6 299 868	6 180 699	119 169	6 595 607	6 169 142	426 465
Held-to-maturity financial investments	1 868 428	1 782 413	86 015	1 690 205	1 697 480	(7 275)
Investments in subsidiary and associated undertakings	19 661	19 661	-	13 074	13 074	-
Liabilities						
Deposits from banks	118 001	118 001	-	101 414	101 414	-
Deposit from customers	6 870 382	6 864 783	5 599	6 940 944	6 932 867	8 077
Liabilities from debt securities	805 304	794 120	11 184	748 002	753 312	(5 310)
Subordinated debt	45 312	45 312	-	120 423	120 423	-

47. 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 debtors' 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 collateral and guarantees received from private individuals or legal entities.

Retail debtors are assessed by the Parent Company 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 Parent Company 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 Parent Company. 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 collecting receivables, the Parent Company uses a very broad scale of tools and collection strategies depending on the amount and type of receivable. To collect receivables, the Parent Company uses both internal and external resources. In the case of the unsuccessful collection of receivables from clients, the receivables are subsequently forwarded to external agencies specialising in the enforcement of receivables through courts. Receivables with higher amounts and specific receivables are dealt with by an in-house expert team in co-operation with the legal department and other professional units of the Parent Company.

As part of credit risk monitoring and management, the Parent Company also closely observes the area of exposure and residual risks.

Exposure risk represents the risk resulting from the concentration of the Parent Company'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 Parent Company's objective is to focus on quality portfolio management and its adequate diversification while adhering to set exposure limits (large assets exposure and others). Simultaneously, the Parent Company develops methods for exposure risk quantification.

Residual risk represents the risk stemming from the insufficient enforceability of rights arising to the Parent Company from security received against credit risk. The Parent Company 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:

(in EUR thousands)	2012	2011
Credit risk related to balance sheet assets:		
Loans and advances to banks	118 469	168 972
Loans and advances to customers, net	6 180 699	6 169 142
Derivative financial assets	101 336	106 024
Held-for-trading securities	368 875	341 362
Financial assets at fair value through profit or loss	138 854	133 893
Held-to-maturity financial investments	1 782 413	1 697 480
Available-for-sale financial assets	623	644
Investments in subsidiary and associated undertakings	19 661	13 074
Current tax asset	3 184	-
Deferred tax asset	21 207	16 685
Other assets	30 880	34 550
Total	**8 766 201**	**8 681 826**

(in EUR thousands)	2012	2011
Credit risk related to off-balance sheet items:		
Contingent commitments from guarantees and letters of credit	376 271	484 319
Irrevocable loan commitments/stand-by facility	1 127 436	1 544 859
Revocable loan commitments/stand-by facility	1 198 525	1 001 542
Total	**2 702 232**	**3 030 720**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2012 (balance sheet amounts):

(in EUR thousands)	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	118 469	118 469	-	-	-	118 469	-
Loans and advances to customers	6 388 106	6 105 030	283 076	176 570	30 837	6 180 699	3 773 491
Public sector	*16 913*	*16 741*	*172*	*172*	*-*	*16 741*	*1 389*
Corporate clients	*3 463 756*	*3 269 029*	*194 727*	*110 096*	*24 064*	*3 329 596*	*1 634 275*
Retail clients	*2 907 437*	*2 819 260*	*88 177*	*66 302*	*6 773*	*2 834 362*	*2 137 827*
Total	**6 506 575**	**6 223 499**	**283 076**	**176 570**	**30 837**	**6 299 168**	**3 773 491**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2011 (balance sheet amounts):

(in EUR thousands)	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	168 972	168 972	-	-	-	168 972	-
Loans and advances to customers	6 357 055	6 075 868	281 187	157 486	30 427	6 169 142	3 675 501
Public sector	*16 101*	*15 876*	*225*	*225*	*-*	*15 876*	*6 141*
Corporate clients	*3 629 022*	*3 428 028*	*200 994*	*98 437*	*23 575*	*3 507 010*	*1 669 757*
Retail clients	*2 711 932*	*2 631 964*	*79 968*	*58 824*	*6 852*	*2 646 256*	*1 999 603*
Total	**6 526 027**	**6 244 840**	**281 187**	**157 486**	**30 427**	**6 338 114**	**3 675 501**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2012 (off-balance sheet items):

(in EUR thousands)	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	103 703	103 703	-	-	-	103 703	-
Contingent liabilities and other off-balance sheet liabilities to clients	2 598 528	2 585 162	13 366	6 408	4 048	2 588 072	303 627
Public sector	*1 292*	*1 292*	-	-	-	*1 292*	*215*
Corporate clients	*1 955 020*	*1 941 745*	*13 275*	*6 400*	*4 048*	*1 944 572*	*215 865*
Retail clients	*642 216*	*642 125*	*91*	*8*	-	*642 208*	*87 547*
Total	**2 702 231**	**2 688 865**	**13 366**	**6 408**	**4 048**	**2 691 775**	**303 627**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2011 (off-balance sheet items):

(in EUR thousands)	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	49 327	49 327	-	-	-	49 327	-
Contingent liabilities and other off-balance sheet liabilities to clients	2 981 392	2 975 250	6 142	3 023	7 450	2 970 919	320 406
Public sector	*3 044*	*3 044*	-	-	-	*3 044*	*32*
Corporate clients	*2 401 738*	*2 395 602*	*6 136*	*3 022*	*7 450*	*2 391 266*	*235 369*
Retail clients	*576 610*	*576 604*	*6*	*1*	-	*576 609*	*85 005*
Total	**3 030 719**	**3 024 577**	**6 142**	**3 023**	**7 450**	**3 020 246**	**320 406**

A summary of individual types of received collateral for financial assets (balance sheet amounts) at claim value is provided as follows:

(in EUR thousands)	2012	2011
Collateralisation of issued loans	**3 773 491**	**3 675 501**
Cash	51 227	73 775
Guarantees	157 587	141 276
Securities	74 918	59 907
Real estate	2 951 490	2 883 772
Movables	290 513	210 675
Receivables and other collateral	247 756	306 096
Collateralisation of receivables from derivative transactions	**3 721**	**4 190**
Cash	3 721	4 190
Total	**3 777 212**	**3 679 691**

A summary of individual types of received collateral for contingent liabilities and other off-balance sheet liabilities at claimable value is provided as follows:

(in EUR thousands)	2012	2011
To cover contingent liabilities and other off-balance sheet liabilities		
Cash	47 841	58 289
Guarantees	80 070	63 266
Securities	39 013	33 411
Real estate	77 099	78 962
Movables	4 506	9 722
Receivables and other collateral	55 098	76 756
Total	**303 627**	**320 406**

The summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2012:

(in EUR thousands)	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	118 469	-	-	-	-	-
Loans and advances to customers	6 013 696	72 902	9 007	5 019	4 406	47 523
Public sector	*16 741*	*-*	*-*	*-*	*-*	*-*
Corporate clients	*3 209 699*	*57 247*	*588*	*905*	*591*	*31 385*
Retail clients	*2 787 256*	*15 655*	*8 419*	*4 114*	*3 815*	*16 138*
Total	**6 132 165**	**72 902**	**9 007**	**5 019**	**4 406**	**47 523**

The summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2011:

(in EUR thousands)	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	168 972	-	-	-	-	-
Loans and advances to customers	5 953 236	102 876	8 058	5 091	6 607	68 745
Public sector	*15 876*	*-*	*-*	*-*	*-*	*-*
Corporate clients	*3 343 801*	*84 049*	*177*	*1*	*-*	*43 792*
Retail clients	*2 593 559*	*18 827*	*7 881*	*5 090*	*6 607*	*24 953*
Total	**6 122 208**	**102 876**	**8 058**	**5 091**	**6 607**	**68 745**

The following summary represents an analysis of the individually-impaired loan portfolio as at 31 December 2012:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Loans assessed on an individual basis – impaired	172	194 727	88 177	**283 076**
Specific provisions	172	110 096	66 302	**176 570**
Claim value of received collateral	-	55 444	28 524	**83 968**
% coverage by provisions for assets	100 %	56.5%	75.2%	**62.4%**
% coverage by provisions for assets and received collaterals	100 %	85.0%	107.5%	**92.0%**
Interest income from impaired loans	8	5 582	4 696	**10 286**

The following summary represents an analysis of the individually-impaired loan portfolio as at 31 December 2011:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Loans assessed on an individual basis – impaired	225	200 994	79 968	**281 187**
Specific provisions	225	98 437	58 824	**157 486**
Claim value of received collateral	-	61 211	25 178	**86 389**
% coverage by provisions for assets	100 %	49.0 %	73.6 %	**56.0 %**
% coverage by provisions for assets and received collaterals	100 %	79.4 %	105.0 %	**86.7 %**
Interest income from impaired loans	-	5 557	4 643	**10 200**

The summary below represents the quality of the loan portfolio that is non-impaired and non-overdue in accordance with the internal rating:

(in EUR thousands)	2012	2011
Loans and advances to banks:	**118 469**	**168 972**
Minimum risk	-	-
Excellent credit rating	626	583
Very good credit rating	108 504	148 395
Good credit rating	3 207	7 605
Standard credit rating	146	5 985
Ordinary credit rating	3 317	2 034
Sub-standard credit rating	46	163
Significantly sub-standard credit rating	-	-
Doubtful/high risk of default	2 120	2 504
Defaulted	-	-
With no assigned rating	503	1 703
Loans and advances to customers:	**6 013 697**	**5 953 236**
Of which, public sector:	***16 741***	***15 876***
Minimum risk	1	-
Excellent credit rating	-	-
Very good credit rating	880	452
Good credit rating	18	70
Standard credit rating	181	1 102
Ordinary credit rating	5 785	6 413
Sub-standard credit rating	9 455	7 802
Significantly sub-standard credit rating	419	-
Doubtful/high risk of default	2	3
Defaulted	-	-
With no assigned rating	-	34

(in EUR thousands)	2012	2011
Of which, corporate clients without project financing:	***2 396 949***	***2 522 679***
Minimum risk	-	12 758
Excellent credit rating	57 836	74 029
Very good credit rating	297 344	317 828
Good credit rating	266 291	459 305
Standard credit rating	300 441	363 069
Ordinary credit rating	573 543	421 166
Sub-standard credit rating	473 109	386 927
Significantly sub-standard credit rating	325 561	395 251
High probability of default	101 597	89 775
Defaulted	-	1 129
With no assigned rating	1 227	1 442
Of which, corporate clients – project financing:	***812 750***	***821 122***
Excellent project financing profile rating	280 708	215 706
Good project financing profile rating	385 469	498 422
Acceptable project financing profile rating	63 439	74 978
Weak project financing profile rating	68 957	31 814
Defaulted	14 177	202
Of which, retail clients	***2 787 256***	***2 593 559***
Total	**6 132 165**	**6 122 208**

The scoring system of the Parent Company'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 Basel II. The rating range has 10 grades from 0.5 to 5.0 for large corporate clients, 28 grades for small corporate clients, and 5 grades for project financing from 6.1 to 6.5.

The Parent Company provides real estate financing loans to corporate clients who have no assigned project financing rating. As at 31 December 2012, loan receivables from these clients that are not impaired or overdue, amount to EUR 120 022 thousand (31 December 2011: EUR 136 572 thousand).

The 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 Slovak bank debt securities, which amount to EUR 39 471 thousand (31 December 2011: EUR 37 666 thousand), the risk category of the respective issuers is Very Good Credit Rating or Good Credit Rating.

The Parent Company had no exposure to corporate debt securities as at 31 December 2012 (31 December 2011: EUR 15 809 thousand). The risk category of the respective issuers is credit rating 1.5 – Very Good Credit Rating as at 31 December 2011. Credit risk from derivative transactions is also minimal as transactions are secured by a certain form of hedging (eg blockage of a 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 EUR thousands)	2012	2011
Deposits with the NBS	-	240 003
Zero coupon government bonds and other securities received by the NBS for refinancing	365 415	608 504
Loans and advances to banks	88 500	33 863
Loans and advances to customers	294 520	324 105
Debt securities	1 885 256	1 510 455
Total	**2 633 691**	**2 716 930**

The overall impact of the Slovak Republic on the Group's results of operations represented income of EUR 74 942 thousand (2011: EUR 66 863 thousand), which is mostly of an interest nature.

Restructuring

The Parent Company 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 Parent Company.

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 mostly for the period of 12 months with subsequent changes in the original loan (an extension of the loan's maturity, change in the instalment amount) so as to prevent the reduction of cash flows after the termination of the loan relationship (ie no impairment of receivables).

The carrying amount of retail receivables whose contractual repayment terms were modified in 2012 due to the client's default or deteriorated financial position amounted to EUR 25 808 thousand (2011: EUR 24 037 thousand). In the case of the corporate portfolio, the carrying amount was EUR 9 593 thousand (2011: EUR 43 138 thousand).

In 2012, the Parent Company turned into cash its pledges over movable and immovable assets received as collateral for its bad debt totalling EUR 14 676 thousand (2011: EUR 10 534 thousand).

Market risk

The Parent Company 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 risk associated with the Parent Company's positions, and the expected maximum amount of potential losses, the Parent Company uses internal reports and models for individual types of risk faced by the Parent Company. The Parent Company uses a system of limits, the aim of which is to ensure that the level of risks the Parent Company is exposed to at any time does not exceed the level of risks the Parent Company 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 Parent Company may incur due to unfavourable developments in market rates and prices. To manage market risk, the Parent Company uses a system of limits imposed on individual positions and portfolios.

As to the structure of trades, the Parent Company primarily faces the following market risks:

- Currency risk
- Interest rate risk

Market risks to which the Parent Company 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 Parent Company 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 Parent Company 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 Parent Company's currency positions and on the compliance with the limits set by RBI are reported on a weekly basis.

In addition to the limit on an open currency position, the Parent Company also sets a negative gamma limit on an option position for each currency match subject to trading. The Parent Company 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 Parent Company, are closed in the market, so as to ensure that the Parent Company has no open position for this currency match.

In addition, the Parent Company 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 2012 and 2011 were as follows:

(in EUR thousands)	Net FX position 31 December 2012	Net FX position 31 December 2011
EUR	216 510	256 772
USD	(180 134)	(176 885)
Other (CZK, GBP, CHF, PNL, HUF and other)	(36 376)	(79 887)
Total net FX balance sheet position	**-**	**-**
EUR	(210 368)	(268 653)
USD	181 861	197 999
Other (CZK, GBP, CHF, PNL, HUF and other)	32 918	78 660
Total net FX off-balance sheet position	**4 411**	**8 006**
Total Net FX position	**4 411**	**8 006**

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 Parent Company 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 Parent Company 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.

The 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 Parent Company'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 related to the sensitivity of the overall position to yield curve shifts (BPV). The limits are set for individual currencies included in the Trading Book. The loss resulting from interest rate variations is limited to three stop-loss limits.

Integrated Risk Management regularly submits information on the actual amount of credit risk by individual currency and information on the use of the Banking Book's credit risk limits to the Assets and Liabilities Committee (ALCO).

In the event 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 the 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 2012:

(in EUR thousands)	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	88 500	-	-	-	86 193	174 693
Loans and advances to banks	115 355	2 603	-	-	511	118 469
Loans and advances to customers, net	3 441 610	1 073 202	1 427 017	64 335	174 535	6 180 699
Derivative financial assets	10 474	9 632	47 925	33 305	-	101 336
Held-for-trading financial assets	106 831	119 981	142 059	4	-	368 875
Financial assets at fair value through profit or loss	54 263	26 737	57 854	-	-	138 854
Held-to-maturity financial investments	527 247	41 994	1 100 772	112 400	-	1 782 413
Available-for-sale financial assets	-	-	-	-	623	623
Other assets	-	-	-	-	30 880	30 880
Interest rate position for financial assets as of 31 December 2012	**4 344 280**	**1 274 149**	**2 775 627**	**210 044**	**292 742**	**8 896 842**
Liabilities						
Deposits and advances from banks	76 992	532	40 010	-	467	118 001
Deposits from customers	1 947 516	3 189 968	1 696 391	2 276	28 632	6 864 783
Derivative financial liabilities	13 356	8 583	56 757	40 054	-	118 750
Liabilities from debt securities	117 531	277 202	380 897	18 490	-	794 120
Provisions for liabilities and charges	-	-	-	-	37 182	37 182
Other liabilities	-	-	-	-	32 583	32 583
Subordinated debt	45 312	-	-	-	-	45 312
Interest rate position for financial liabilities as of 31 December 2012	**2 200 707**	**3 476 285**	**2 174 055**	**60 820**	**98 864**	**8 010 731**
Net interest rate position as at 31 December 2012	**2 143 573**	**(2 202 136)**	**601 572**	**149 224**	**193 878**	**886 111**

Interest rate gap of financial assets and liabilities as at 31 December 2011:

(in EUR thousands)	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	273 866	-	-	-	75 421	349 287
Loans and advances to banks	165 608	818	-	-	2 546	168 972
Loans and advances to customers, net	3 375 455	1 078 119	1 469 327	65 732	180 509	6 169 142
Derivative financial assets	21 913	16 521	38 660	28 930	-	106 024
Held-for-trading financial assets	101 590	162 708	76 083	681	300	341 362
Financial assets at fair value through profit or loss	7 701	15 831	53 291	57 070	-	133 893
Held-to-maturity financial investments	157 402	256 984	1 109 374	173 720	-	1 697 480
Available-for-sale financial assets	-	-	-	-	644	644
Other assets	-	-	-	-	16 685	16 685
Interest rate position for financial assets as of 31 December 2011	**4 103 535**	**1 530 981**	**2 746 735**	**326 133**	**276 105**	**8 983 489**
Liabilities						
Deposits and advances from banks	60 250	418	397	40 000	349	101 414
Deposits from customers	2 062 244	2 775 570	2 052 545	2 014	40 494	6 932 867
Derivative financial liabilities	18 433	11 878	45 924	44 216	-	120 451
Liabilities from debt securities	186 608	200 384	348 297	18 023	-	753 312
Provisions for liabilities and charges	-	-	-	-	35 383	35 383
Other liabilities	-	-	-	-	45 434	45 434
Subordinated debt	120 423	-	-	-	-	120 423
Interest rate position for financial liabilities as of 31 December 2011	**2 447 958**	**2 988 250**	**2 447 163**	**104 253**	**121 660**	**8 109 284**
Net interest rate position as at 31 December 2011	**1 655 577**	**(1 457 269)**	**299 572**	**221 880**	**154 445**	**874 205**

Equity price risk

Equity price risk arises from the Parent Company's exposure to changes in equity investment prices. Equity price risk is determined at the Parent Company level. Equity price risk is measured using individual exposures and by calculating and monitoring the overall equity investment position. Equity investment positions are reported at the level of the overall portfolio on a weekly basis.

Commodity risk

Commodity risk arises from the Parent Company's exposure to changes in commodity prices. Commodity risk is determined at the Parent Company 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 Parent Company'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 Parent Company 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.

The GAP method sorts the Parent Company's positions into baskets and examines the Parent Company'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 Parent Company.

The table below shows the Parent Company's sensitivity to movements in exchange rates, assuming negative movements in exchange rates by 5% to the detriment of the Parent Company.

Change in the present value of assets and liabilities of the Parent Company following the movements in exchange rates of the selected currencies to the detriment of the Parent Company as at 31 December 2012:

(in EUR thousands)	Present value of exchange rate	Exchange rate in sensitivity scenario	Parent Company's position in respective currency	Parent Company's loss in respective scenario
USD	1.319	1.385	1 733	(87)
CZK	25.151	23.894	(2 541)	(127)
PLN	4.074	3.870	(1 113)	(56)
NOK	7.348	7.716	211	(11)
Total			**(1 710)**	**(281)**

Change in the present value of assets and liabilities of the Parent Company following the movements in exchange rates of the selected currencies to the detriment of the Parent Company as at 31 December 2011:

(in EUR thousands)	Present value of exchange rate	Exchange rate in sensitivity scenario	Parent Company's position in respective currency	Parent Company's loss in respective scenario
USD	1.294	1.359	21 115	(1 056)
CZK	25.787	24.498	(2 395)	(120)
HUF	314.580	330.309	102	(5)
PLN	4.458	4.681	928	(46)
RON	4.323	4.539	160	(8)
GBP	0.835	0.877	207	(10)
JPY	100.200	95.190	(201)	(10)
Total			**19 916**	**(1 255)**

The table below shows the Parent Company's sensitivity to movements in the interest rate assuming negative movement of the yield curve to the detriment of the Parent Company by 100 basis points.

Change in the present value of assets and liabilities of the Parent Company following the change in the interest rate for the selected currencies as at 31 December 2012:

(in EUR thousands)	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(12 767)
USD	-100 BPV	(1 864)
Total		**(14 631)**

Change in the present value of assets and liabilities of the Parent Company following the change in the interest rate for the selected currencies as at 31 December 2011:

(in EUR thousands)	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(10 410)
USD	-100 BPV	(1 227)
Total		**(11 637)**

As at 31 December 2012 and 31 December 2011, the Parent Company's exposure position in the Trading Book to equity price risk is insignificant. The Parent Company, therefore, does not recognise this exposure position to equity price risk.

In the Trading Book, the Parent Company has no commodity position; therefore, the change in the present value of assets and liabilities in the Parent Company's Trading Book following the change in commodity prices is also zero as at 31 December 2012 and 31 December 2011.

The Parent Company 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 Parent Company 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 fall due.

The Parent Company wishes to maintain its solvency, ie its 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), the Asset and Liabilities Management function and Capital Markets division. Regular meetings of ALCO are held on a regular basis, during which the Parent Company's liquidity is evaluated and, subsequently, decisions are made based on the current state of affairs.

The Parent Company 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 Parent Company's liquidity on a two-weekly basis and reports on its development. Information on the liquidity position is reported to ALCO bi-weekly. The Asset and Liabilities Management function submits reports on the Parent Company's structure of assets and liabilities at regular meetings of ALCO, and proposes the size and structure of the portfolio of securities held strategically for the following period subject to monitoring. The Asset and Liabilities Management function informs ALCO about new investments in securities on a regular basis.

The Parent Company monitors short-, medium- and 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 Parent Company's management. Furthermore, the Parent Company monitors the ratios determined by the NBS and the ratios and limits set by the parent company, RBI.

Deposits from customers are the primary funding source for the Parent Company. 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 2012:

(in EUR thousands)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	174 693	-	-	174 693
Loans and advances to banks	116 787	1 171	511	118 469
Loans and advances to customers, net	2 213 094	3 728 592	239 013	6 180 699
Derivative financial assets	20 106	81 230	-	101 336
Held-for-trading financial assets	205 583	163 292	-	368 875
Financial assets at fair value through profit or loss	81 000	57 854	-	138 854
Held-to-maturity financial assets	404 000	1 378 413	-	1 782 413
Available-for-sale financial investments	-	-	623	623
Investments in subsidiary and associate undertakings	-	-	19 661	19 661
Non-current intangible assets	-	-	42 913	42 913
Non-current tangible assets	-	-	77 922	77 922
Investment property	-	-	11 298	11 298
Current tax asset	3184	-	-	3 184
Deferred tax asset	-	-	21 207	21 207
Other assets	9 198	-	21 682	30 880
Total assets	**3 227 645**	**5 410 552**	**434 830**	**9 073 027**
Liabilities				
Deposits from banks	23 448	94 157	396	118 001
Deposits from customers [1)]	3 257 442	3 579 678	27 663	6 864 783
Derivative financial liabilities	21 939	96 811	-	118 750
Liabilities from debt securities	294 082	500 038	-	794 120
Provisions for liabilities and charges	-	-	37 182	37 182
Current tax liability	-	-	-	-
Other liabilities	-	-	32 583	32 583
Subordinated debt	45 312	-	-	45 312
Total liabilities	**3 642 223**	**4 270 684**	**97 824**	**8 010 731**
Equity (excluding current year profit)	-	-	958 760	958 760
Profit after tax	-	-	103 536	103 536
Total equity and liabilities	**3 642 223**	**4 270 684**	**1 160 120**	**9 073 027**
Net balance sheet position	**(414 578)**	**1 139 868**	**(725 290)**	**-**
Net off-balance sheet position [2)]	**(2 337 553)**	**4 368**	**(964 148)**	**(3 297 333)**
Cumulative balance sheet and off-balance sheet position	**(2 752 131)**	**(1 607 895)**	**(3 297 333)**	**(3 297 333)**

1) Amounts for current accounts and savings books are recognised based on the estimated maturity model.

2) The 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 2011:

(in EUR thousands)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	349 287	-	-	349 287
Loans and advances to banks	164 758	2 504	1 710	168 972
Loans and advances to customers, net	2 112 224	3 804 445	252 473	6 169 142
Derivative financial assets	38 123	67 901	-	106 024
Held-for-trading financial assets	214 358	126 704	300	341 362
Financial assets at fair value through profit or loss	23 532	110 361	-	133 893
Held-to-maturity financial assets	250 250	1 447 230	-	1 697 480
Available-for-sale financial investments	-	-	644	644
Investments in subsidiary and associate undertakings	-	-	13 074	13 074
Non-current intangible assets	-	-	41 060	41 060
Non-current tangible assets	-	-	80 839	80 839
Investment property	-	-	7 799	7 799
Deferred tax asset	-	-	16 685	16 685
Other assets	9 441	-	25 109	34 550
Total assets	**3 161 973**	**5 559 145**	**439 693**	**9 160 811**
Liabilities				
Deposits from banks	22 928	78 162	324	101 414
Deposits from customers [1)]	3 059 123	3 833 648	40 096	6 932 867
Derivative financial liabilities	30 311	90 140	-	120 451
Liabilities from debt securities	210 219	543 093	-	753 312
Provisions for liabilities and charges	-	-	35 383	35 383
Other liabilities	-	-	45 434	45 434
Subordinated debt	75 423	45 000	-	120 423
Total liabilities	**3 398 004**	**4 590 043**	**121 237**	**8 109 284**
Equity (excluding current year profit)	-	-	912 443	912 443
Profit after tax	-	-	139 084	139 084
Total equity and liabilities	**3 398 004**	**4 590 043**	**1 172 764**	**9 160 811**
Net balance sheet position	**(236 031)**	**969 102**	**(733 071)**	**-**
Net off-balance sheet position [2)]	**(2 566 624)**	**1 283**	**(1 182 499)**	**(3 747 840)**
Cumulative balance sheet and off-balance sheet position	**(2 802 655)**	**(1 832 270)**	**(3 747 840)**	**(3 747 840)**

1) Amounts for current accounts and savings books are recognised based on the estimated maturity model.

2) The 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 an analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario, as at 31 December 2012 (in non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			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	118 001	125 033	13 010	12 468	85 086	14 469
Deposits from customers	6 864 783	6 927 582	5 550 959	1 050 640	325 318	665
Liabilities from debt securities	794 120	838 383	77 841	225 725	508 780	26 037
Other liabilities	32 583	32 583	32 583	-	-	-
Subordinated debt	45 312	46 843	461	46 382	-	-
Derivative financial liabilities:						
Trading derivatives	118 750	1 085 937	847 352	150 487	70 315	17 783

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 2012 (at non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			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	367 525	367 525	367 525	-	-	-
Contingent liabilities from letters of credit	8 746	8 746	8 746	-	-	-
From irrevocable loan commitments	1 127 436	1 127 436	1 127 436	-	-	-

The summary below represents an analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario, as at 31 December 2011 (in non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			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	101 414	111 215	16 649	7 686	39 589	47 291
Deposits from customers	6 932 867	6 985 943	5 582 455	660 227	737 902	5 359
Liabilities from debt securities	753 312	842 071	22 398	218 332	574 952	26 389
Current tax liability	450	450	450	-	-	-
Other liabilities	45 434	45 434	45 434	-	-	-
Subordinated debt	120 423	126 097	1 000	77 626	47 471	-
Derivative financial liabilities:						
Trading derivatives	120 451	1 456 720	998 467	303 497	134 017	20 739

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 2011 (at non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			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	463 385	463 385	463 385	-	-	-
Contingent liabilities from letters of credit	20 934	20 934	20 934	-	-	-
From irrevocable loan commitments	1 544 859	1 544 859	1 544 859	-	-	-

Operational risk

Operational risk is the risk arising from inappropriate or erroneous procedures, human error 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 risk, 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 Parent Company uses the "Standardised Approach" according to the requirements of BASEL II and the Banking Act. Under the Standardised Approach, the Parent Company'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. The 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 Parent Company 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 Parent Company 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 Parent Company culture.

The Parent Company 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 Parent Company is also active in preparing Business Continuity plans. The plans aim to minimising impacts of unexpected events on the Parent Company's operation.

The next objective of the Parent Company is to implement an advanced operational risk management model.

Other risks

Simultaneously, in terms of implementing an internal process of capital adequacy determination, the Parent Company monitors and develops quantification and management methods aimed at other risks.

Basel II

The Parent Company 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 implementation of Basel II 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 risk, on the maintenance of effective and well-developed processes for the prudent management of individual types of risk, on the maintenance of quality and secure IT systems for the automation of processes, data collection, data analysis, calculations, and provision of outputs.

The Parent Company's intention is to implement an advanced approach to the management, quantification, and reporting of individual risks as soon as possible. As at the reporting date, for credit risk, the Parent Company used the standardised approach and the internal rating approach for calculating the regulatory capital requirement to cover credit risk. The general approach of internal ratings is applied by the Parent Company for the bulk of the non-retail portfolio - for sovereign units, institutions, corporate entities, project financing, insurance companies. Currently, the authorisation process for the SME portfolio is on-going. For the bulk of the retail portfolio, the Parent Company applies the advanced internal ratings-based approach.

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. In connection with the approved IRB approach, the Parent Company continuously reassesses the performance of its rating models and subsequently ensures the required performance of the models.

The Parent Company 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 Parent Company performs a risk relevance and materiality assessment, a risk quantification and an assessment with respect to the Parent Company‘s capital and subsequent reporting on a regular basis. 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 the mitigation of individual risk types and augmentation of the market share, profit and return on capital. Major changes introduced by the Parent Company with respect to the changing economic development included, for instance, implementing comprehensive stress testing for Pillar 1 risks as well as for other risk types identified by the Parent Company as material or partial optimisation of parameter estimates for the calculation of the own funds requirement for the retail portion of the portfolio. At the same time, the Parent Company actively uses the results of the stress testing in capital planning and capital management.

In connection with the upcoming new legislative standards known as Basel III, the Parent Company is actively preparing to start applying these stricter rules in the area of capital adequacy and liquidity in order to meet these standards without any difficulty and to maintain the required level of risk appetite, portfolio performance and return on capital.

48. Events after the Balance Sheet date

Between the balance sheet date and the approval date of these financial statements, there were no events that would require any adjustment or additional disclosure.

49. Approval of the consolidated financial statements

The annual consolidated financial statements for the immediately-preceding reporting period (as at 31 December 2011) were signed and authorised for issue on 6 March 2012.

The financial statements were signed and authorised for issue on 18 March 2013 by the following bodies/persons:

a) Statutory body

Igor Vida
Chairman of the Board of Directors
and CEO

Miroslav Uličný
Vice-Chairman of the Board of Directors
and Deputy CEO

b) Persons responsible for the bookkeeping and the preparation of the financial statements

Ľubica Jurkovičová
Accounting, Reporting
and Tax Director

Profit Distribution and Dividend Payment from 2011 Retained Earnings

Profit Distribution and Dividend Payment from 2011 Retained Earnings

Distribution of the Profit for the Year 2012

(in thousands of EUR)	
Profit after tax	**108 927**
Dividends - Ordinary shares	96 257
Dividends - Preferred shares	12 615
Allocation to retained earnings	55

Distribution of the Retained Earnings for the Year 2011

(in thousands of EUR)	
Retained earnings for the year 2011	**44 868**
Dividends - Ordinary shares	39 669
Dividends - Preferred shares	5 199

Profit according to separate financial statements of Tatra banka, a. s., see Note 33 to the consolidated financial statements.

Dividend in total amount of EUR 1,912 consisting of share of profit for 2012 in the amount of EUR 1,354 and share of retained earnings for 2011 in the amount of EUR 558 fell upon one ordinary share in par value of EUR 800.

Dividend in total amount of EUR 9,560 consisting of share of profit for 2012 in the amount of EUR 6,770 and share of retained earnings for 2011 in the amount of EUR 2,790 fell upon one ordinary share in par value of EUR 4,000.

Dividend in total amount of EUR 9.56 consisting of share of profit for 2012 in the amount of EUR 6.77 and share of retained earnings for 2011 in the amount of EUR 2.79 fell upon one preferred share in par value of EUR 4.

Dividends with no title created as at the decisive day for determination of the person entitled to claim title to dividend shall be transferred to retained earnings from previous years as at 31 December 2013.

Tantiemes for 2012

Tantiemes for 2012 is in the amount of EUR 555 250.

The Financial statements, the proposal for distribution of the profit and annual remuneration in the amount of EUR 555 250 for the members of the Supervisory Board were approved by the Ordinary General Meeting of Shareholders on May 10, 2013.

TATRA BANKA

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