





Every day, life presents new challenges and opportunities. Every day, we each have a new story to tell that involves tangible needs and requires clear answers.

In this year's annual report, we illustrate our way of banking with stories of the people, businesses and institutions who use our customized solutions. You will read stories about how we gave a boost to long-established industrial firms by enabling them to update their machinery. You will also learn about how we have supported the development of new computer systems and have provided broad support to the green economy.

These stories were built on entrepreneurship, courageous innovation, respect for tradition, and our strong bonds with local communities.

We strongly believe that being a bank today means making a concrete difference, day in and day out, for those who have chosen to do business with us. It means facing challenges together and creating a world of new opportunities.

These are true stories – snapshots of ordinary life that shape the mosaic of our daily work. At UniCredit, we are creating a world of relationships, where our stakeholders can best meet the changing needs of the times.



Raising standards to protect the environment.



UniCredit is an environmentally conscious institution and, in Slovakia, we have instituted an energy management system that complies with the STN EN 16001 EMS certification standards. This is the bank's second such certification, building on an earlier ISO 14001 certification, and underscores our commitment to reducing emissions and protecting the environment from further climate change. This was a concrete approval for the articulated project of lower energy costs. The development of sustainable energy programs is strategic both for the European Union and UniCredit which has his own project named Environmental Sustainability Program. A tangible and certified answer to an issue of great social importance.

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Supervisory Board, Board of Directors

From January 1, 2011 to December 31, 2011 the membership of the Management Board was as follows:

Chairman:	Jozef Barta
Vice-Chairman:	Mag. Franz Wolfger
Members:	Ing. Miroslav Štrokeňdl RNDr. Zuzana Žemlová Ing. Monika Kohútová, MBA

From January 1, 2011 to December 31, 2011 the membership of the Supervisory Board was as follows:

Chairman:	Heinz Meidlinger
Vice – Chariman:	Gerhard Deschkan
Members:	Claudio Cesario Carmine Ferraro (until May 5, 2011) Alberto Devoto (from May 6, 2011) Alessio Pomasan Ing. Lubomír Partika (until March 10, 2011) Ing. Karol Zimmer (from April 20, 2011) Ing. Viera Durajová Ing. Jaroslav Hazlinger Ing. Jana Szászová

Management

As of December 31, 2011 the management of UniCredit Bank Slovakia a. s. operated in the following structure:

Chief Executive Officer	Jozef Barta	
Internal Control and Internal Audit Division	Christian Hamberger	
Bank Secretariat	PhDr. Rudolf Hanuljak	
Compliance Officer	JUDr. Mário Tuchscher	
Human Resources Division	Svetlana Pančenko	
Identity and Communications	Ing. Martina Fatyková	
Legal and Compliance Division	Mgr. Vladimír Nagy	
Market Research & Strategy	MPA Vladimír Zlacký	
Private Banking	Raymond Kopka	
Corporate and Investment Banking Division	Ing. Miroslav Štokendl	
Structured Finance and Large Corporates	Ing. Jaroslav Habo	
Mid Corporates	Ing. František Doležal	
Global Transaction Banking	Ing. Roland Viskupič	
Markets	MVDr. Martin Salaj	
Financial Division	Mag. Franz Wolfger	
Accounting	Ing. Viera Durajová	
Planning and Controlling	Mgr. Lubomír Solčanský	(from May 1, 2011)
	Ing. Jaroslav Šinák	(until April 30, 2011)
Global Banking Services Division	JUDr. Marián Áč	
Bank Operations	Mgr. Ján Grujbar	
Change Management and ICT Support	Ing. Ľuboslava Uramová	
Loan Administration	Ing. Miroslav Kešelák	
Organization and Logistics	Ing. Tomáš Haramia	(from September 9, 2011)
	Ing. Kristián Lichtblau	(until August 31, 2011)
Retail Division	Ing. Monika Kohútová, MBA	
Multichannel Direct Banking	Ing. Ľuboš Kováčik	(from March 15, 2011)
Segments and Products	Ing. Marian Burian	
Retail Sales and Services	Ing. Anna Krčmáriková	(from March 1, 2011)
	Ing. Jozef Adamkov	(until August 31, 2010)
Risk Management Division	RNDr. Zuzana Žemlová	
Special Credit	JUDr. Marek Melíšek	
Strategic Credit Risk Management	Steffen Kuehnle	
Underwriting	Ing. Miroslav Gálus	

Opinion of the Supervisory Board



” Despite turbulences on financial markets in the summer months, UniCredit Bank achieved excellent business results in 2011 and grew in all segments. “

Dear Ladies and Gentlemen,
Dear shareholders,

Despite turbulences on financial markets in the summer months, UniCredit Bank achieved excellent business results in 2011. The Bank grew in all segments – loans to individuals by 16.5 %, loans to small enterprises by 26.4 % and in corporate banking by 3.3 %. We consider the increase in total new housing loans (+33.1 %) to be very successful. The Bank concentrated on stabilization of customer deposits, achieving a year-on-year increase of 9.4 % in the segment of retail deposits. As of December 31, 2011, the registered capital of UniCredit Bank Slovakia a. s. was in the amount of EUR 235,492,694.26, which represents 38,353,859 pieces of registered shares in book entry form with the nominal value of EUR 6.14 per share. During 2011 the Supervisory Board actively carried out controls of the Bank’s business strategy implementation and business activities management in accordance with the legislation of the Slovak Republic, the Articles of Association and in close cooperation with the Internal Control and Internal Audit Division. The Supervisory Board was regularly informed during its 2011 meetings about the financial results of the Bank and about the credit portfolio risk development. The Audit Committee as an advisory body of the Supervisory Board reported on its activities to the Supervisory Board at regular meetings and submitted

relevant recommendations. The Audit Committee ensured that the Management Board reacted to recommendations of both internal and external auditors and that the Supervisory Board was aware of issues which could have a significant impact on the financial condition or business matters of the Bank. As well as this, it also supported clear communication between internal audit, external auditors and the Supervisory Board. The Supervisory Board, based on its activity, hereby confirms that the account books and accounting documents of UniCredit Bank Slovakia a. s. were kept in compliance with the law, the Articles of Association and internal regulations of the Bank. In the opinion of the Supervisory Board, the financial statements of 2011 present fairly the financial situation and results of the Bank, which was also affirmed by the opinion of KPMG, the external auditor. The Supervisory Board certifies that according to the 2011 annual balance of the books, the bank generated a net profit of EUR 31,755,175.13 according to International Financial Reporting Standards. The Supervisory Board consents to the proposal of the Management Board for the year 2011 net profit distribution and recommends its approval.

A handwritten signature in black ink, reading 'Heinz Meidlinger'. The signature is written in a cursive, slightly slanted style.

Heinz Meidlinger
Chairman of the Supervisory Board

Foreword of the Chairman of the Board of Directors and CEO



” Also in 2011, UniCredit Bank successfully applied its long-term strategy focused on sustainable growth and managed to improve in all areas of business. “

Dear shareholders,

Last year's business results of our bank are very encouraging for me and my colleagues. UniCredit Bank Slovakia a. s. achieved outstanding results in 2011. The bank successfully applied its long-term strategy focused on sustainable growth and managed to improve in all areas of business. Total operating income of the bank increased by more than 12 % thanks to a healthy growth of the loan portfolio and concentration on gaining stable and meaningful customer deposits. On the other hand, the bank managed to keep the operating expenses on the 2010 level, improving effectiveness and return of used resources despite negative effects of high inflation environment. Gross operating profit of the bank which soared by more than 38 % compared to the previous year and lower need to create loan loss provisions contributed to a strong growth of profit after tax by 176.1 %.

Total volume of the balance sheet reached EUR 3.85 billion at the end of the year, which is due to much lower bank-to-bank business a decrease by 8.8 % compared with 2010. On the liabilities side, the bank focused on increasing the volume of stable retail deposits which grew by 9.4 %. Despite an outflow of some one-off extraordinary large

corporate deposits from the end of the previous year, the bank kept a healthy position in terms of liquidity with the loans to stable financial resources ratio at the level of 108 %. On the assets side, the bank directed its effort towards an improvement of its standing in the retail market through an increase in the volume of customer loans by 16.5 % driven mainly by housing loans, which went up by 33.1 %. As for corporate financing, the volume of loans grew by 3.3 % with the biggest boost in loans provided to small enterprises (by 26.4 %).

In the period of tightening of liquidity and capital regulations, the bank outperformed all requirements. Total capital of the bank went up to EUR 428 million (+ 1.6 %), net profit of 2010 (EUR 11.5 million) was fully used for further enhancing of financial strength of the bank by increasing the reserve fund and retained earnings. Capital adequacy as of 31 December 2011 was at a considerably high level of 13.43 % providing high potential for further growth.

Despite lowering of net creation of provisions and reserves in comparison to the previous year (- 47 %), the bank applied prudent risk management strategies and created

sufficient amount of provisions and impairment losses for credit, market and operational risks.

As regards customer satisfaction in the retail segment, the bank strengthened its leading position in the market (increasing the lead by 3 index points to a positive total gap of 8 TRI*M index points) and in spite of the negative macroeconomic environment effects, it enhanced customer satisfaction by 2 index points year-on-year. In the corporate segment, the bank confirmed its leading position in customer satisfaction outperforming all competitors in average by 5 points of TRI*M index.

Dear shareholders,

The Slovak banking sector will face a stern test in the upcoming period. The macroeconomic environment will be less favourable than in the last two years. Regulatory burden is not likely to become less heavy either; on the contrary, it will continue to withdraw our economic resources. It will be more difficult than ever to create shareholder value in these circumstances. However, we are a stable, well-capitalized bank and we have many reasons to be confident that we will stand our ground in the tough competition.



Jozef Barta
Chairman of the Management Board
and Chief Executive Officer

Supporting programs that change lives.



UniCredit has always sought to be closer to clients, through a range of effective social programs. UniCredit Bank in Slovakia has financed the creation of a magnetic resonance diagnostic program, renovated student dormitories, and enabled the development of the Hotel Cassovar where T-Systems employs 2,500 people in the city of Košice. Moreover, it financed the construction of a new power plant, thereby supporting the liberalization of energy markets and stimulating the development of free competitive marketplace.

Local communities need concrete answers to build a better future.

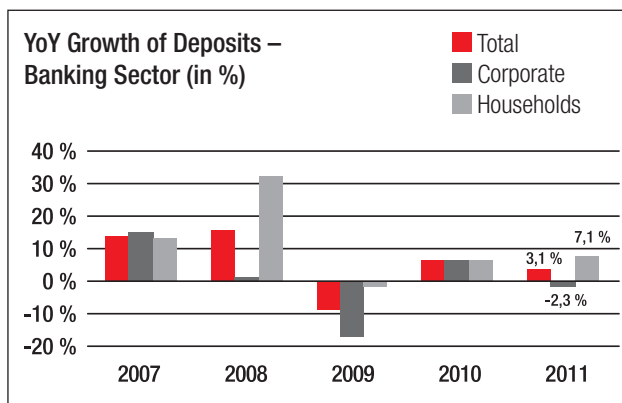
Report on Business Activity and Assets in 2011

Economic and Competitive Environment in the SR

At the beginning of 2011, the Slovak economy continued to grow especially thanks to increasing demand in Europe. Domestic demand remained weak. Although investment activities of domestic companies started to pick up little by little, household and government consumption was held back by the adopted package of fiscal measures. It was also thanks to these measures that according to preliminary data the government managed to reduce the public finance deficit from 7.7 % in 2010 to 4.6 % of GDP in 2011.

In 2011, the eurozone kept fighting the debt crisis in particular in peripheral countries. European institutions adopted several measures aimed at stabilization of financial markets and support of economic growth. At the end of the year, the ECB returned the key interest rate of the eurozone back to the lowest level in history – 1.0 %. We expect it to keep the rate at this level also in 2012.

Net profit after taxation of the banking sector increased by 33.8 % and ROE of the banking sector increased from 9.5 % to 11.2 % in 2011. The growth of profit was boosted especially by net income, which grew by 9.3 % year-on-year (thereof net interest income by 7.0 %). Operating expenses of the banking sector went up by 1.1 % year-on-year. Operating profit increased by 27.6 % in 2011. The cost of risk increased in comparison with the previous year (net creation of provisions grew by 15.9 %) even in spite of a slight decrease in the rate of non-performing loans from 6.0 % to 5.8 %.

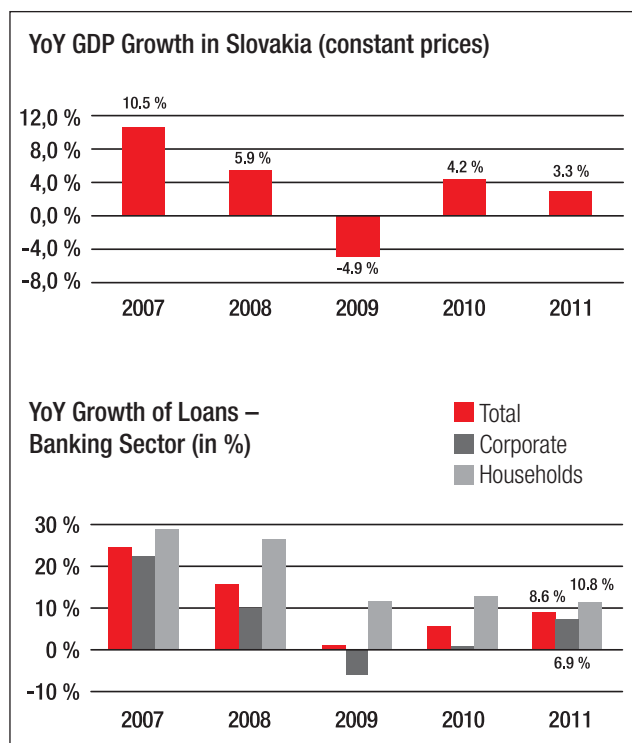


Expected Development of the Bank in 2012

Due to the slowdown of economies of our key business partners (in particular Germany) and the persisting weak domestic demand, we expect a slowdown of the GDP growth dynamics at the beginning of the year. However, in Q2 and then also in the second half of the year, we might see a moderate recovery of the Slovak economy. It should lead to recovery of growth of granted corporate loans. UniCredit Bank plans to maintain or even strengthen its position in corporate funding also in 2012. The above-standard capitalization enables us to continue financing large projects as well.

The situation on the labour market will improve only very slowly. On the other hand, real salaries should rise again thanks to inflation slowdown. The lower consumer confidence will probably contribute to keeping of a relatively high tendency to save, which should be enhanced also by attractive deposit interests offered by the banking sector in an effort to gain primary liquidity. As regards the segment of loans to individuals, we expect continued dominance of housing loans, which should be the key product of the bank also in 2012. UniCredit Bank intends to strengthen its position in the segment of consumer loans as well.

In 2012, UniCredit Bank expects a profitability increase resulting especially from growing income. However, the bank will attempt to optimize costs and focus on risk management also in 2012. The bank continues to prepare for implementation of the BASEL II – IRB principles in the corporate segment.

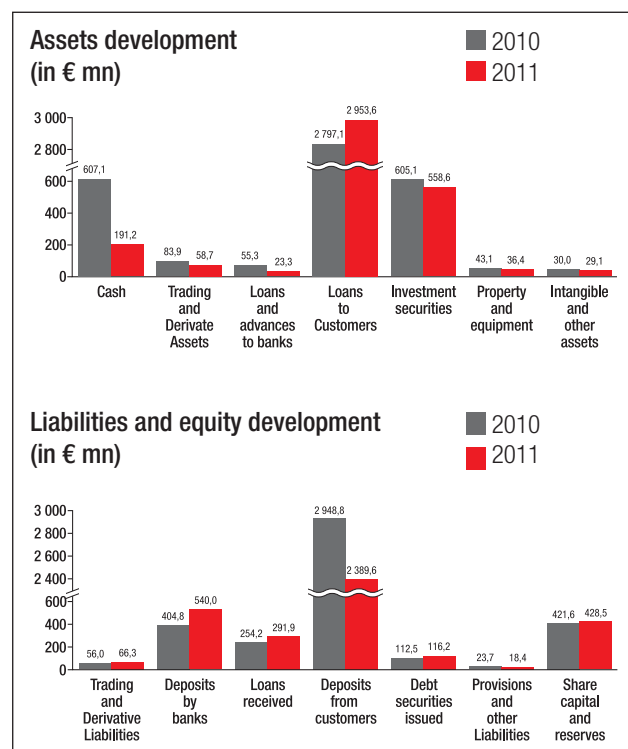


Selected Economic Results of the Bank in 2011

UniCredit Bank Slovakia reached outstanding results in 2011. The operating income of the bank increased by more than 12 % thanks to healthy growth of loan portfolio and concentration on gaining stable and meaningful customer deposits. On the other hand the bank managed the operating expenses on the 2010 level improving effectiveness and return of used resources despite negative effects of high inflation environment. Gross operating profit of the Bank which soared by more than 38 % comparing to previous year and lesser need for creation of loan loss provisions contributed to strong growth of profit after taxation.

Providing the best value for the customers of the Bank is the key pillar for sustainable growth of the Bank and superb financial results in 2011 as well. In terms of customer satisfaction in Retail segment, Bank improved its leading position among in the market (increase the lead by 3 index points yoy (TRI*M Index methodology) to positive total gap of 8 index points and despite negative effects of macroeconomic environment, Bank strengthen satisfaction of its customers in year-on-year comparison by 2 index points. In the Corporate segment, Bank proved its leading position in customer satisfaction outperforming all competitors in average by 5 points of TRI*M index.

Total volume of Balance sheet reached the amount of EUR 3.85 billion at the end of the year, which is due to much lower interbank-business a decrease by 8.8 % relative to prior year. On the liabilities side Bank focused on increasing volume of stable Retail deposits which grew by 9.4 % and despite outflow of some one-off extraordinary large corporate deposits from end of previous year, Bank kept healthy liquidity situation in terms of loans to stable financial resources ratio on the level of 108 %. On the assets side, Bank directed the effort towards improving its position in the Retail market by increasing the volume of customer loans by 16.5 % mainly driven by housing financing. In terms of corporate financing, the volume of loans grew by 3.3 %, selectively providing funds to small and medium size enterprises and middle corporate clientele.



In the period of tightening of liquidity and capital regulations, Bank outperformed all requirements. Total capital of the Bank went up to EUR 428 million (+1.6 %), Net profit of 2010 (EUR 11.5 million) was fully used for further enhancing of financial strength of the Bank by increasing reserve fund and retained earnings. Core tier 1 capital ratio was managed on significantly high level of 13.43 % as of 31. 12. 2011 providing high potential for the further growth.

Despite lowering of net creation of provisions and reserves in comparison to previous year (-47 %), Bank has applied prudent risk management strategies and created sufficient amount of provisions and impairment losses for credit, market and operational risks.

Report on Business Activity and Assets in 2011 (CONTINUED)

Risk Management of the Bank

In 2011, the bank set the following goals in the field of risk management:

- a. to minimize potential losses, enhance the early risk identification system, monitoring and security in the lasting difficult economic environment;
- b. to continue the implementation of Basel 2 principles in line with the project plan,
- c. to manage the content and time of fulfilment of strategically important risk management tasks within centrally (Group level) or locally managed projects.

Development of the bank's risks in the assessed period was in line with the set goals, internal regulations and guidelines as well as with regulatory requirements.

As regards credit risk, the bank achieved a very good level of loan portfolio quality despite tough external conditions with the share of classified loans on the total loan volume of the bank reaching 7.22 % at the end of the year, which is slightly above the banking sector level (5.75 %).

Corporate portfolio constitutes the largest portion of credit risk with less than 75 % of the total loan portfolio. The portfolio of customers-natural persons (more than 20 %) and small businesses (slightly less than 5 %) has a growing tendency. The costs of risk amounted to EUR 11.49 million.

The bank ran the following key projects in the field of credit risk:

- a/ Basel 2 – preparation for internal rating based capital requirement calculation approach (IRB approach), which the bank will apply in 2012 – 2014,
- b/ validation and re-calibration of credit models as a part of the Basel 2 – IRB approach project.

In 2011, the bank recorded loss due to operational risk in the amount of EUR 163.4 thousand, which is a decrease in comparison with 2010 (by 83.8 %). The frequency of occurrence of monitored events was lower as well (by 24.3 %). The risk capital for operational risk has been calculated according to the advanced measurement approach (AMA approach) since 2010.

Corporate Banking including Structured Finance Activities

Structured Finance and Large Corporates

In 2011, we achieved success in the segment of Large Corporates and Multinationals, particularly in financing of production of electro-technology, automobiles and their components, transportation, health-care and telecommunications. One of the pillars of successful cooperation with the UniCredit Group network focused on acquisition of foreign investors coming to Slovakia especially from Western Europe and Asia. This activity was supported also through cooperation with Export Credit Agencies.

Energy industry and energetic infrastructure remained one of the key sectors in the area of project and structured financing in 2011. In 2011, the bank was notably involved also in other projects related to renewable energy sources, namely in projects of biogas stations, biomass cogeneration units and small water power plants. Our involvement in renewable energy sources projects is closely connected with UniCredit Bank's social responsibility strategy in the area of environment protection aimed at reduction of production of direct and indirect emissions.

In 2011, we continued to support projects financed from EU structural funds. The bank's contribution to the support of these projects had the form of bridge loans, co-financing or consulting. As usual, the bank actively cooperated with multinational support institutions – the European Investment Bank and the European Bank for Reconstruction and Development. We drew EUR 195 million from the funds of these banks and allocated them to projects of our customers.

Mid Corporates

As regards the segment of Mid Corporates, we continued our successful acquisition activity in 2011, which resulted in a year-on-year growth of granted and drawn loans by 13.4 % and in an overall increase in income from this segment by 14.7 %. Companies focusing on Agro Business remained a stable component of the Mid Corporates portfolio – in cooperation with the Project Finance department we started to support/co-finance our partners also in the area of alternative energy sources, namely construction of biogas stations. We still are and will remain a stable partner of companies with foreign capital, to which we provide the same service quality as their home banks abroad. Thanks to an increased number of customers we recorded a higher volume of payment transactions executed through accounts kept in our bank and a higher volume of transactions executed through POS terminals provided by us.

Trading Desk and Treasury Sales

In 2011, UniCredit Bank confirmed its stable position and reputation in the area of Treasury and was a trustworthy partner of other banks in terms of interbank deals. An increase in the number of transactions with customers is another indicator of this segment's satisfaction with services of the bank.

As for securities trading, the bank focused mainly on trading of government bonds and treasury bills. However, the liquidity of the Slovak government bonds market was low, which was reflected also in the final result of securities trading in 2011. Despite this fact, government bonds constituted a major part of the bank's portfolio of securities in 2011 as well.

Report on Business Activity and Assets in 2011 (CONTINUED)

Retail Banking

In the Retail Banking Division, 2011 was characterized by continuation of the successful trend of increase in customer numbers, loans and deposits volumes as well as stabilization of income. In the course of the year, we also managed to implement several significant innovations regarding products and services, which contributed substantially to growing satisfaction of our customers.

As regards loan products, we again focused in particular on selling of housing loans (net year-on-year increase of more than 15 %). We saw a considerable increase in the Small Business segment as well (almost +27 %), driven by sales of a special product for associations of flat owners and housing managers intended for building insulation (program Sloveff II in cooperation with the EBRD) and by sales of other investment and operating loans.

As for innovations, UniCredit Bank was the first bank in Slovakia to introduce within the Bratislava City Card project a prepaid card which can be topped up. Out of the total number of prepaid payment cards issued as of 31 December 2011 (market total = 8,250 pieces), more than 5,500 cards were issued by UniCredit Bank within this project (65 % of the market total). StickAir – an international debit payment card MasterCard in the form of a sticker – was another unique product launched by the bank at the beginning of the summer. Thanks to built-in PayPass technology, products and services up to EUR 20 can be paid for simply by placing the StickAir sticker to a contactless POS terminal. If the amount is higher, the customer confirms the payment through entering of the PIN code. Introduction of contactless payments is UniCredit Bank's reaction to the need for innovation of payment methods and the bank is prepared to continue implementing new technological developments in this area together with expansion of the accepting network of merchants.

Besides the launch of StickAir, the bank also brought to the market an innovation in mobile internet banking. It is a service called Mobile Banking BankAir – an application which can be installed in more than 800 types of phones supporting JAVA applications with active data connection. This modern way of communication with the bank allows customers to monitor account activity and balance, make domestic payments and view debit as well as credit card transactions.

No major changes occurred in the area of traditional distribution channels and the bank continued its effort to streamline the existing branch network.

Private Banking

The bank has been serving private customers with an above-standard income and a large volume of assets for eight years. The total volume of financial assets managed by Private Banking amounted to EUR 381.8 million as of the end of 2011 – an increase of 8.4 % year-on-year.

In spite of an unfavourable macroeconomic situation the number of customers grew by almost 5 % year-on-year, which strengthened the bank's position on the private banking market.

2011 was a significant year in the income area too as Private Banking achieved the best ever result amounting to EUR 5.4 million.

This year private banking customers participated in a satisfaction survey again and as many as 98 % of the respondents were highly satisfied with services provided by Private Banking and private bankers.

The prestigious debit payment card VISA Infinite became a successful product of UniCredit Bank TOP private clients in 2011. We also added a service providing insurance from the company AXA to the card this year.

Human Resources

As of 31 December 2011, the total registered headcount of Bank employees was 1,191. 63 % of employees were working in front office positions. Staff turnover remained at the average market level. Of the total number of employees, 60 % have university education. The average age of employee was 37.8 years. Women made up 71 % of the registered headcount.

Throughout 2011, high attention was paid to employee training in the bank. The total number of training days was 5,745 and the trainings were attended by a total of 3,350 participants. A large part of the trainings was conducted through e-learning. We implemented 13 new e-learning courses, e.g. in the field of compliance, money laundering or security.

In 2010, requirements in the area of education resulting from Act no.186/2009 Coll. on Financial Intermediation and Financial Counselling were implemented and in 2011, as many as 562 employees passed a professional examination in the Insurance and Reinsurance field.

Corporate Philanthropy and Sponsoring

The bank continued to support long-term projects strategically oriented toward culture and sport as well as social projects focused on helping people in need, through which the bank could highlight the values of UniCredit Group based on linking profitability and responsibility for the community in which the bank operates.

One of the projects which the bank has been supporting for a long time is the International Film Festival Bratislava. It was already the third time that the bank was the general partner of the festival.

As regards sport sponsoring activities, the UniCredit brand is closely connected with UEFA Champions League. Last year, this unique partnership was represented in particular by a campaign called Make a kid smile.

As for philanthropy, the bank continued cooperation with the civic association MAGNA Deti v núdzi in the form of a long-term charity project, which links a bank product – a credit payment card MAGNA – and help for children in developing countries. At the end of last year, we introduced also a debit payment card MAGNA to an account, through the

use of which customers donate EUR 0.20 from each transaction directly to activities of the association. In addition, the bank joined the MAGNA Záchranca (MAGNA Helpmate) project when it introduced a standing order thanks to which customers can make regular donations to the association's account.

Furthermore, the bank – in cooperation with the UniCredit Foundation – encourages an active approach to philanthropy among its employees, which was reflected also in the participation rate of employees in the internal voting for a project focused on aiding children. The winner was a project of the association Návrát called Dajme deťom rodinu (Let's give children a family). Thanks to financial support from UniCredit Foundation, Návrát will be able to intensify its activities aimed at development of various forms of substitute family care. Besides financial donations, bank employees support the project also in their free time through provision of free voluntary financial advisory to substitute families and free legal and tax advisory regarding the administration of the association or through donations of sport equipment and books for children in substitute family care. Another form of this multilevel partnership is the offer of bank products with advantageous conditions for substitute families.

Within the Group initiative Gift Matching Program organized every year by the UniCredit Foundation, bank employees supported seven non-profit organizations active in the area of social work, healthcare, environment protection, international solidarity, education and research.

Report on Business Activity and Assets in 2011 (CONTINUED)

Shareholders

As of December 31, 2011, the registered capital of UniCredit Bank Slovakia a. s. was listed in the Bratislava I District Court Commercial Register in the amount of EUR 235,492,694.26, with a nominal value of EUR 6.14 per share.

In 2011, there were no changes in the amount of the Bank's registered capital.

**The structure of shareholders of UniCredit Bank Slovakia a. s.
as of December 31, 2011**

Shareholder	Share (%)
UniCredit Bank Austria AG	99,03
Ministry of Agriculture of the SR	0,36
Domestic shareholders with less than 1 %	0,60
Foreign shareholders with less than 1 %	0,01

Partnering with clients to generate success.



One of Russia's largest soft drink companies, a longtime client of our bank, once used 6.7 million euros in UniCredit financing to modernize its production facilities. Through this partnership, concrete action was taken in three steps: the bank devised a five-year financing plan; it helped arrange export partnerships with other companies of the Group and it extended additional UniCredit resources, including those of UniCredit Leasing, which financed some of the plant's machinery. This example shows how our bank acts as a truly European commercial institution, with a truly global vision.

Old Spring Group, Stavropol Region, Russia

Branch Network of UniCredit Bank Slovakia a. s. as of December 31, 2011

List of retail banking branches of UniCredit Bank

Regional retail network – Bratislava

Branch – address	Phone	Fax
821 08 Bratislava, Krížna 50	02/49 50 41 06	02/55 42 40 13
811 01 Bratislava, Ventúrska 7	02/59 20 61 01-04	02/59 20 61 05
811 03 Bratislava, Panenská 7	02/54 41 89 54, 55	02/54 41 32 28
811 06 Bratislava, Nám. 1. mája 18, PARK ONE	02/57 20 23 10	02/57 20 23 00
811 08 Bratislava, Dunajská 25	02/57 10 74 10	02/57 10 74 33
821 08 Bratislava, Dulovo nám. 13	02/50 20 20 61	02/50 20 20 66
813 33 Bratislava, Šancová 1/A	02/49 50 23 30, 29, 34	02/49 50 25 05
813 33 Bratislava, Šancová 1/A, BiznisDom	02/49 50 25 98	02/49 50 25 95
851 01 Bratislava, Einsteinova 18, BSC AUPARK	02/68 20 20 33, 34, 36	02/68 20 20 35
814 16 Bratislava, Hurbanovo nám. 1	02/59 30 54 10	02/54 41 66 96
821 09 Bratislava, Plynárenská 7/A	02/58 10 30 80	02/58 10 30 85
813 38 Bratislava, Rybné nám. 1, Park INN Danube	02/59 42 80 08	02/59 42 80 00
841 04 Bratislava, Dúbravská cesta 2, Westend	02/59 20 20 35	02/59 20 20 30
821 09 Bratislava, Trenčianska 56/A	02/58 10 10 75	02/58 10 10 70
821 07 Bratislava, Dudvážska 5, NC HRON	02/40 25 57 01-06	02/40 25 57 00
841 02 Bratislava, Saratovská 6B, Rustica	02/60 30 10 05	02/60 30 10 00
821 09 Bratislava, Prievozská 4/A, Apollo BC II	02/58 10 14 05, 403	02/58 10 14 00
831 04 Bratislava, Vajnorská 100, Polus CC	02/49 11 48 06	02/49 11 48 00

Regional retail network – West I

Branch – address	Phone	Fax
917 00 Trnava, Štefánikova 48	033/590 83 09	033/590 83 53
901 01 Malacký, Záhorácka 51	034/797 92 01	034/797 92 14
921 01 Piešťany, Nitrianska 5	033/791 08 14	033/791 08 33
902 01 Pezinok, Holubyho 27	033/690 54 01	033/690 54 05
909 01 Skalica, Škarniclovská 1	034/690 61 21	034/690 61 25
905 01 Senica, Hviezdoslavova 61	034/690 91 10	034/690 91 33
920 01 Hlohovec, M. R. Štefánika 4	033/735 10 19,11-12,14	033/735 10 15
911 01 Trenčín, Nám. sv. Anny 3	032/650 92 01	032/650 92 04
915 01 Nové Mesto nad Váhom, Čsl. armády 4	032/748 49 91	032/748 49 95
907 01 Myjava, Nám. M. R. Štefánika 581/29A	034/698 33 06, -01, -02	034/698 33 00
957 01 Bánovce nad Bebravou, Jesenského 561/3	038/762 70 11	038/762 70 15
017 01 Považská Bystrica, M. R. Štefánika 161/4	042/437 99 51	042/437 99 55
903 01 Senec, Lichnerova 30	02/40 20 20 52	02/40 20 20 55

Regional retail network – West II

Branch – address	Phone	Fax
949 01 Nitra, Štefánikova 13	037/692 60 00	037/692 60 50
949 01 Nitra, Chrenovská 1661/30, ZOC MAX	037/692 89 01	037/692 89 00
955 01 Topoľčany, Krušovská 19	038/532 70 54	038/532 70 55
940 62 Nové Zámky, Svätoplukova 1	035/691 12 21	035/691 12 00
940 01 Nové Zámky, Majzonovo nám. 2	035/691 34 11	035/691 34 33
934 01 Levice, Bernolákova 2	036/635 03 12	036/635 03 15
929 01 Dunajská Streda, Hlavná 5599/3B	031/590 55 09	031/590 55 00
924 01 Galanta, Revolučná 1	031/788 45 10	031/778 45 00
945 01 Komárno, Nám. M. R. Štefánika 11	035/790 00 61	035/790 00 65
927 01 Šaľa, Hlavná 12A	031/783 87 01-06	031/783 87 00
971 01 Prievidza, Ul. G. Švéniho 3A	046/518 94 02	046/518 94 00
930 39 Zlaté Klasy, Pekná cesta 1	031/591 10 14	031/591 10 15
926 01 Sereď, Dionýza Štúra 1012	031/789 30 94	031/789 27 07
931 01 Šamorín, Gazdovský rad 49/B	031/562 79 60	031/562 79 62

Regional retail network – Middle

Branch – address	Phone	Fax
010 01 Žilina, Národná 12	041/562 82 38	041/562 82 04
010 01 Žilina, Veľká okružná 59A	041/562 85 01-06	041/562 85 00
036 01 Martin, M. R. Štefánika 1	043/420 70 22	043/420 70 11
022 01 Čadca, Palárikova 85	041/430 28 11-14	041/430 28 15
031 01 Lipt. Mikuláš, Nám. osloboditeľov 7	044/547 50 04	044/547 50 05
034 01 Ružomberok, Mostová 2	044/432 06 58	044/432 06 60
960 01 Zvolen, Nám. SNP 50	045/524 80 21	045/524 80 16
960 01 Zvolen, P. O. Hviezdoslava 16	045/524 14 10	045/524 14 33
974 01 Banská Bystrica, Na Troskách 25, SC EUROPA	048/472 30 02	048/472 30 00
974 01 Banská Bystrica, Nám. SNP 18	048/471 97 01	048/471 97 00
984 01 Lučenec, Železničná 15	047/430 35 23	047/430 35 20
965 01 Žiar nad Hronom, Š. Moyzesa 427	045/678 89 01	045/678 89 05
977 01 Brezno, ČSA 17	048/670 00 51	048/670 00 55

Branch Network of UniCredit Bank Slovakia a. s. as of 31. 12. 2011 (CONTINUED)

Regional retail network – East

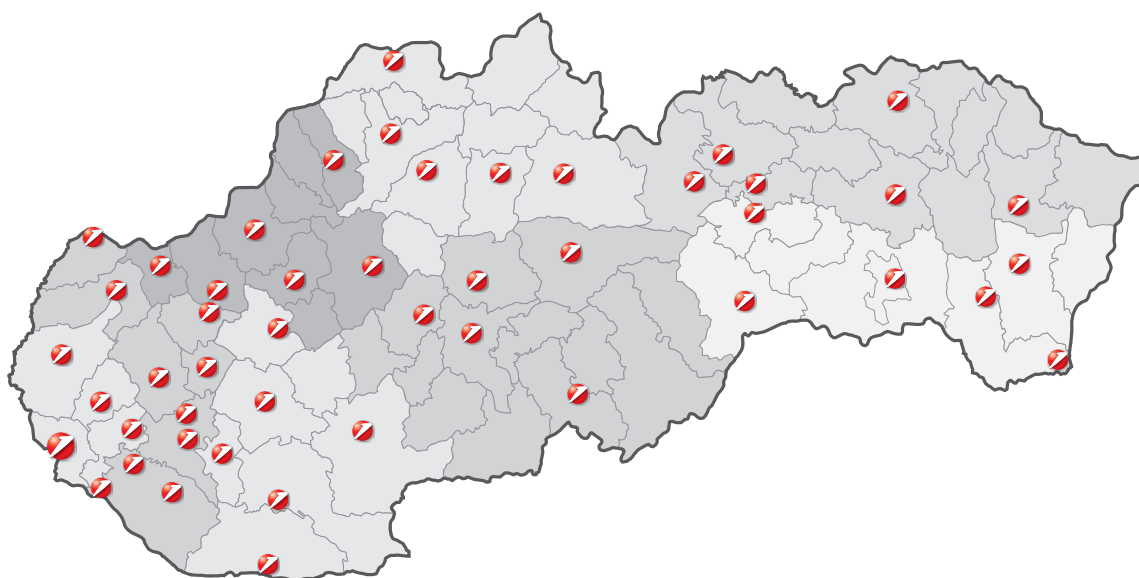
Branch – address	Phone	Fax
040 01 Košice, Rooseveltova 10	055/680 51 21	055/623 27 41
040 01 Košice, Toryská 1/C	055/788 18 64	055/788 18 60
040 01 Košice, Mlynská 7	055/728 19 02	055/728 19 11
040 01 Košice, Nám. osloboditeľov, AUPARK	055/726 25 06	055/726 25 00
071 01 Michalovce, Nám. osloboditeľov 1	056/688 07 01	056/688 07 07
048 01 Rožňava, Nám. baníkov 33	058/788 07 08	058/788 07 00
076 43 Čierna nad Tisou, Hlavná 11	056/687 15 41	056/687 15 40
075 01 Trebišov, M. R. Štefánika 20	056/667 00 19	056/667 00 15
080 01 Prešov, Hlavná 29	051/772 96 38	051/772 96 05
080 01 Prešov, Vihorlatská 2A, ZOC MAX	051/756 30 06	051/756 30 00
085 01 Bardejov, Dlhý rad 17	054/488 04 15	054/488 04 10
066 01 Humenné, Mierová 64/2	057/786 23 41	057/786 23 45
058 01 Poprad, Popradské nábr. 18	052/787 03 10	052/772 11 65
052 01 Spišská Nová Ves, Zimná 56	053/419 71 10	053/442 57 88
060 01 Kežmarok, Hlavné nám. 3	052/468 00 31	052/468 00 35
054 01 Levoča, Nám. Majstra Pavla 19	053/418 26 07	053/418 26 00

List of corporate banking branches of UniCredit Bank

Branch – address	Phone	Fax
821 08 Bratislava, Krížna 50	02/49 50 42 02	02/55422774
917 01 Trnava, Štefánikova 48	033/590 83 30	033/590 83 53
911 01 Trenčín, Nám. sv. Anny 3	032/650 92 02	032/650 92 04
949 01 Nitra, Štefánikova tr. 13	037/692 60 00	037/692 60 50
929 01 Dunajská Streda, Hlavná 5599/3B	031/590 55 38	031/590 55 20
010 01 Žilina, Národná 12	041/562 82 01	041/562 82 04
036 01 Martin, M. R. Štefánika 1	043/420 70 23	043/420 70 05
960 01 Zvolen, Nám. SNP 50	045/524 80 11	045/532 07 00
040 01 Košice, Rooseveltova 10	055/680 51 11	055/623 27 41
080 01 Prešov, Hlavná 29	051/772 96 11, 04	051/772 96 00
058 01 Poprad, Popradské nábr. 18	052/787 03 10	052/772 11 65

List of private banking branches of UniCredit Bank

Branch – address	Phone	Fax
811 01 Bratislava, Ventúrska 7	02/59 30 28 20	02/59 30 28 21
917 01 Trnava, Štefánikova 48	033/590 83 11	033/590 83 53
911 01 Trenčín, Nám. sv. Anny 3	032/650 92 09	032/650 92 04
949 01 Nitra, Štefánikova tr. 13	037/692 60 13	037/692 60 50
929 01 Dunajská Streda, Hlavná 5599/3B	031/590 55 29	031/590 55 20
010 01 Žilina, Národná 12	041/562 82 31	041/562 82 04
036 01 Martin, M. R. Štefánika 1	043/420 70 02	043/422 48 92
960 01 Zvolen, Nám. SNP 50	045/524 80 24	045/532 07 00
040 01 Košice, Rooseveltova 10	055/680 51 83	055/680 51 84
058 01 Poprad, Popradské nábr. 18	052/787 03 68	052/77 211 65



Keeping careers on track during maternity leave.



In Hungary, our Mum's Portal provides mothers with up-to-date information on what's happening at UniCredit. There is an emphasis on conveying important news and recent developments to colleagues who, being on maternity leave, are temporarily away from their usual duties. This is a concrete answer to ensure Hungarian colleagues a rapid and smoother reintegration at work after their leave ends.

Henrietta Kónya-Halászi, HR office, with her daughter Gréta Kónya

Financial statements

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

Year ended 31 December 2011

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Independent Auditors' Report



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Dvořákovo nábrežie 10
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Slovakia

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Fax +421 (0)2 59 98 42 22
Internet www.kpmg.sk

Translation of the Independent Auditors' Report originally prepared in Slovak language

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of UniCredit Bank Slovakia a. s.:

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

Management's Responsibility for the Financial Statements

Management as represented by the statutory body is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 our 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, we consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

28 February 2012
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96



KPMG Slovensko spol. s r. o. a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Responsible auditor:
Ing. Richard Farkaš, Ph.D.
License SKAU No. 406

Obchodný register Slovenského súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

ICG/Registration number: 31 348 238
Evidenčné číslo licencie audítora: 96
Licence number of statutory auditor: 96

Statement of financial position

Year Ended 31 December 2010

UniCredit Bank Slovakia a. s.

Statement of financial position As at 31 December 2011

	Notes	2011 € '000	2010 € '000
Assets			
Cash and cash equivalents	7	191,236	607,079
Trading assets	9	56,888	81,188
Derivative assets held for risk management	10	1,789	2,741
Loans and advances to banks	11	23,314	55,287
Loans and advances to customers	12	2,953,601	2,797,100
Investment securities	14	558,606	605,079
Property and equipment	15	36,447	43,085
Intangible assets	16	7,085	15,142
Deferred tax asset	24	18,625	12,788
Other assets	17	2,538	1,182
Prepayments and accrued income		838	884
		<u>3,850,967</u>	<u>4,221,555</u>
Liabilities			
Trading liabilities	9	45,119	46,043
Derivative liabilities held for risk management	10	21,159	9,982
Deposits by banks	18	540,025	404,763
Customer accounts	19	2,389,619	2,948,805
Loans received	20	291,917	254,185
Debt securities issued	21	116,210	112,494
Provisions	22	4,901	8,714
Corporate income tax – payable	23	353	1,823
Other liabilities		7,452	7,535
Accruals and deferred income		5,739	5,660
		<u>3,422,494</u>	<u>3,800,004</u>
Share capital and reserves			
Share capital	25	235,493	235,493
Reserves	26	192,980	186,058
		<u>428,473</u>	<u>421,551</u>
		<u>3,850,967</u>	<u>4,221,555</u>

The financial statements, which include the notes on pages 34 to 103, were approved by the Board of Directors on 28 February 2012 and signed by:


Jozef Barta
Chairman of the Management Board


Franz Wolfger
Vice-Chairman of the Management Board

The financial statements were prepared by the person responsible for the preparation of the financial statements and signed by:


Viera Durajová
Head of Accounting

Statement of comprehensive income

Year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Interest income	28	134,394	112,775
Interest expense	29	(48,422)	(39,029)
Net interest income		85,972	73,746
Fee and commission income	30	35,418	33,783
Fee and commission expense	30	(6,716)	(5,773)
Net fee and commission income	30	28,702	28,010
Net trading income	31	7,713	5,542
Other income		641	2,265
		8,354	7,807
Operating income		123,028	109,563
Administrative expenses	32	(63,674)	(61,446)
Depreciation	15	(5,172)	(6,361)
Amortisation	16	(3,666)	(5,179)
Operating expenditure		(72,512)	(72,986)
Operating profit before impairment losses and provisions		50,516	36,577
Impairment losses on loans and advances	13	(12,599)	(20,896)
Impairment losses/net release of impairment losses on property and equipment	15, 16	(333)	728
Impairment losses on other assets	17	(55)	(384)
Provisions	22	1,254	(1,492)
Profit before taxation		38,783	14,533
Income tax expense	33	(7,028)	(3,032)
Profit after taxation		31,755	11,501
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value, net of tax		(1,571)	2,901
Net amount transferred to profit or loss		486	-
Available-for-sale assets:			
Change in fair value, net of tax		(25,711)	(1,498)
Net amount transferred to profit or loss		1,806	162
Other comprehensive income		(24,990)	1,565
Total comprehensive income for the year		6,765	13,066
Basic and diluted earnings per share (expressed in EUR per share)	34	0.83	0.30

The notes on pages 34 to 103 are an integral part of these financial statements.

Statement of changes in shareholders' equity Year ended 31 December 2011

	Share capital €'000	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 1 January 2010	235,493	156,895	36,681	1,998	(3,021)	428,046
Total comprehensive income for the year						
Profit for 2010	-	11,501	-	-	-	11,501
Other comprehensive income						
Available-for-sale assets:						
Change in fair value, net of tax	-	-	-	(1,498)	-	(1,498)
Net amount transferred to profit or loss	-	-	-	162	-	162
Cash flow hedges:						
Effective portion of changes in fair value, net of tax	-	-	-	-	2,901	2,901
Total other comprehensive income	-	-	-	(1,336)	2,901	1,565
Total comprehensive income for the year	-	11,501	-	(1,336)	2,901	13,066
Transactions with owners						
Dividends	-	(19,561)	-	-	-	(19,561)
Transfers	-	(2,210)	2,210	-	-	-
At 31 December 2010	235,493	146,625	38,891	662	(120)	421,551

See also notes 25 and 26 for details of movements in shareholders' equity accounts during the year. The notes on pages 34 to 103 are an integral part of these financial statements.

Statement of changes in shareholders' equity

Year ended 31 December 2011 (CONTINUED)

	Share capital €'000	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 1 January 2011	235,493	146,625	38,891	662	(120)	421,551
Total comprehensive income for the year						
Profit for 2011	-	31,755	-	-	-	31,755
Other comprehensive income						
Available-for-sale assets:						
Change in fair value, net of tax	-	-	-	(25,711)	-	(25,711)
Net amount transferred to profit or loss	-	-	-	1,806	-	1,806
Cash flow hedges:						
Effective portion of changes in fair value, net of tax	-	-	-	-	(1,571)	(1,571)
Net amount transferred to profit or loss	-	-	-	-	486	486
Total other comprehensive income	-	-	-	(23,905)	(1,085)	(24,990)
Total comprehensive income for the year	-	31,755	-	(23,905)	(1,085)	6,765
Transactions with owners						
Untaken dividends	-	157	-	-	-	157
Transfers	-	(1,150)	1,150	-	-	-
At 31 December 2011	235,493	177,387	40,041	(23,243)	(1,205)	428,473

See also notes 25 and 26 for details of movements in shareholders' equity accounts during the year. The notes on pages 34 to 103 are an integral part of these financial statements.

Statement of cash flows

Year ended 31 December 2011

	Notes	2011 €'000	2010 €'000
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	35	57,136	47,997
Decrease in trading assets		24,300	16,948
Decrease in derivative assets held for risk management		1,438	5,637
Decrease in loans and advances to banks		31,973	9,766
Increase in loans and advances to customers		(169,100)	(407,661)
Increase in other assets		(7,248)	(449)
Decrease in prepayments and accrued income		46	82
(Decrease)/increase in trading liabilities		(924)	89
Increase/(decrease) in derivative liabilities held for risk management		11,177	(2,216)
Increase in deposits by banks		135,262	292,672
(Decrease)/increase in customer accounts		(559,186)	741,113
Use of provisions		(2,559)	-
Decrease in other liabilities		(83)	(507)
Increase in accruals and deferred income		79	204
Income tax paid		(8,473)	(2,989)
Net cash (used in)/from operating activities		(486,162)	700,686
Cash flows from investing activities			
Acquisition of investment securities		(279,402)	(446,591)
Proceeds from sale of investment securities		302,823	202,070
Sale/(purchase) of property and equipment		1,059	(3,012)
Sale/(purchase) of intangible assets		4,391	(5,106)
Net cash from/(used in) investing activities		28,871	(252,639)
Cash flows from financing activities			
Proceeds from/(repayment of) loans received		37,732	(12,064)
Issuance of debt securities		3,716	20,929
Dividends paid		-	(19,561)
Net cash from/(used in) financing activities		41,448	(10,696)
Net (decrease)/increase in cash and cash equivalents		(415,843)	437,351
Cash and cash equivalents at beginning of year		607,079	169,728
Cash and cash equivalents at end of year	7	191,236	607,079

The notes on pages 34 to 103 are an integral part of these financial statements.

Notes to the financial statements

Year ended 31 December 2011

1. General information

UniCredit Bank Slovakia a. s. ('the Bank'), is a company incorporated in the Slovak Republic. The Bank's registered office is at Šancová 1/A, 813 33 Bratislava, IČO: 00681709, tax identification number: 2020372618. The ultimate shareholder is UniCredit S.p.A., a bank incorporated in Italy.

At 31 December 2011, the shareholders structure was as follows:	
Shareholders	%
UniCredit Bank Austria AG, Vienna, Austria	99.0
Ministry of Agriculture of the Slovak Republic	0.4
Other shareholders	0.6

The principal activities of the Bank are the provision of banking operations, securities trading and investment banking services to commercial and private customers resident mainly in the Slovak Republic.

The Bank's headquarter is in Bratislava. The Bank operates through 74 branch offices located throughout the Slovak Republic.

The financial statements of UniCredit Bank Slovakia a. s. for the preceding accounting period, the year ended 31 December 2010, were approved by the General Meeting of Shareholders on 20 April 2011.

The financial statements of the Bank are included in the consolidated financial statements of UniCredit S.p.A. These financial statements are available at Piazza Cordusio, 20123 Milan, Italy.

The members of the Board of Directors are as follows:

Jozef Barta – chairman
Franz Wolfger – vice-chairman
Miroslav Štokendl
Zuzana Žemlová
Monika Kohútová

The members of the Supervisory Board are as follows:

Heinz Meidlinger – chairman
Gerhard Deschkan – vice-chairman
Alberto Devoto, from 6 May 2011
Carmine Ferraro, until 5 May 2011
Claudio Cesario
Viera Durajová
Alessio Pomasan
Jaroslav Hazlinger
Jana Szásová
Karol Zimmer, from 20 April 2011
Lubomír Partika, until 10 March 2011

The members of the Audit Committee are as follows:

Heinz Meidlinger
Claudio Cesario
Alberto Devoto, from 6 May 2011
Carmine Ferraro, until 5 May 2011

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and as required by Section 17a of the Slovak Act No 431/2002 Coll. on Accounting as amended.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit and loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

(c) Functional and presentation currency

These financial statements are presented in euro, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in notes 4 and 5.

(e) Comparative figures

The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

(f) Changes in accounting policies

There were no changes in accounting policy during the year ended 31 December 2011.

(g) Other accounting developments

Disclosures pertaining to fair values and liquidity risk for financial instruments

The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, which require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reason therefore, are required to be disclosed for each class of financial instruments.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of guarantee to be disclosed in the earliest period in which the guarantee could be called.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions denominated in foreign currencies are translated to euro at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at each end of a reporting period are translated to euro at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. All resulting gains and losses are recorded in Net trading income in the profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented, together with all other changes in the fair value of trading assets and liabilities, in Net trading income.

Interest income and expense in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortized cost calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense
- fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items in fair value hedges of interest rate risk.

(c) Fees and commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawn-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(f) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(g) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at each end of a reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits by banks, customer accounts, loans received and debt securities issued on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Bank also derecognises certain assets when it writes off assets deemed to be uncollectible.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, the discounted cash flow method and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

3. Significant accounting policies (CONTINUED)

Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported by observable market data or the transaction is closed out.

Assets and long positions are measured at bid price; liabilities and short positions are measured at asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank uses widely recognised valuation models for determining the fair value of the more common financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

(vi) Identification and measurement of impairment

At each end of a reporting period, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectable (see note 5).

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash, unrestricted balances held with the National Bank of Slovakia and highly liquid financial assets with original maturities of less than three months which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of Net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(k) Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Bank designates derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125 percent. The Bank makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The treatment of changes in their fair value depends on classification of derivatives held for risk management purposes into the following categories:

(i) Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of comprehensive income as the hedged item).

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

(ii) Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative are recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued and the amount recognised in other comprehensive income and presented in the hedging reserve remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

(iii) Other non-trading derivatives

When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

3. Significant accounting policies (CONTINUED)

(iv) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a 'host contract'). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

(l) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo' or 'stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

(m) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would

result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Bank from classifying investments securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in income when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings 20 years, straight line
Furniture, fittings and equipment 4 to 12 years, straight line

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(o) Intangible assets

Software

Software is stated at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight line basis over the 2 to 5 years estimated useful life of the software.

(p) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases and the leased assets are not recognised on the Bank's statement of financial position.

(q) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(r) Deposits, customer accounts, debt securities issued and loans received

Deposits, customer accounts, debt securities issued, and loans received are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Bank sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit received, and the underlying asset continues to be recognised in the Bank's financial statements.

(s) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

3. Significant accounting policies (CONTINUED)

measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(t) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iii) Short-term benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(u) Earnings per share

The Bank presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of any dilutive potential ordinary shares.

(v) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see note 6).

(w) New standards and interpretations not yet adopted

The following recently issued standards, amendments to standards and interpretations are not effective for the year ended 31 December 2011, and have not been applied in preparing these financial statements:

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Earlier application is permitted.)

The Amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The Bank does not expect the amendment to IFRS 7 to have material impact on the financial statements, because of the nature of the Bank's operations and the types of financial assets that it holds.

4. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management (see note 5).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3 (h)(vi).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the member of the Board of Directors responsible for Credit Risk Management.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (h)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's policy on fair value measurement is described in note 3(h)(v).

The Bank measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

4. Use of estimates and judgements (CONTINUED)

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over-the-counter struc-

ured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a control function performed by the Bank Market risk personnel, which is independent of front office management. Specific controls include verification of observable pricing inputs and reperformance of model valuations; a review and approval process for new models and changes to models; calibration and back testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments.

The reported amounts of financial instruments stated at fair value analysed according to valuation methodology at 31 December 2011 were as follows:

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets					
Trading assets	9	3,456	53,432	-	56,888
Derivative assets held for risk management	10	-	1,789	-	1,789
Investment securities	14	-	558,606	-	558,606
		3,456	613,827	-	617,283
Liabilities					
Trading liabilities	9	-	45,119	-	45,119
Derivative liabilities held for risk management	10	-	21,159	-	21,159
		-	66,278	-	66,278

The reported amounts of financial instruments stated at fair value analyzed according to valuation methodology at 31 December 2010 were as follows:

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets					
Trading assets	9	-	81,188	-	81,188
Derivative assets held for risk management	10	-	2,741	-	2,741
Investment securities	14	-	605,079	-	605,079
		-	689,008	-	689,008
Liabilities					
Trading liabilities	9	-	46,043	-	46,043
Derivative liabilities held for risk management	10	-	9,982	-	9,982
		-	56,025	-	56,025

The Bank did not have financial assets or liabilities in the Level 3 fair value hierarchy during the years ended 31 December 2011 and 31 December 2010 and in the Level 1 during the year ended 31 December 2010.

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'trading', management has determined that the Bank meets the description of trading assets and liabilities set out in accounting policy 3 (j).
- In classifying financial assets as held-to-maturity, management has determined that the Bank has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3 (m)(i).

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Bank has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposures relate to highly probable future cash flows.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management

(a) Introduction

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

In addition, the Bank is exposed to operational risk from the normal course of its activities.

Information on the exposure to each of the above risks; the objectives, policies and processes for measuring and managing risk; and on the management of the Bank's capital is set out below.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. In exercising this responsibility they have established the Asset and Liability Committee ('ALCO'), the Credit Committee and the Operational Risk Committee. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Strategy in using financial instruments

The Bank accepts deposits from customers at agreed rates and for various periods (although short-term periods are most common). The Bank seeks to earn margins by investing these funds in quality assets such as state bonds, euro-denominated corporate bonds, treasury bills and loans to customers with acceptable credit risk. Corporate loans are most common, but retail lending is steadily increasing and the Bank has a licence for granting mortgage loans. Margins are achieved either through

lending for longer periods or by using special funds with fixed rates, while liquidity risk is managed within approved limits which follow both National Bank of Slovakia ('NBS') and UniCredit S.p.A. requirements.

The Bank also trades in financial instruments (mainly state bonds and foreign currencies) where it takes positions to take advantage of short-term market movements in bond and currency prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Regulatory requirements

The Bank is subject to the regulatory requirements of the National Bank of Slovakia. These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, credit exposure with clients of the Bank and liquidity. These requirements apply to all banks in Slovakia and compliance is determined based on the Bank's financial reporting under Slovak statutory accounting and banking regulations.

A summary of some of the applicable requirements is as follows:

- Capital adequacy required to be at least 8 % of risk weighted assets;
- Minimum capital of EUR 16,600,000 (EUR 33,200,000 for a bank with a mortgage licence);
- Credit exposure against one non-financial entity, group of economically-related entities constituting the parent undertaking or subsidiaries of the bank, other economically-related entities or the country and the central bank, may not exceed 25 % of the Bank's capital;
- Credit exposure against financial entity, or against a group of entities of which at least one is a financial one, may not exceed 25 % of the Bank's capital or EUR 150 million;
- Compulsory minimum reserves are calculated as 2 % of primary deposits;
- The Bank's capital defined for the purpose of these requirements includes registered capital, non-distributable reserves, retained earnings and fair value reserve less equity investments;
- The exposure to a person connected with the Bank should not exceed specified percentages of the Bank's capital:
 - 2 % for an individual,
 - 10 % for companies.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The responsibility for the management of credit risk is delegated to the Risk Management Division, headed by the Chief Risk Officer and reporting directly to the Board of Directors. Units within the Risk Management Division are responsible for managing credit risk on a portfolio as well as an individual level, in line with regulatory requirements and common Group guidelines. The main responsibilities include:

- Formulating credit policies in consultation with the parent company, covering collateral requirements, credit assessment, risk rating and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Competence Levels approved by the Board of Directors. Larger facilities require approval by the Board of Directors and/or by parent company bodies as appropriate.
- Reviewing and assessing credit risk. All credit exposures have to be reviewed and assessed by the appropriate competence level, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and country, settlement and facility line (treasury trades).
- Developing and maintaining the Bank's risk ratings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk rating system is used in determining where impairment provisions may be required against specific credit exposures. The current risk rating framework consists of ten grades reflecting varying degrees of risk of default. The responsibility for setting risk rating lies with the final approving competence level as appropriate. Risk ratings are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Bank's senior management on the credit quality of the portfolio and appropriate corrective action is taken.
- Promoting best practice throughout the Bank in the management of credit risk.

Overall bank risks are regularly reviewed with measurements being provided by the ALCO and Credit Committee. The Bank manages credit risk by:

- a) applying established, clear rules for individual credit risk exposures,
- b) credit portfolio risk management.

The Bank's credit risk exposure rules include: a) placing of limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, based mainly on regulatory requirements; b) strict rules with respect to connected lending; c) rules for granting and monitoring of loans; and d) rules for the collection of past due loans. Total exposure towards one client or group of clients includes all credit risk bearing products and individual limits can be adjusted in response to a client's declining financial or non-financial position. Limit utilisation is monitored usually every two weeks.

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets). This credit risk exposure is managed as part of the overall lending limits with customers and counterparties, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

The Bank's credit risk represents the potential cost to replace the derivative contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Exposure to credit risk	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2011 €'000	2010 €'000	2011 €'000	2010 €'000	2011 €'000	2010 €'000
Individually impaired						
Grade 2: Impaired	1,429	-	-	-	-	-
Grade 3: Impaired	19,682	-	-	-	-	-
Grade 4: Impaired	137,352	142,377	-	-	-	-
Grade 5: Impaired	40,653	28,836	-	-	-	-
Gross amount	199,116	171,213	-	-	-	-
Allowance for impairment	(59,253)	(47,528)	-	-	-	-
Carrying amount	139,863	123,685	-	-	-	-
Collectively impaired						
Grade 2: Impaired	1,163	733	-	-	-	-
Grade 3: Impaired	129	1,891	-	-	-	-
Grade 4: Impaired	5,940	10,178	-	-	-	-
Grade 5: Impaired	12,337	9,570	-	-	-	-
Gross amount	19,569	22,372	-	-	-	-
Allowance for impairment	(7,707)	(6,049)	-	-	-	-
Carrying amount	11,862	16,323	-	-	-	-
Past due but not impaired						
Grade 1	231,397	171,924	-	-	-	-
Gross amount	231,397	171,924	-	-	-	-
Allowance for impairment	(1,307)	(2,334)	-	-	-	-
Carrying amount	230,090	169,590	-	-	-	-
Past due but not impaired comprises:						
1-30 days	223,219	166,081	-	-	-	-
30-60 days	3,034	3,240	-	-	-	-
60-90 days	1,262	167	-	-	-	-
90-180 days	2,572	94	-	-	-	-
180 days +	3	8	-	-	-	-
Carrying amount	230,090	169,590	-	-	-	-
Neither past due nor impaired						
Grade1: Low-fair risk	2,577,056	2,495,781	23,314	55,287	558,606	605,079
Gross amount	2,577,056	2,495,781	23,314	55,287	558,606	605,079
Allowance for impairment	(5,270)	(8,279)	-	-	-	-
Carrying amount	2,571,786	2,487,502	23,314	55,287	558,606	605,079
Total carrying amount	2,953,601	2,797,100	23,314	55,287	558,606	605,079

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

Impaired loans and investment securities

Impaired loans and securities are loans and advances and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/investment security. Since 1 January 2011 the Bank has implemented a new methodology of loan impairment classification developed by the UniCredit Group. Data as at 31 December 2010 was recalculated according to the new methodology. This change did not have a significant impact on the level of impairment allowances.

Based on the guidelines, the Risk Grades have been reviewed. The former Grades 1 and 2 have merged into a new Grade 1, comprising performing loans. Grades 2, 3, 4, and 5 now make up the impaired portfolio of UniCredit Bank Slovakia, a. s.

Grade 1 comprises loans that are performing well. The overdue days may not exceed 90 and there are no other signs that the client would be unlikely to pay.

Grade 2 comprises loans, where payments are overdue more than 90 days or show signs that the client is unlikely to pay.

Grade 3 includes renegotiated or restructured loans, if the net present value of the loans has changed, or if at the time of signing the adapted agreement the loan was past due by more than 180 days or other signs of default existed.

Grade 4 is reserved for doubtful loans, usually delegated to the Special Credit division, but not yet insolvent. It should include renegotiated/restructured loans, which have become overdue by 31-365 days a second time (i.e. after signing the restructuring agreement).

Grade 5 comprises non-performing loans.

Past due but not impaired loans and investment securities

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified individually.

Write-off policy

The Bank writes off a loan or investment security balance (and any related allowances for impairment losses) when the Risk Division determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller-balance standardised loans, charge-off decisions generally are based on a product-specific past due status.

Set out below is an analysis of the gross and net of allowance for impairment amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	Gross €'000	Net €'000	Gross €'000	Net €'000	Gross €'000	Net €'000
31 December 2011						
Grade 2: Individually impaired	1,429	1,428	-	-	-	-
Grade 3: Individually impaired	19,682	13,457	-	-	-	-
Grade 4: Individually impaired	137,352	113,634	-	-	-	-
Grade 5: Individually impaired	40,653	11,344	-	-	-	-
	199,116	139,863	-	-	-	-
31 December 2010						
Grade 2: Individually impaired	-	-	-	-	-	-
Grade 3: Individually impaired	-	-	-	-	-	-
Grade 4: Individually impaired	142,377	111,325	-	-	-	-
Grade 5: Individually impaired	28,836	12,360	-	-	-	-
	171,213	123,685	-	-	-	-

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair values are based on the value of collateral assessed at the time of borrowing and are periodically

re-evaluated. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase agreements. Collateral is not held against investment securities, and no such collateral was held at 31 December 2011 or 31 December 2010.

An estimate of the fair value of collateral and other security enhancement held against financial assets is shown below:

	Loans and advances to customers	
	2011 €'000	2010 €'000
Against individually impaired		
Guarantees	62,989	49,594
Mortgages	71,290	53,710
Trade receivables	1,721	1,550
Pledged movables and other collateral	2,276	4,002
Against collectively impaired		
Guarantees	-	700
Mortgages	5,376	6,319
Trade receivables	290	123
Pledged movables and other collateral	143	2,826
Against past due but not impaired		
Pledged accounts and pledged term deposits	300	454
Guarantees	4,209	829
Mortgages	65,771	42,467
Trade receivables	20,238	6,300
Pledged movables and other collateral	19,891	3,858
Against neither past due nor impaired		
Pledged accounts and pledged term deposits	343,988	383,967
Guarantees	81,641	137,326
Mortgages	843,868	754,402
Trade receivables	163,467	93,455
Pledged movables and other collateral	162,620	76,015
	1,850,078	1,617,897

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans

and advances as well as calls made on credit enhancements and held at the year end are shown below:

	2011 €'000	2010 €'000
Property	1,970	925
Other	22	319

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of gross credit risk is shown below:

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2011	2010	2011	2010	2011	2010
	€'000	€'000	€'000	€'000	€'000	€'000
Concentration by sector						
Government	28,729	14,269	-	-	447,912	453,351
Corporate	2,328,464	2,266,691	-	-	43,129	83,211
Bank	-	-	23,314	55,287	67,565	68,517
Retail	669,944	580,330	-	-	-	-
	3,027,137	2,861,290	23,314	55,287	558,606	605,079

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2011	2010	2011	2010	2011	2010
	€'000	€'000	€'000	€'000	€'000	€'000
Concentration by location						
Slovak Republic	2,957,706	2,786,785	17,816	52,396	556,663	563,174
Croatia	15,604	18,333	-	-	-	-
Turkey	15,034	15,030	-	-	-	-
Czech Republic	10,258	21,340	-	-	1,913	-
Luxemburg	8,951	-	-	-	-	-
Switzerland	6,527	3,273	-	-	-	-
Romania	3,838	4,424	-	-	-	-
Great Britain	2,911	2,772	-	-	-	-
Denmark	1,918	-	-	-	-	-
Italy	1,113	1,027	-	-	-	-
Serbia	798	-	-	-	-	-
Austria	352	126	4,053	-	-	-
Germany	313	6,343	-	-	-	-
Ireland	281	294	-	-	-	-
Netherlands	225	235	-	-	-	41,877
USA	210	154	-	-	-	-
France	183	188	-	-	-	-
Ukraine	118	123	-	-	-	-
Hungary	103	96	-	-	-	-
Spain	95	119	-	-	-	-
Belarus	-	-	1,445	2,891	-	-
Belgium	-	-	-	-	30	28
Other	599	628	-	-	-	-
	3,027,137	2,861,290	23,314	55,287	558,606	605,079

Concentration by location for loans and advances is measured based on the location of the borrower. Concentration by location of the invest-

ment securities is measured based on the location of the issuer of the security.

Loans and advances were made to customers in the following sectors:

	2011	2010
	€'000	€'000
Agriculture and forestry	109,235	105,837
Industry:		
Metallurgy and machinery	248,553	184,620
Transport	211,124	189,182
Food	46,219	48,013
Energy	284,600	224,936
Construction	106,028	133,750
Chemical and pharmaceutical	57,712	28,354
Other	70,768	93,588
Trade and services	938,091	969,240
Housing	522,233	438,731
Public administration	72,542	36,899
Finance and insurance	82,575	115,232
Other industries	277,457	292,908
	3,027,137	2,861,290

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

The maximum amount of settlement risk is the net book value of the individual financial assets.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual obligations. Settlement limits form part of the credit approval/limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction-specific or counterparty specific approval from the Bank's Risk Department.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan and overdraft draw-downs, guarantees and from margin and other calls e.g. cash-settled derivatives. The Bank 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 accuracy. The Bank has a reliable historical database of withdrawals which enables it to perform a relatively accurate analysis of the stability of these types of withdrawals.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Asset and Liability Department ('ALM') receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows. ALM together with the Trading desk then maintains a portfolio of liquid assets, largely made up of liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term loans from ALM to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily and weekly reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted to ALCO usually every two weeks.

Exposure to liquidity risk

The key measure used by the Bank for managing structural liquidity risk is the ratio defined as the cumulative gap ratio between liabilities and assets for the overall position and for the currencies EUR, USD, CHF, GBP and JPY. There are limits set for this liquidity ratio - for the cumulative gap over one year, two years, three years, four years, five years and a warning level over five years. Details of the reported Bank's liquidity ratios at the reporting date and during the reporting period were as follows:

	Over 1 year	Over 2 years	Over 3 years	Over 4 years	Over 5 years
31 December 2011	0.98	0.94	0.93	0.90	0.88
Average for the period	0.90	0.88	0.87	0.83	0.83
Maximum for the period	0.98	0.97	0.97	0.91	0.98
Minimum for the period	0.85	0.84	0.83	0.78	0.77

	Over 1 year	Over 2 years	Over 3 years	Over 4 years	Over 5 years
31 December 2010	0.89	0.90	0.86	0.81	0.87
Average for the period	1.02	0.99	0.98	1.04	1.08
Maximum for the period	1.13	1.08	1.13	1.22	1.25
Minimum for the period	0.89	0.88	0.83	0.78	0.82

Short term liquidity limits are applied on the cumulative liquidity gap (net flow including counterbalancing capacity). Short term liquidity limits are set for overall position and for the currencies EUR, USD, GBP, CHF, JPY and across all other currencies.

The Bank's liquidity risk management framework is governed by regulations of the National Bank of Slovakia and by internal procedures established by the Bank for liquidity management, taking into consideration the requirements of liquidity management of the UniCredit Group.

The National Bank of Slovakia's liquidity regulatory framework is based on compliance with the following ratios:

- Ratio of fixed and non-liquid assets to own resources and reserves of the Bank should not exceed 1;
- Compulsory reserves should amount to a minimum of 2 % of the primary deposits and deposits of non-resident clients (bank and non-bank clients);
- Ratio of liquid assets to the sum of volatile liabilities of the Bank must not be lower than 1; and
- Ratio of loans to the sum of client deposits and debt securities issued shall not exceed 110 % based on the recommendation of the National Bank of Slovakia.

The remaining period to maturity of monetary assets and liabilities at 31 December 2011 are set out in the following table, which shows cash flows on the basis of their earliest contractual maturity. The

Bank's expected cash flows may vary significantly from this analysis. For example, customer account liabilities are expected to maintain a stable or increasing balance:

	1 - 3 months €'000	4 - 12 months €'000	1 - 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	191,236	-	-	-	-	191,236
Trading assets	2,415	9,684	32,330	12,459	-	56,888
Derivative assets held for risk management	-	-	1,789	-	-	1,789
Loans and advances to banks	17,816	4,775	723	-	-	23,314
Loans and advances to customers	517,605	705,480	861,583	713,144	155,789	2,953,601
Investment securities	3,274	56,351	347,356	143,114	8,511	558,606
Deferred tax asset	-	-	-	-	18,625	18,625
Other assets	-	-	-	-	2,538	2,538
Prepayments and accrued income	-	-	-	-	838	838
	732,346	776,290	1,243,781	868,717	186,301	3,807,435
Monetary liabilities						
Trading liabilities	1,221	5,231	28,929	9,738	-	45,119
Derivative liabilities held for risk management	-	-	4,159	17,000	-	21,159
Deposits by banks	35,657	334,686	169,682	-	-	540,025
Customer accounts	1,904,261	255,632	212,095	17,631	-	2,389,619
Loans received	614	52,407	188,896	50,000	-	291,917
Debt securities issued	3,318	9,537	103,355	-	-	116,210
Other liabilities	-	-	-	-	7,452	7,452
Accruals and deferred income	-	-	-	-	5,739	5,739
	1,945,071	657,493	707,116	94,369	13,191	3,417,240

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

The remaining period to maturity of monetary assets and liabilities at 31 December 2010 was as follows:

	1 - 3 months €'000	4 - 12 months €'000	1 - 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	607,079	-	-	-	-	607,079
Trading assets	2,071	737	71,063	7,317	-	81,188
Derivative assets held for risk management	-	-	539	2,202	-	2,741
Loans and advances to banks	52,396	723	2,168	-	-	55,287
Loans and advances to customers	310,267	829,466	834,290	698,353	124,724	2,797,100
Investment securities	32,418	86,523	339,822	139,743	6,573	605,079
Deferred tax asset	-	-	-	-	12,788	12,788
Other assets	-	-	-	-	1,182	1,182
Prepayments and accrued income	-	-	-	-	884	884
	1,004,231	917,449	1,247,882	847,615	146,151	4,163,328
Monetary liabilities						
Trading liabilities	5,184	812	34,363	5,684	-	46,043
Derivative liabilities held for risk management	-	3,607	1,391	4,984	-	9,982
Deposits by banks	321,443	847	82,473	-	-	404,763
Customer accounts	2,559,035	211,377	152,289	26,104	-	2,948,805
Loans received	2	151,219	24,267	78,697	-	254,185
Debt securities issued	268	9,947	102,279	-	-	112,494
Other liabilities	-	-	-	-	7,535	7,535
Accruals and deferred income	-	-	-	-	5,660	5,660
	2,885,932	377,809	397,062	115,469	13,195	3,789,467

The remaining period to maturity of commitments and contingencies at 31 December 2011 are set out in the following table, in which all derivative amounts are notional amounts, except for outflow and inflow, which are shown as expected cash flows:

	1 - 3 months €'000	4 - 12 months €'000	1 - 5 years €'000	More than 5 years €'000	Total €'000
Bank guarantees	1,306	682	8,981	3,323	14,292
Customer guarantees	16,608	34,166	54,141	21,589	126,504
Customer guarantees, classified	2,245	-	-	-	2,245
Irrevocable letters of credit	24,620	2,209	930	-	27,759
Confirmed credit lines	433,055	224,182	250,025	9,242	916,504
	477,834	261,239	314,077	34,154	1,087,304
Contract/notional amount of derivative instruments					
Trading derivatives					
Outflow	109,505	60,524	62,355	15,268	247,652
Inflow	110,584	59,775	60,726	15,324	246,409
Currency derivatives					
Currency forwards and swaps	89,789	26,724	-	-	116,513
Cross currency swaps	-	56	-	-	56
Currency options	22,284	10,344	-	-	32,628
Share options	-	45,599	-	-	45,599
Commodity options	-	-	-	-	-
Interest rate derivatives					
Interest rate swaps and forward rate agreements	15,299	266,333	1,151,917	286,382	1,719,931
Options	44,835	57,292	120,653	1,616	224,396
Derivatives held for risk management					
Designated as cash flow hedges:					
Interest rate swaps	-	-	63,236	17,319	80,555
Designated as fair value hedges: Interest rate swaps	-	-	36,208	138,956	175,164
	172,207	406,348	1,372,014	444,273	2,394,842

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

The remaining period to maturity of commitments and contingencies at 31 December 2010 are set out in the following table, in which all derivative amounts are notional amounts, except for outflow and inflow, which are shown as expected cash flows:

	1 - 3 months €'000	4 - 12 months €'000	1 - 5 years €'000	More than 5 years €'000	Total €'000
Bank guarantees	3,240	9,366	2,581	-	15,187
Customer guarantees	43,539	22,878	52,676	1,001	120,094
Customer guarantees, classified	2,488	-	-	-	2,488
Irrevocable letters of credit	5,599	7,887	-	-	13,486
Confirmed credit lines	349,492	401,452	256,855	1,621	1,009,420
	404,358	441,583	312,112	2,622	1,160,675
Contract/notional amount of derivative instruments					
Trading derivatives					
Outflow	136,108	83,846	93,496	18,945	332,395
Inflow	132,801	83,571	91,483	18,970	326,825
Currency derivatives					
Currency forwards and swaps	112,453	52,553	-	-	165,006
Cross currency swaps	-	-	203	-	203
Currency options	33,683	7,155	2,037	-	42,875
Share options	-	10,914	45,902	-	56,816
Commodity options	-	16,902	-	-	16,902
Interest rate derivatives					
Interest rate swaps and forward rate agreements	44,930	18,754	1,264,541	195,580	1,523,805
Options	-	-	203,660	-	203,660
Derivatives held for risk management					
Designated as cash flow hedges:					
Interest rate swaps	-	93,027	31,597	35,597	160,221
Designated as fair value hedges:					
Interest rate swaps	-	-	19,006	129,059	148,065
	191,066	199,305	1,566,946	360,236	2,317,553

The estimated remaining period to maturity of monetary assets and liabilities at 31 December 2011 was as follows:

	1 - 3 months €'000	4 - 12 months €'000	1 - 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	191,236	-	-	-	-	191,236
Trading assets	14,835	4,670	27,380	9,069	-	55,954
Derivative assets held for risk management	-	-	1,789	-	-	1,789
Loans and advances to banks	17,816	4,775	723	-	-	23,314
Loans and advances to customers	532,807	562,753	946,694	755,558	155,789	2,953,601
Investment securities	346,046	48,678	83,370	42,388	8,511	528,993
Deferred tax asset	-	-	-	-	18,625	18,625
Other assets	-	-	-	-	2,538	2,538
Prepayments and accrued income	-	-	-	-	838	838
	1,102,740	620,876	1,059,956	807,015	186,301	3,776,888
Monetary liabilities						
Trading liabilities	1,221	5,231	28,929	9,738	-	45,119
Derivative liabilities held for risk management	-	-	4,159	17,000	-	21,159
Deposits by banks	35,657	334,686	169,682	-	-	540,025
Customer accounts	842,943	409,115	775,740	361,821	-	2,389,619
Loans received	614	52,407	188,896	50,000	-	291,917
Debt securities issued	3,318	9,537	103,355	-	-	116,210
Other liabilities	-	-	-	-	7,452	7,452
Accruals and deferred income	-	-	-	-	5,739	5,739
	883,753	810,976	1,270,761	438,559	13,191	3,417,240

The Bank defines the estimated remaining maturity of liquid assets (securities) based on the liquidity of the individual asset. Due to the placement of liquid assets (securities) in the column with a shorter maturity

than would correspond to the actual residual maturity, a discount is determined that reflects the risk associated with the quick sale of individual assets.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

The estimated remaining period to maturity of monetary assets and liabilities at 31 December 2010 was as follows:

	1 - 3 months €'000	4 - 12 months €'000	1 - 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	607,079	-	-	-	-	607,079
Trading assets	40,899	-	32,982	4,438	-	78,319
Derivative assets held for risk management	-	-	539	2,202	-	2,741
Loans and advances to banks	52,396	723	2,168	-	-	55,287
Loans and advances to customers	385,053	664,432	974,892	647,999	124,724	2,797,100
Investment securities	487,193	528	61,038	6,666	6,573	561,998
Deferred tax asset	-	-	-	-	12,788	12,788
Other assets	-	-	-	-	1,182	1,182
Prepayments and accrued income	-	-	-	-	884	884
	1,572,620	665,683	1,071,619	661,305	146,151	4,117,378
Monetary liabilities						
Trading liabilities	5,184	812	34,363	5,684	-	46,043
Derivative liabilities held for risk management	-	3,607	1,391	4,984	-	9,982
Deposits by banks	321,443	847	82,473	-	-	404,763
Customer accounts	1,491,940	380,095	692,062	384,708	-	2,948,805
Loans received	2	151,219	24,267	78,697	-	254,185
Debt securities issued	268	9,947	102,279	-	-	112,494
Other liabilities	-	-	-	-	7,535	7,535
Accruals and deferred income	-	-	-	-	5,660	5,660
	1,818,837	546,527	936,835	474,073	13,195	3,789,467

The Bank defines the estimated remaining maturity of liquid assets (securities) based on the liquidity of the individual asset. Due to the placement of liquid assets (securities) in the column with a shorter maturity

than would correspond to the actual residual maturity, a discount is determined that reflects the risk associated with the quick sale of individual assets.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Trading desk unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred and sold down to the Trading desk unit. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. The Risk Integration Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the daily review of their implementation.

In 2011 the Bank performed stress testing in which credit and market risks were combined to simulate a financial crisis.

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). Since 1 January

2011 the Bank has been using a new group internal model IMOD for VaR calculations. The VaR model is based upon a 99 percent confidence level and assumes a 1-day holding period. The VaR model used is based on historical simulation. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Bank uses VaR limits for the total market risk of the whole portfolio (interest rate risk together with foreign exchange risk and spread risk) and also VaR limits for the Trading desk and Trading book. The Bank also defines VaR warning levels for ALM and Banking book. The overall structure of VaR limits is subject to review and approval by ALCO. VaR is measured daily. Daily reports of utilisation of VaR limits are produced by the Risk Integration Department and submitted to the Trading desk, ALM and other responsible units. Regular summaries are submitted to ALCO.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

A summary of the VaR position of the Bank's trading portfolios at 31 December 2011 and 31 December 2010 and during the period is as follows:

	At 31 Dec €'000	Average €'000	Maximum €'000	Minimum €'000
2011				
Overall	38	65	166	29

	At 31 Dec €'000	Average €'000	Maximum €'000	Minimum €'000
2010				
Overall	60	164	333	47

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures. In addition, the Bank uses a range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates and credit spreads of Slovak government bonds. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands (basis point value limits). The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its daily monitoring activities.

The same VaR methodology used for the trading portfolios is used for management of market risks in the non-trading portfolios.

Interest rate risk

The Bank has exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest

margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise. The ALCO sets the basis point value limits on the level of mismatch of interest rate repricing that may be undertaken, which are monitored on a daily basis.

The Bank's interest rate risk policy reflects financial market conditions. To a large extent the Bank applies natural hedging as far as the structure and pricing of assets and liabilities is concerned. Interest rate risk is monitored and managed using repricing gap analysis, report variance analysis and spread analysis on a daily basis. The Bank has set a limit for the total mismatch of interest rate repricing.

Establishing interest rates for the Bank's products is the responsibility of ALCO.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point ('bp') parallel fall or rise in all yield curves worldwide and also other scenarios with irregular movements in yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming parallel movement in yield curves and a constant balance sheet position) is as follows:

Sensitivity of projected net interest income

	200 bp parallel increase €'000	200 bp parallel decrease €'000	50 bp parallel increase €'000	50 bp parallel decrease €'000
2011				
At 31 December	23,823	(26,576)	6,296	(6,556)
Average for the period	26,617	(30,221)	6,990	(7,241)
Maximum for the period	29,249	(33,497)	7,676	(7,941)
Minimum for the period	23,823	(26,576)	6,296	(6,556)
2010				
At 31 December	18,608	(22,332)	4,946	(5,172)
Average for the period	18,978	(22,076)	5,046	(5,291)
Maximum for the period	22,859	(25,860)	6,057	(6,356)
Minimum for the period	14,264	(16,874)	3,800	(4,024)

The scenarios are calculated from the whole Banking book except for available-for-sale securities and cash flow hedging derivatives.

Sensitivity of reported equity to interest rate movements

	200 bp parallel increase €'000	200 bp parallel decrease €'000	50 bp parallel increase €'000	50 bp parallel decrease €'000
2011				
At 31 December	(23,377)	23,446	(6,137)	6,347
Average for the period	(22,795)	25,375	(6,000)	6,218
Maximum for the period	(26,074)	29,684	(6,857)	7,101
Minimum for the period	(18,914)	21,313	(4,980)	5,162
2010				
At 31 December	(20,972)	22,214	(5,515)	5,714
Average for the period	(19,224)	20,908	(5,086)	5,284
Maximum for the period	(23,001)	24,382	(6,074)	6,310
Minimum for the period	(10,402)	13,002	(2,806)	2,950

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

The scenarios are calculated from the balances of available-for-sale securities and cash flow hedging derivatives.

Interest rate movements affect equity in the following ways:

- fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity
- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in a qualifying cash flow hedge relationship.

Overall non-trading interest rate risk positions are managed by ALM, which uses investment securities, advances to banks, deposits from

banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Foreign exchange risk

The Bank also has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank mainly manages its currency exposures within the VaR limits approved by ALCO and UniCredit Bank Austria Risk Management. ALCO also approves limits on the level of exposure by each currency and in groups of currencies of both overnight and intra-day positions, which are monitored daily.

The Bank had the following currency positions at 31 December 2011:

	Euro €'000	US dollar €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	162,491	16,985	11,760	191,236
Trading assets	56,888	-	-	56,888
Derivative assets held for risk management	1,789	-	-	1,789
Loans and advances to banks	19,261	-	4,053	23,314
Loans and advances to customers	2,902,916	21,201	29,484	2,953,601
Investment securities	556,693	-	1,913	558,606
Deferred tax asset	18,625	-	-	18,625
Other assets	2,538	-	-	2,538
Prepayments and accrued income	838	-	-	838
	3,722,039	38,186	47,210	3,807,435
Liabilities				
Trading liabilities	45,119	-	-	45,119
Derivative liabilities held for risk management	21,159	-	-	21,159
Deposits by banks	539,420	-	605	540,025
Customer accounts	2,262,979	48,892	77,748	2,389,619
Loans received	280,317	-	11,600	291,917
Debt securities issued	115,924	272	14	116,210
Other liabilities	7,447	5	-	7,452
Accruals and deferred income	5,699	40	-	5,739
	3,278,064	49,209	89,967	3,417,240

The Bank had the following currency positions at 31 December 2010:

	Euro €'000	US dollar €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	539,371	9,911	57,797	607,079
Trading assets	81,188	-	-	81,188
Derivative assets held for risk management	2,741	-	-	2,741
Loans and advances to banks	55,287	-	-	55,287
Loans and advances to customers	2,732,445	18,786	45,869	2,797,100
Investment securities	605,079	-	-	605,079
Deferred tax asset	12,788	-	-	12,788
Other assets	1,178	4	-	1,182
Prepayments and accrued income	884	-	-	884
	4,030,961	28,701	103,666	4,163,328
Liabilities				
Trading liabilities	46,043	-	-	46,043
Derivative liabilities held for risk management	9,982	-	-	9,982
Deposits by banks	404,487	-	276	404,763
Customer accounts	2,861,904	39,531	47,370	2,948,805
Loans received	254,185	-	-	254,185
Debt securities issued	112,165	280	49	112,494
Other liabilities	7,533	2	-	7,535
Accruals and deferred income	5,639	21	-	5,660
	3,701,938	39,834	47,695	3,789,467

(e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or caused by external events. Legal and compliance risk is a sub-category of operational risk; it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements or ethical standards. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost-effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of operational risk events
- requirements for the reconciliation and monitoring of operational risk events
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors and the Audit Committee.

(f) Capital management

The Bank's regulator, the National Bank of Slovakia ('NBS'), as well as its ultimate parent company, UniCredit S.p.A., set and monitor capital requirements. These ratios measure capital adequacy (minimum 8 % required by NBS) by comparing either the Bank's regulatory capital or its eligible capital in accordance with UniCredit S.p.A. requirements with its balance sheet assets and off-balance sheet commitments at weighted amounts to reflect their relative risk. In accordance with the regulatory requirements of the National Bank of Slovakia, these ratios reflect market risk.

With effect from 1 January 2008, the Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank uses the standardized approaches to credit risk management. In accordance with the NBS decision on the Advance Measurement Approach model ('AMA'), the Bank uses the advanced approach to operational risk management with effect from 30 October 2009.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. It also includes surplus of sum of expected losses for individual assets, which are not in the Bank's balance sheet over sum of losses not identified on these assets and reserves for assets, which are not in the Bank's balance sheet.
- Tier 2 capital includes qualifying subordinated liabilities and the element of the fair value reserve relating to unrealised gains / losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specific requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain shareholder, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is taken into account as the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Bank's capital management processes, systems, measurement and reporting during the year.

The Bank's regulatory capital position at 31 December was as follows:

	2011 €'000	2010 €'000
Regulatory capital		
<i>Tier 1 capital</i>		
Ordinary share capital (note 25)	235,493	235,493
Reserve funds and other funds created from profit (note 26)	40,041	38,891
Retained earnings less profit for the year (note 26)	145,632	135,124
Less: Software	(7,076)	(15,120)
Negative revaluation reserve	(13,188)	(157)
Surplus of expected losses for individual assets	(6,734)	-
Total	394,168	394,231
<i>Tier 2 capital</i>		
Positive revaluation reserve	125	-
Total	125	-
Items deductible from the regulatory capital		
Net book value of the Bank's investment in other bank or financial institutions, greater than 10 % (note 14)	(6,625)	(6,625)
	387,668	387,606
Capital resources requirements		
Capital required to cover credit risk	213,754	219,911
Capital required to cover business partner risk	3,262	2,839
Capital required to cover risks from debt financial instruments, capital instruments, foreign exchange and commodities	2,523	2,606
Capital required to cover operational risk	15,299	16,459
Total capital resources requirements	234,838	241,815
Capital ratios		
Regulatory capital	13.21 %	12.82 %
Tier 1 capital	13.43 %	13.04 %

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

5. Financial risk management (CONTINUED)

Management uses the regulatory capital ratios to monitor its capital. The NBS's requirements are based on Basel II. This primarily monitors the relationship of Capital Resources Requirement (measured as 8 % of risk-weighted assets) to available capital resources.

Within the framework of the Internal Capital Adequacy Assessment Process, the Bank applies the following processes:

- Risk identification
- Risk assessment and aggregation
- Risk appetite
- Capital allocation
- Monitoring and reporting
- Risk internal governance

Risk identification

The first step for the assessment of the risk profile is the definition and identification of the risks. In addition to credit risk (including concentration risk and counterparty risk), market risk (trading and banking book), liquidity risk and operational risk, the Bank identifies financial investment risk, business risk, real estate risk, strategic risk and reputational risk.

Risk assessment and aggregation

The risk assessment implies the assessment of the single risk type, their aggregation to obtain the internal capital. Depending on the type of risk, the Bank applies:

- Quantitative risk evaluation (credit risk, market risk, operational risk, financial investment risk, business risk, real estate risk and liquidity risk management through limits)
- Qualitative risk evaluation (strategic risk, reputational risk);

The internal capital of the Bank represents the overall capital requirement for covering risks to which the Bank is exposed in its activities. The internal capital is expressed as a sum of the aggregated economic capital and capital cushion. The aggregated economic capital includes all types of risks which the Bank considers to be material and quantifiable in compliance with the requirements of Pillar 2: credit risk, market risk, operational risk, business risk, real estate risk and financial investment risk. Capital buffer represents additional capital requirement to face risks related to risk measurement models and the impact of economic cycle on capital requirement.

Available financial resources ('AFR') are resources which the Bank has at its disposal for covering unexpected losses from risks. The capital surplus represents the difference between the AFR and the internal capital. This reserve covers the possible increased risk appetite of the Bank, acquisition plans etc.

Risk appetite

Risk Appetite can be defined as the variability in results, on both a short and a long term, which an organization and its senior executives are prepared to accept in support of a stated strategy. In other terms, Risk Appetite embodies that risk and returns combination whereby the metrics capacities are directly related to strategy.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The goal is to manage the business mix through capital allocation to business units based on value creation targets. Allocated capital is calculated during the budget and the strategic planning processes, and absorbed capital during the control process. The Bank uses the following value creation indicators: Economic Value Added ('EVA') and Risk Adjusted Return On Risk Adjusted Capital ('RARORAC').

Although maximisation of the return on risk-adjusted capital is the principal basis used to determine how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Also taken into account are synergies with other operations and activities, the availability of management and other resources, and how the activity fits with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Monitoring and reporting

Capital adequacy is a dynamic cycle that requires a continuous monitoring in order to provide feedback to the decision-making processes. Further to monitoring, a strong and proper communication process is needed, both for management purposes and disclosure to external stakeholders, above all regulators. Within the framework of internal capital adequacy monitoring under Pillar 2, the Bank monitors the development of Risk Taking Capacity on monthly basis. The principle is that the AFR must always cover the internal capital.

Within the framework of regular reporting, the Bank compares the results of Pillar 1, i.e. risk weighted assets, capital requirement (regulatory capital), Tier 1 own funds and capital adequacy with the results of Pillar 2, i.e. capital requirement (economic capital or internal capital), AFR and Risk Taking Capacity. This report is prepared by the Risk Integration Department in cooperation with the Statistics and Reporting, Strategic Credit Risk Management and Planning and Controlling Departments on a monthly basis. The ALCO, Board of Directors and Supervisory Board of the Bank receive this report on a regular basis.

Risk internal governance

Capital adequacy management is one of the key processes of the UniCredit Group and therefore requires proper risk governance that relies on ensuring that senior management is involved and that ICAAP activities are properly allocated to organizational functions. The ultimate responsibility for capital adequacy rests with the Board of Directors because it requires the setting of the risk appetite and steering of the allocation of the scarce resource of the available capital. Senior management identifies the relevant bodies/structures involved in the capital adequacy process and the consequent reporting to the competent decision making body. The ICAAP process is subject to internal audit review.

Capital adequacy requirements for 2012

On 16 January 2012 the Financial Market Supervision Unit of the National Bank of Slovakia issued the Recommendation No 1/2012 about the support of the stability of the banking sector ("Recommendation"). This Recommendation was issued in line with the requirements of the European Banking Authority from the end of 2011. Based on this Recommendation, the Bank has decided to maintain its capital adequacy requirements on a level not lower than 9 % at least during the period till the reasons why the Recommendation was issued by NBS will disappear.

Since the ratio was at 13.21 % as at year end and above the 9 % level all the time during the year ended 31 December 2011, the Bank does not expect any problems meeting this recommendation.

6. Operating segments

The Bank has three basic reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Bank's reportable segments:

Corporate and Markets includes the loans, deposits and other transactions and balances with corporate customers and financial institutions (excluding small enterprises), trading activities and sales activities with customers;

Retail and Private includes the loans, deposits and other transactions and balances with retail customers (including small enterprises);

Others includes Asset Liabilities Management activities that contain the Group's funding and centralized risk management activities through borrowings, use of derivatives for banking book management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

Segment reporting is presented in respect of the Bank's business segments. The Bank principally operates in Slovakia. Operations outside Slovakia are not significant.

The measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in note 3.

Transactions between segments are conducted at arm's length.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise cash, property and equipment, investment securities, intangible assets, taxes, other assets and prepayments, provisions and other liabilities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

6. Operating segments (CONTINUED)

	Total Bank	Retail and Private	Corporate and Markets	Others
	2011	2011	2011	2011
	€'000	€'000	€'000	€'000
Net interest income	85,972	37,226	55,455	(6,709)
Internal revenue	-	506	2,648	(3,154)
Net fee and commission income	28,702	12,349	13,883	2,479
Net trading income	7,713	3,938	5,609	(1,834)
Other income	641	-	-	641
Non-interest income	37,056	16,278	19,492	1,286
Total segment revenue	123,028	53,504	74,947	(5,423)
Operating expenditure	(72,512)	(44,123)	(25,981)	(2,408)
Operating profit before impairment and provisions	50,516	9,381	48,966	(7,831)
Impairment losses	(12,987)	-	-	(12,987)
Provisions	1,254	-	-	1,254
Profit before taxation	38,783	9,381	48,966	(19,564)
Income tax expense	(7,028)			
Profit after taxation	31,755			
Other information:				
Reportable segment assets	3,850,967	781,551	2,242,683	826,733
Reportable segment liabilities	3,422,494	1,260,013	1,077,891	1,084,590

	Total Bank	Retail and Private	Corporate and Markets	Others
	2010	2010	2010	2010
	€'000	€'000	€'000	€'000
Net interest income	73,746	28,625	51,633	(6,512)
Internal revenue	-	341	2,224	(2,565)
Net fee and commission income	28,010	12,394	17,334	(1,718)
Net trading income	5,542	2,945	2,546	51
Other income	2,265	132	-	2,133
Non-interest income	35,817	15,471	19,880	466
Total segment revenue	109,563	44,096	71,513	(6,046)
Operating expenditure	(72,986)	(44,264)	(25,396)	(3,326)
Operating profit before impairment and provisions	36,577	-168	46,117	(9,372)
Impairment losses	(20,552)	-	-	(20,552)
Provisions	(1,492)	-	-	(1,492)
Profit before taxation	14,533	(168)	46,117	(31,416)
Income tax expense	(3,032)			
Profit after taxation	11,501			
Other information:				
Reportable segment assets	4,221,555	559,127	2,042,152	1,620,276
Reportable segment liabilities	3,800,004	1,118,717	1,226,672	1,454,615

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

7. Cash and cash equivalents

	2011 €'000	2010 €'000
Cash and balances at the central bank (note 8)	50,839	51,122
Loans and advances to banks with contractual maturity up to 3 months (note 11)	140,397	555,957
	191,236	607,079

8. Cash and balances at the central bank

	2011 €'000	2010 €'000
<i>Balances with the National Bank of Slovakia:</i>		
Compulsory minimum reserve	17,816	52,396
Cash in hand	50,839	51,122
	68,655	103,518
Less compulsory minimum reserve (note 11)	(17,816)	(52,396)
	50,839	51,122

The compulsory minimum reserve balance is maintained in accordance with the requirements of the National Bank of Slovakia and is not available for day-to-day use.

9. Trading assets and liabilities

	2011 €'000	2010 €'000
Trading assets		
Securities (a)	13,505	41,187
Derivative instruments (b)	43,383	40,001
	56,888	81,188
Trading liabilities		
Derivative instruments (b)	45,119	46,043

(a) Securities

Slovak government bonds	10,049	41,187
German government bond	3,456	-
	13,505	41,187

(b) Derivative instruments

	Contract/ notional amount €'000	2011 Fair value		Contract/ notional amount €'000	2010 Fair value	
		Assets €'000	Liabilities €'000		Assets €'000	Liabilities €'000
Currency derivatives						
Currency forwards and swaps	117,241	1,905	1,311	161,876	1,272	4,472
Cross currency swaps	56	4	5	204	15	15
Currency options	32,627	1,154	1,154	42,812	749	739
Share options	45,599	1,711	1,739	56,815	2,523	2,548
Commodities options	-	-	-	16,929	-	86
Interest rate derivatives						
Interest rate swaps and forward rate agreements	1,719,931	36,202	38,503	1,523,805	31,958	34,699
Options	224,396	2,407	2,407	203,660	3,484	3,484
	2,139,850	43,383	45,119	2,006,101	40,001	46,043

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

10. Derivatives held for risk management

	Contract/ notional amount €'000	2011 Fair value		Contract/ notional amount €'000	2010 Fair value	
		Assets €'000	Liabilities €'000		Assets €'000	Liabilities €'000
Designated as cash flow hedges:						
Interest rate swaps	80,555	1,727	3,811	160,220	2,741	5,520
Currency swaps	2,041	62	-	-	-	-
Designated as fair value hedges:						
Interest rate swaps	175,164	-	17,348	148,065	-	4,462
	257,760	1,789	21,159	308,285	2,741	9,982

The time periods in which the hedged cash flows are expected to occur and affect the statement of comprehensive income are as follows:

	Within 1 year €'000	1-5 years €'000	Over 5 years €'000
31 December 2011			
Cash inflows	168	381	-
Cash outflows	1,022	2,135	450
31 December 2010			
Cash inflows	264	1,814	-
Cash outflows	1,055	3,608	1,295

During 2011, net gains of € 1,571 thousand (2010: net gains of € 2,901 thousand) relating to the effective portion of cash flow hedges were recognised in other comprehensive income.

11. Loans and advances to banks

	2011 €'000	2010 €'000
Repayable on demand	21,333	19,267
Other loans and advances by remaining maturity:		
- 3 months or less	119,064	536,690
- 1 year or less but over 3 months	4,775	723
- over 1 year	723	2,168
Compulsory minimum reserve (note 8)	17,816	52,396
	163,711	611,244
Less amounts with contractual maturity up to 3 months (note 7)	(140,397)	(555,957)
	23,314	55,287

12. Loans and advances to customers

	2011 €'000	2010 €'000
Repayable on demand	5,204	5,584
Other loans and advances to customers by remaining maturity:		
- 3 months or less	512,401	311,803
- 1 year or less but over 3 months	779,018	848,502
- 5 years or less but over 1 year	861,583	853,436
- over 5 years	713,144	714,379
- not specified	155,787	127,586
	3,027,137	2,861,290
Allowances for impairment (note 13)	(73,536)	(64,190)
	2,953,601	2,797,100

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

12. Loans and advances to customers (CONTINUED)

The exposure to the various business segments of loans and advances to customers according to main product types is as follows:

	31 December 2011			31 December 2010		
	Gross amount €'000	Impairment allowances €'000	Carrying amount €'000	Gross amount €'000	Impairment allowances €'000	Carrying amount €'000
Retail customers						
Mortgage lending	566,820	(1,269)	565,551	425,911	(692)	425,219
Personal loans	26,174	(796)	25,378	89,173	(755)	88,418
Credit cards	5,815	(644)	5,171	6,184	(281)	5,903
Other	37,961	(637)	37,324	25,249	(510)	24,739
Corporate customers						
Small business	148,693	(9,736)	138,957	117,610	(9,634)	107,976
Corporate	985,754	(41,007)	944,747	740,589	(28,122)	712,467
Large corporate	919,404	(557)	918,847	1,113,796	(15,710)	1,098,086
Real estate	336,516	(18,890)	317,626	342,778	(8,486)	334,292
	3,027,137	(73,536)	2,953,601	2,861,290	(64,190)	2,797,100

13. Impairment losses on loans and advances

The movements in impairment losses on loans and advances to customers were as follows:

	2011 €'000	2010 €'000
Specific allowances for impairment:		
At 1 January	47,787	29,909
Charge for the year	13,369	18,860
Release of impairment losses on loans written-off	(1,903)	(982)
At 31 December	59,253	47,787
Collective allowances for impairment:		
At 1 January	16,403	15,095
(Release)/charge for the year	(770)	2,036
Release of impairment losses on loans written-off	(1,350)	(728)
At 31 December	14,283	16,403
Total allowances for impairment	73,536	64,190

14. Investment securities

	2011 €'000	2010 €'000
Debt securities held to maturity (a)	122,421	126,294
Debt securities available for sale (b)	429,510	472,111
Equity shares available for sale (c)	6,675	6,674
	558,606	605,079

At 31 December 2011, debt securities available for sale in amount of € 51,695 thousand (2010: € 59,342 thousand) were pledged as collateral to the National Bank of Slovakia for inter-day credit and of € 109,378 thousand (2010: 0) as collateral to the National Bank of Slo-

vakia for refinancing. The Bank has pledged investment securities of € 67,277 thousand for a loan received from the European Investment Bank in 2011 and 2010. See note 20.

(a) Debt securities held to maturity

	2011 €'000	2010 €'000
Slovak government bonds	74,578	73,156
Slovak corporate and bank bonds	47,843	53,138
	122,421	126,294

At 31 December 2011, the fair value of held-to-maturity securities was € 120.3 million (2010: € 127.8 million).

(b) Debt securities available for sale

	2011 €'000	2010 €'000
Slovak government bonds	373,411	380,195
Slovak corporate and bank bonds	54,186	91,916
Participation certificate AXA	1,913	-
	429,510	472,111

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

14. Investment securities (CONTINUED)

(c) Equity shares available for sale

Name	Activity	2011 €'000	2010 €'000
RVS, a.s.	Conference and leisure	-	-
S.W.I.F.T.	International funds Transfer	29	28
BCPB, a.s.	Stock exchange	21	21
UniCredit Leasing Slovakia, a.s.	Financial services	6,625	6,625
MasterCard Incorporated	Financial services	-	-
Visa Inc.	Financial services	-	-
Visa Europe Limited	Financial services	-	-
		6,675	6,674

The Bank owns 19.9 % of the issued capital of UniCredit Leasing Slovakia a.s. and 2.63 % of RVS, a.s. Holdings in other companies are less than 1 %. SWIFT is registered in Belgium, MasterCard in the USA and Visa in the UK. Other companies are incorporated in the Slovak Republic.

The movements in available-for-sale securities during the year were as follows:

	2011 €'000	2010 €'000
As at 1 January	478,785	189,333
Additions	275,054	446,591
Disposals	(288,142)	(155,490)
Loss from changes in fair value	(29,512)	(1,649)
As at 31 December	436,185	478,785

There was no impairment of investment securities in 2011 or in 2010.

15. Property and equipment

	Land and buildings €'000	Furniture, fittings and equipment €'000	Assets not yet in use €'000	Total €'000
Cost				
At 1 January 2010	54,031	43,557	1,929	99,517
Additions	-	-	3,012	3,012
Transfers	1,783	2,522	(4,305)	-
Disposals	(97)	(3,227)	(16)	(3,340)
At 31 December 2010	55,717	42,852	620	99,189
At 1 January 2011	55,717	42,852	620	99,189
Additions	-	-	1,201	1,201
Transfers	445	399	(844)	-
Disposals	(827)	(13,922)	-	(14,749)
At 31 December 2011	55,335	29,329	977	85,641
Depreciation and impairment losses				
At 1 January 2010	19,365	34,117	-	53,482
Charge for the year	2,742	3,619	-	6,361
Impairment losses	(225)	(216)	-	(441)
Disposals	(90)	(3,208)	-	(3,298)
At 31 December 2010	21,792	34,312	-	56,104
At 1 January 2011	21,792	34,312	-	56,104
Charge for the year	2,715	2,457	-	5,172
Net creation of impairment losses	568	(235)	-	333
Disposals	(466)	(11,949)	-	(12,415)
At 31 December 2011	24,609	24,585	-	49,194
Value after depreciation				
At 31 December 2010	33,925	8,540	620	43,085
At 31 December 2011	30,726	4,744	977	36,447

The Bank created net additional provisions of € 333 thousand (2010: reversed impairment losses of € 441 thousand) on certain property and equipment.

The Bank's buildings and equipment are insured against fire, burglary, floods and storms for their replacement value as at year-end. The insurance premium is calculated based on the acquisition price as at 31 December of the previous period.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

16. Intangible assets

	Software €'000	Assets not yet in use €'000	Total €'000
Cost			
At 1 January 2010	51,816	1,907	53,723
Additions	-	5,106	5,106
Transfers	5,327	(5,327)	-
At 31 December 2010	57,143	1,686	58,829
At 1 January 2011	57,143	1,686	58,829
Additions	-	878	878
Transfers	1,866	(1,866)	-
Disposals	(28,696)	(139)	(28,835)
At 31 December 2011	30,313	559	30,872
Amortisation and impairment losses			
At 1 January 2010	38,795	-	38,795
Charge for the year	5,179	-	5,179
Impairment losses	(287)	-	(287)
At 31 December 2010	43,687	-	43,687
At 1 January 2011	43,687	-	43,687
Charge for the year	3,666	-	3,666
Disposals	(23,566)	-	(23,566)
At 31 December 2011	23,787	-	23,787
Value after amortisation			
At 31 December 2010	13,456	1,686	15,142
At 31 December 2011	6,526	559	7,085

In January 2011 the Bank sold selected Information and communication technologies ('ICT') assets to UGIS Slovak Branch, as a part of the consolidation process of the ICT operations of UniCredit Group into a unique global ICT company, UGIS. The Bank reversed amortisation and impair-

ment losses of € 35,515 thousand on those tangible and intangible assets (2010: € 287 thousand). The assets were sold for € 7,321 thousand, on which the Bank realized a profit of € 271 thousand.

17. Other assets

	2011 €'000	2010 €'000
Inventory	378	317
Operating prepayments	411	294
Receivables	1,804	625
	2,593	1,236
Impairment losses	(55)	(54)
	2,538	1,182

The movements on specific allowances for impairment on other assets were as follows:

	2011 €'000	2010 €'000
At 1 January	54	390
Increase for the year	55	384
Write-offs	(54)	(720)
	55	54

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

18. Deposits by banks

	2011 €'000	2010 €'000
Repayable on demand	28,880	11,310
Other deposits by banks with remaining maturity:		
- 3 months or less	6,777	310,133
- 1 year or less but over 3 months	334,686	847
- over 1 year	169,682	82,473
	540,025	404,763

	2011 €'000	2010 €'000
Current accounts	28,357	10,781
Term deposits	511,037	393,453
Other liabilities	631	529
	540,025	404,763

19. Customer accounts

	2011 €'000	2010 €'000
Repayable on demand	1,331,342	1,395,936
Other deposits with agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less	572,919	1,163,099
- 1 year or less but over 3 months	255,632	211,377
- 5 years or less but over 1 year	212,095	152,289
- over 5 years	17,631	26,104
	2,389,619	2,948,805

19. Customer accounts (CONTINUED)

	2011 €'000	2010 €'000
Current accounts	1,325,461	1,356,503
Term deposits	798,343	1,322,257
Savings accounts	25,379	32,912
Current accounts from municipalities	5,880	6,168
Term deposits from municipalities	101,272	151,340
Loans received	60,993	29,986
Bills of exchange issued	15,194	11,988
Other liabilities	57,097	37,651
	2,389,619	2,948,805

20. Loans received

	2011 €'000	2010 €'000
European Bank for Reconstruction and Development	8,942	836
European Investment Bank	220,205	101,437
UniCredit Bank Austria AG, Vienna	50,128	150,045
EXIM Taiwan	11,600	-
Slovenská záručná a rozvojová banka, a.s.	1,042	1,867
	291,917	254,185

European Bank for Reconstruction and Development

These loans comprise amounts drawn down by the Bank under loan facilities with the European Bank for Reconstruction and Development ('EBRD'). Amounts were provided by the EBRD to assist in the development of small and medium-size enterprises (SMEs) in Slovakia.

The euro loans of € 9 million principal at the balance sheet date (2010: € 836 thousand) were provided under three contracts (3 million for each contract) with contract date 25 January 2011. Principal and interest repayments are due semi-annually in the final five years of the loans. The loans mature on 5 February 2016 and bear interest at annual rates from 2.214 % to 2.912 %.

European Investment Bank

The amounts due to the European Investment Bank ('EIB') comprise loans of € 2.273 million, € 11.364 million, € 22.500 million, € 53.689 million, € 80 million, € 30 million and € 20 million, drawn down by the Bank under loan facilities arranged by the NBS with the EIB. The loans were provided by the EIB to assist in the development of infrastructure, agriculture and tourism in Slovakia. The loans are secured by investment securities. See note 14.

The first loan of € 2.273 million principal at the balance sheet date was provided under a contract entered into on 15 December 1999. Interest is payable quarterly, principal semi-annually. The loan bears interest at an annual rate equivalent of 1.556 % and it matures on 15 June 2012.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

20. Loans received (CONTINUED)

The second loan of € 11.364 million principal at the balance sheet date was provided under a contract entered into on 28 March 2003. Interest is payable quarterly, principal semi-annually. The loan bears interest at an annual rate equivalent of 1.556 % and it matures on 16 June 2014.

The third loan of € 22.500 million principal at the balance sheet date was provided under a contract entered into on 28 March 2003. Interest is payable quarterly, principal semi-annually. The loan bears interest at an annual rate equivalent of 1.556 % and it matures on 15 June 2016.

The fourth loan of € 53.689 million principal at the balance sheet date was provided under a contract entered into on 27 February 2008. Interest is payable annually and principal will be repaid in one instalment on 15 March 2016. The loan bears interest at an annual rate of 1.556 %.

The fifth loan of € 80 million principal at the balance sheet date was provided under a contract entered into on 7 July 2011. Interest is payable quarterly, principal semi-annually. The loan bears interest at an annual rate of 1.973 % and it matures on 18 January 2016.

The sixth loan of € 30 million principal at the balance sheet date was provided under a contract entered into on 27 September 2011. Interest and principal are payable quarterly. The loan bears interest at an annual rate of 2.223 % and it matures on 31 October 2023.

The seventh loan of € 20 million principal at the balance sheet date was provided under a contract entered into on 27 September 2011. Interest and principal are payable quarterly. The loan bears interest at an annual rate of 2.201 % and it matures on 30 November 2023.

UniCredit Bank Austria AG, Vienna

The amount due to UniCredit Bank Austria AG, Vienna comprises a loan of € 50 million under a contract entered into on 25 November 2011. Interest and principal will be repaid in one instalment on 28 November 2012. The loan bears interest at an annual rate of 2.70 %.

EXIM Taiwan (Export-Import Bank of the Republic of China)

The amount due to EXIM Taiwan comprises a loan of USD 15 million under a contract entered into on 2 September 2010. The maturity date is 10 October 2013. Interest and principal are payable semi-annually. The loan bears interest at an annual rate of 0.50 %.

Slovenská záručná a rozvojová banka, a. s.

The loans from Slovenská záručná a rozvojová banka, a. s. ('SZRB') were obtained under the programme Rozvoj ('Development') for long and medium term assistance to small-to-medium size enterprises.

Under the Rozvoj ('Development') programme, separate loan agreements are also entered into between the Bank and SZRB for loans provided to customers. Interest is currently 1.50 % – 3.70 % per annum and the repayment terms are in accordance with each individual contract. Should the customer default, the Bank is responsible for full repayment of the loan provided by SZRB.

Under the terms of the programme, SZRB may request early repayment in the event of non-fulfilment of several conditions, including if the loans are not used for the specified purpose or if there is delay in repayment of principal.

21. Debt securities issued

	2011 €'000	2010 €'000
Mortgage bonds		
Issue 1 (b)	16,861	16,860
Issue 2	16,809	16,809
Issue 3 (a)	16,626	16,619
Issue 3 (b)	-	8,302
Issue 5	30,185	30,147
Issue 6	20,022	20,019
	100,503	108,756
Long-term bills	15,707	3,738
Debt securities issued	116,210	112,494

Issue 1 (b) comprises 5,000 bonds with a nominal value of € 3.3 thousand each, which were issued on 28 August 2003 with a coupon of 4.65 % per annum by HVB Bank Slovakia a.s. The bonds will be redeemed on 28 August 2014 from repayments of mortgage loans provided to customers.

Issue 2 comprises 500 bonds with a nominal value of € 33.2 thousand each, which were issued on 29 September 2004 with a coupon of 5 % per annum by UniBanka, a. s. The bonds will be redeemed on 29 September 2015 from repayments of mortgage loans provided to customers.

Issue 3 (a) comprises 5,000 bonds with a nominal value of € 3.3 thousand each, which were issued on 25 May 2005 with a coupon of 6M BRIBOR + 0.07 % per annum by UniBanka, a. s. The bonds will be redeemed on 25 May 2015 from repayments of mortgage loans provided to customers.

Issue 3 (b) comprises 100 bonds with a nominal value of € 83 thousand each, which were issued on 21 December 2006 with a coupon of 6M

BRIBOR + 0.08 % per annum by HVB Bank Slovakia a.s. The bonds were redeemed on 21 December 2011 from repayments of mortgage loans provided to customers.

Issue 5 comprises 3,000 bonds with a nominal value of € 10 thousand each, which were issued on 13 October 2010 with a coupon of 6M EURIBOR + 1.00 % per annum. The bonds will be redeemed on 13 October 2015 from repayments of mortgage loans provided to customers.

Issue 6 comprises 2,000 bonds with a nominal value of € 10 thousand each, which were issued on 17 December 2010 with a coupon of 6M EURIBOR + 1.00 % per annum by UniBanka, a. s. The bonds will be redeemed on 17 December 2015 from repayments of mortgage loans provided to customers.

Long-term bills comprise bills of exchange sold to customers with maturity longer than one year.

The Bank has not had any defaults on principal, interest or other breaches with respect to its debt securities during 2011 and 2010.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

22. Provisions

The movements on provisions were as follows:

	Litigations €'000	Other €'000	Total €'000
At 1 January 2010	5,079	2,143	7,222
Increase for the year	467	1,025	1,492
At 31 December 2010	5,546	3,168	8,714
At 1 January 2011	5,546	3,168	8,714
(Decrease)/increase for the year	(1,388)	156	(1,254)
Usage for the year	(2,558)	(23)	(2,559)
At 31 December 2011	1,600	3,301	4,901

Litigations

This provision relates to claims and court cases which the Bank is defending.

Other

This provision relates to credit cards and other liabilities related to operational and credit risk.

23. Corporate income tax

	2011 €'000	2010 €'000
Tax payable for the current period (note 33)	6,933	6,521
Tax prepayments	(6,580)	(4,698)
Corporate income tax payable	353	1,823

24. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets 2011 €'000	Assets / (liabilities) 2010 €'000
Available-for-sale securities	5,452	(155)
Property and equipment	351	209
Provisions	583	673
Impairment losses on loans	11,956	12,033
Cash flow hedge	283	28
Deferred tax asset	18,625	12,788

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

The movements in deferred tax were as follows:

	2011 €'000	2010 €'000
At 1 January	12,788	9,669
Charge to profit or loss (note 33)	(25)	3,486
Charge to other comprehensive income (note 33)	5,862	(367)
At 31 December	18,625	12,788

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

25. Share capital

	2011 €'000	2010 €'000
Authorised, issued and fully paid: 38,353,859 ordinary shares of € 6.14 each	235,493	235,493

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank.

26. Reserves

	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 31 December 2010	146,625	38,891	662	(120)	186,058
Untaken dividends (a)	157	-	-	-	157
Transfers (b)	(1,150)	1,150	-	-	-
Available-for-sale assets:					
Change in fair value, net of tax	-	-	(25,711)	-	(25,711)
Net amount transferred to profit or loss	-	-	1,806	-	1,806
Cash flow hedges:					
Effective portion of changes in fair value, net of tax	-	-	-	(1,571)	(1,571)
Net amount transferred to profit or loss	-	-	-	486	486
Profit for 2011	31,755	-	-	-	31,755
At 31 December 2011	177,387	40,041	(23,243)	(1,205)	192 980

26. Reserves (CONTINUED)

(a) Dividends

The General Meeting of Shareholders held on 20 April 2011 did not resolve any dividends to be paid from the profit for the year ended 31 December 2010. During the year 2011 the Bank decided to transfer to retained earnings untaken dividends from the years 2004, 2005, 2006 in amount of € 157 thousand.

(b) Legal reserve fund

The General Meeting also approved the transfer to the legal reserve fund of € 1,150 thousand from the 2010 profit.

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future losses. The Bank is obliged to contribute an amount to the fund each year which is not less than 10 % of its annual net profit until the aggregate amount reaches a minimum level equal to 20 % of the issued share capital.

(c) Proposed allocation of profit

The Board of Directors will propose the following allocation of the profit for the year ended 31 December 2011:

	€'000
Transfer to legal reserve fund	3,175
Dividends	15,342
Retained earnings	13,238
	31,755

(d) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

(e) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of cumulative net changes in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

27. Off balance sheet items

	2011 €'000	2010 €'000
<i>Contingent liabilities:</i>		
Bank guarantees	14,292	15,187
Customer guarantees	126,504	120,094
Customer guarantees, classified	2,245	2,488
Irrevocable letters of credit	27,759	13,486
<i>Commitments:</i>		
Confirmed credit lines	916,504	1,009,420
<i>Derivative instruments:</i>		
Trading assets and liabilities (note 9)	2,139,850	2,006,101
Held for risk management (note 10)	257,760	308,285
	3,484,914	3,475,061

The Bank is able to cancel the confirmed credit lines.

A claim has been filed against the Bank at a court in relation to a currency derivatives contract concluded between the plaintiff and the Bank.

The amount of the claim is € 100 million for damages, losses and legal costs. The Bank believes the claim for losses to be unfounded and created a provision in the amount of € 1.6 million during the period (2010: € 0), which the Bank believes is sufficient to cover damages, if any.

28. Interest income

	2011 €'000	2010 €'000
Loans and advances to banks	4,496	2,409
Loans and advances to customers	111,160	94,049
Investment securities	18,738	16,317
	134,394	112,775

Interest income for the year ended 31 December 2011 includes interest of € 4,336 thousand accrued on impaired financial assets (2010: € 4,476 thousand).

Included within interest income for the year ended 31 December 2011 is total interest of € 4,348 thousand relating to debt securities held-to-maturity (2010: € 4,776 thousand).

29. Interest expense

	2011 €'000	2010 €'000
Deposits by banks	10,815	12,420
Customer accounts	25,992	18,051
Loans received	8,009	6,254
Mortgage bonds	3,279	2,229
Long-term bills	327	75
	48,422	39,029

Included within interest expense for the year ended 31 December 2011 are fair value losses of € 16,661 thousand (2010: € 3,710 thousand) on derivatives held in qualifying fair value hedging relationships, and € 14,286 thousand (2010: € 1,125 thousand) representing net increases in the fair value of the hedged item attributable to the hedged risk.

The only components of interest income and expense reported above that relate to financial assets or liabilities carried at fair value through

profit or loss are the interest income and expense on derivative assets and liabilities held for risk management purposes.

During 2011 gains of € 868 thousand (2010: € 0) and losses of € 382 thousand (2010: € 0) relating to cash flow hedges were transferred from the hedging reserve to other comprehensive income and are reflected in interest income or expense. There was no significant ineffectiveness recognised on cash flow hedges during 2011 or 2010.

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

30. Net fee and commission income

	2011 €'000	2010 €'000
Fee and commission income:		
Corporate banking credit related fees	18,942	18,287
Retail and Private banking customer fees	16,560	15,034
Other	(84)	462
Total fee and commission income	35,418	33,783
Fee and commission expense:		
Corporate banking fees	(2,609)	(1,367)
Retail and Private banking fees	(2,600)	(2,640)
Other	(1,507)	(1,766)
Total fee and commission expense	(6,716)	(5,773)
Net fee and commission income	28,702	28,010

Net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and liabilities that are not at fair value through profit or loss but includes income of

€ 35,502 thousand (2010: € 33,321 thousand) and expense of € 5,209 thousand (2010: € 4,007 thousand) relating to financial assets and liabilities that are not at fair value through profit or loss.

31. Net trading income

	2011 €'000	2010 €'000
Net income from foreign exchange operations	938	7,572
Net income/(loss) from derivatives (a)	4,975	(3,336)
Net income from trading securities (b)	1,800	1,306
	7,713	5,542

(a) Net income/(loss) from derivatives

	2011 €'000	2010 €'000
Income from currency derivatives	3,831	12
Losses relating to currency derivatives	(15)	(6,031)
Net income/(loss) from currency derivatives	3,816	(6,019)
Income from interest rate derivatives	25,808	23,863
Losses relating to interest rate derivatives	(25,371)	(22,412)
Net income from interest rate derivatives	437	1,451
Income from options	11,855	15,603
Losses relating to options	(11,133)	(14,371)
Net income from options	722	1,232
	4,975	(3,336)

b) Net income from trading securities

	2011 €'000	2010 €'000
Gains from trading securities	2,836	2,512
Losses from trading securities	(1,036)	(1,206)
	1,800	1,306

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

32. Administrative expenses

	2011 €'000	2010 €'000
<i>Employee costs:</i>		
Wages and salaries	21,176	21,606
Social insurance	7,036	6,687
Other personnel expenses	2,880	2,544
	31,092	30,837
Service-related expenses	17,147	10,436
Material-related expenses	2,160	2,037
Rent	4,265	3,989
Marketing expenses	3,767	3,955
Operating fees	409	437
Other services	2,505	3,208
Other administrative expenses	2,329	6,547
	32,582	30,609
	63,674	61,446

The cost of services provided by the statutory auditor during the year ended 31 December 2011 and 2010 was as follows:

	2011 €'000	2010 €'000
Statutory audit (including regulatory reporting to NBS)	257	250

During the year 2011, the average number of full time employees was 1,182 (2010: 1,264).

Other administrative expenses include payments to the Deposit Protection Fund of € 1,973 thousand in 2011 (2010: € 1,839 thousand).

Movements on the social fund account included in Other personnel expenses were as follows:

	2011 €'000	2010 €'000
At 1 January	635	599
Creation of social fund	851	1,070
Use of social fund	(1,142)	(1,034)
At 31 December	344	635

33. Income tax expense

	2011 €'000	2010 €'000
<i>Current tax expense</i>		
Current year (note 23)	6,933	6,521
Adjustments in respect of prior years	70	(3)
	7,003	6,518
<i>Deferred tax expense</i>		
Originating and reversal of temporary differences (note 24)	25	(3,486)
Total income tax expense	7,028	3,032

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

33. Income tax expense (CONTINUED)

The accounting profit before taxation is reconciled to the tax base as follows:

	Tax base 2011 €'000	Tax at 19 % 2011 €'000	Tax base 2010 €'000	Tax at 19 % 2010 €'000
Profit before taxation	38,783	7,368	14,533	2,761
Tax non-deductible expenses				
Loans written off	222	42	1,006	191
Current year allowances for impairment	3,868	735	20,353	3,867
Other	8,704	1,654	6,288	1,195
Non-taxable income				
Non taxable income from securities	(1,547)	(294)	(1,593)	(302)
Release of impairment losses on loans	(4,568)	(868)	(2,316)	(440)
Provisions	(7,423)	(1,410)	(1,252)	(238)
Other	(1,547)	(294)	(2,705)	(513)
		6,933		6,521
Adjustments in respect of previous year	368	70	(16)	(3)
		7,003		6,518
Deferred tax		25		(3,486)
Total tax expense		7,028		3,032
Effective tax rate		18.12 %		20.86 %

	2011	Net of tax	2010	Tax (expense)	Net of tax
	Before tax €'000	Tax benefit €'000	Before tax €'000	benefit €'000	€'000
Cash flow hedges	(1,339)	254	(1,085)	(680)	2,901
Available-for-sale-assets	(29,513)	5,608	(23,905)	313	(1,336)
	(30,852)	5,862	(24,990)	(367)	1,565

34. Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordi-

nary shares in issue during the year, excluding the average number of any ordinary shares purchased by the Bank and held as treasury shares.

	2011	2010
Profit attributable to shareholders (€'000)	31,755	11,501
Weighted average number of ordinary shares in issue	38,353,859	38,353,859
Basic earnings per share (expressed in € per share)	0.83	0.30

Diluted

There were no dilutive factors during either year.

35. Profit before changes in operating assets and liabilities

	2011 €'000	2010 €'000
Profit before taxation	38,783	14,533
Adjustments for non cash items:		
Depreciation	5,172	6,361
Amortisation	3,666	5,179
Loss on disposal of property and equipment	74	42
Impairment losses on loans	12,599	20,896
Impairment losses/Net release of impairment losses on property and equipment	333	(441)
Net release of impairment losses on intangible assets	-	(287)
Impairment losses on other assets	55	384
Provisions	(1,254)	1,492
Net profit on available-for-sale assets transferred to profit or loss	(1,806)	(162)
Net profit on cash-flow hedge transferred to profit or loss	(486)	-
	57,136	47,997
Net cash used in operating activities includes the following cash flows:		
Interest received	143,425	115,068
Interest paid	(38,062)	(40,077)
	105,363	74,991

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

36. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2011 €'000	2010 €'000
Less than one year	1,905	2,048
	1,905	2,048

The Bank leases cars and equipment under operating leases.

37. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by UniCredit Bank Austria AG, Vienna (incorporated in Austria), which owned 99.0 % of the ordinary shares at 31 December 2011 (2010: UniCredit Bank Austria AG, Vienna 99.0 %).

In the normal course of business, the Bank is engaged in transactions with related parties. These transactions, which include the taking and placing of deposits, loans and foreign currency operations are conducted on an arm's length basis.

(a) Shareholders

Amounts due from and to the majority shareholder, UniCredit Bank Austria AG, Vienna were as follows:

	2011 €'000	2010 €'000
Assets		
Loans and advances to banks	4,926	87,342
Liabilities		
Deposits by banks	392,123	388,774
Loans received	50,128	150,045
<i>Transactions during the year were as follows:</i>		
Interest income	95	50
Interest expense	(14,350)	(11,704)
Fee and commission income	459	410
Fee and commission expense	(742)	(114)

37. Related party transactions (CONTINUED)

(b) Enterprises related to the majority shareholder of the Bank

Amounts due from and to companies related to the majority shareholder were as follows:

	2011 €'000	2010 €'000
Assets		
Loans and advances to banks	2,424	5,048
Loans and advances to customers	5,915	6,637
Liabilities		
Deposits by banks	630	400
Customer accounts	595	1,118
<i>Transactions during the year were as follows:</i>		
Interest income	377	154
Interest expense	(16)	(160)
Fee and commission income	219	182
Fee and commission expense	(4)	(1)

(c) Key management personnel

Amounts due from and to directors, senior management or close relatives or companies in which they have a substantial interest, of the Bank were as follows:

	2011 €'000	2010 €'000
Assets		
Loans and advances to customers	680	773
Liabilities		
Customer accounts	1,003	881
<i>Transactions during the year were as follows:</i>		
Interest income	36	45
Interest expense	(12)	(26)
Fee and commission income	4	5

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

37. Related party transactions (CONTINUED)

Interest rates charged on loans are standard rates that would be charged in an arm's length transaction. Mortgages and loans are secured by property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

During the period, the Bank did not record impairment losses for loans and advances provided to related parties and no specific allowances have been made for impairment losses on loans and advances to related parties.

Key management personnel compensation for the period comprised:

	2011 €'000	2010 €'000
Board of Directors	805	680
Senior Managers	1,927	1,920
Supervisory Board	12	10
	2,744	2,610

During the year 2011 the number of members in the Board of Directors increased (from three to five members). In addition to the salaries, the Bank also provides non-cash benefits to directors and executive officers and contributes to a supplementary annuity insurance plan (see note 39).

38. Custodial services

The Bank administers securities and other valuables totalling € 2,875 million (2010: € 2,392 million), which have been received from customers into the Bank's custody.

39. Supplementary retirement annuity insurance plan

Since 1998, the Bank has participated in a supplementary retirement annuity insurance plan for its employees. Supplementary retirement annuity insurance is voluntary and is based on the contractual relationship between employee, employer and the supplementary retirement annuity insurance plan.

Contributions for both the employee and the Bank are fixed and defined in the plan.

For the year ended 31 December 2011, the Bank paid € 65 thousand (2010: € 90 thousand) and employees paid € 108 thousand (2010: € 118 thousand) under this plan.

40. Fair values and accounting classification

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The carrying amounts and estimated fair values of the Bank's financial assets and liabilities at 31 December 2011 were as follows:

	Note	Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortized cost €'000	Carrying value €'000	Fair value €'000
Financial assets								
Cash and cash equivalents	7	-	-	191,236	-	-	191,236	191,236
Trading assets	9	56,888	-	-	-	-	56,888	56,888
Derivative assets held for risk management	10	1,789	-	-	-	-	1,789	1,789
Loans and advances to banks	11	-	-	23,314	-	-	23,314	23,072
Loans and advances to customers	12	-	-	2,953,601	-	-	2,953,601	2,667,692
Investment securities	14	-	122,421	-	436,185	-	558,606	556,498
Measured at fair value		-	-	-	436,185	-	436,185	436,185
Measured at amortised cost		-	122,421	-	-	-	122,421	120,313
Financial liabilities								
Trading liabilities	9	45,119	-	-	-	-	45,119	45,119
Derivative liabilities held for risk management	10	21,159	-	-	-	-	21,159	21,159
Deposits by banks	18	-	-	-	-	540,025	540,025	518,407
Customer accounts	19	-	-	-	-	2,389,619	2,389,619	2,371,140
Loans received	20	-	-	-	-	291,917	291,917	269,720
Debt securities issued	21	-	-	-	-	116,210	116,210	106,843

Notes to the financial statements

Year ended 31 December 2011 (CONTINUED)

40. Fair values and accounting classification (CONTINUED)

The carrying amounts and estimated fair values of the Bank's financial assets and liabilities at 31 December 2010 were as follows:

	Note	Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortized cost €'000	Carrying value €'000	Fair value €'000
Financial assets								
Cash and cash equivalents	7	-	-	607,079	-	-	607,079	607,079
Trading assets	9	81,188	-	-	-	-	81,188	81,188
Derivative assets held for risk management	10	2,741	-	-	-	-	2,741	2,741
Loans and advances to banks	11	-	-	55,287	-	-	55,287	55,059
Loans and advances to customers	12	-	-	2,797,100	-	-	2,797,100	2,532,179
Investment securities	14	-	126,294	-	478,785	-	605,079	606,620
Measured at fair value		-	-	-	478,785	-	478,785	478,785
Measured at amortised cost		-	126,294	-	-	-	126,294	127,835
Financial liabilities								
Trading liabilities	9	46,043	-	-	-	-	46,043	46,043
Derivative liabilities held for risk management	10	9,982	-	-	-	-	9,982	9,982
Deposits by banks	18	-	-	-	-	404,763	404,763	398,064
Customer accounts	19	-	-	-	-	2,948,805	2,948,805	2,939,729
Loans received	20	-	-	-	-	254,185	254,185	244,725
Debt securities issued	21	-	-	-	-	112,494	112,494	105,179

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

Trading assets and derivative assets held for risk management

The fair values of trading assets and derivative assets held for risk management are calculated using quoted market prices or theoretical prices determined by discounted cash flows. Fair value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

Loans and advances to banks

The fair value of current accounts with other banks approximates book value. For amounts with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to banks are

calculated by discounting the future cash flows using current interbank rates.

Loans and advances to customers

Loans and advances are stated net of allowances for impairment. For loans and advances to customers with a remaining maturity of less than three months, it is reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to customers are calculated by discounting the future cash flows using current market rates.

Certain loans and advances to customers shown within loans and receivables are designated in qualifying fair value interest rate hedging relationships (2011: € 1,605 thousand; 2010: € 2,006 thousand) and are stated at fair value with respect to the hedged interest rate.

40. Fair values and accounting classification (CONTINUED)

Investment securities

The fair values of the investment securities are calculated by discounting future cash flows at market rates.

Trading liabilities and derivative liabilities held for risk management

The fair values of trading liabilities and derivative liabilities held for risk management are calculated using quoted market prices or theoretical prices determined by the present value method. Fair value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

Deposits by banks

The fair value of current accounts with other banks approximates to book value. For other amounts owed to banks with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other deposits by banks

are calculated by discounting the future cash flows using current interbank rates.

Customer accounts

The fair values of current accounts and term deposits with a remaining maturity of less than three months approximate their carrying amounts. The fair values of other customer accounts are calculated by discounting the future cash flows using current deposit rates.

Loans received

The fair values of loans received are calculated by discounting the future cash flows using current interbank rates.

Debt securities issued

The fair values of debt securities issued are calculated by discounting the future cash flows using current interbank rates.

Speaking the language of our clients.



As a result of expanded international mobility, many citizens who work in Austria do not speak German. These are citizens of other nationalities and cultures, who need to communicate in their own languages when discussing delicate subjects such as banking transactions. Bank Austria's *Banking Without Borders* programme guarantees that such customers, on any given day, will have access to an employee who speaks his or her own language. Additionally, in Vienna, five branches provide documentation and product literature in several languages other than German. An effective answer to a multicultural society.

Declaration of corporate governance pursuant to Act No. 431/2002 Coll. on Accounting

A.
Pursuant to Act No. 431/2002 Coll. on Accounting, the corporate governance of UniCredit Bank Slovakia a.s. (hereinafter referred to as the "Company" or the "Bank") is governed by the Code of Corporate Governance in Slovakia, which is a part of the Stock Exchange Rules for Admission of Securities to the Regulated Market and which is publicly available at the web site of Burza cenných papierov Bratislava, a.s. (www.bcpb.sk). No deviations from the Code occurred in the Bank in 2011.

B.
Management activity of the Company is performed in the form of decisions taken by corporate bodies and decisions taken at individual levels of management which are in line with the Articles of Association, internal regulations of the Company, generally binding regulations and strategic annual plans, and which are subject to internal control.

The levels of management, structured in organizational units, determine the scope of the subject-matter applicability and personal binding nature of individual types of decisions in managing the activity of the Company.

The highest rank in the Bank's hierarchy is occupied by the Management Board, which is the authorized representative of the Company and the top level of management. Other levels of management include:

- a) CEO;
- b) division directors;
- c) department managers;
- d) and the lowest level of management is represented by sub-department heads.

The Internal Control and Internal Audit Division and the Risk Management Division are independent Competence Lines. Furthermore the Director of the Internal Control and Internal Audit Division directly reports to the Supervisory Board via Audit Committee.

The managers at each level are responsible for design, implementation and efficiency of the internal control system. The internal control system is a set of rules, processes and organizational structures aimed at compliance with the Company's strategy and accomplishment of the following objectives:

- a) economy and efficiency of processes and procedures;
- b) protection of all property of the Bank;
- c) reliability and integrity of all information;
- d) compliance with laws, instructions and decrees of the National Bank of Slovakia;
- e) compliance with Group guidelines and policies as well as with internal regulations and plans.

Managers at all levels are responsible for balancing the profit of the Company against the risk knowingly assumed, whose balancing must be in line with the financial position of the Company. Responsibility and powers of the managers are defined in the Organisation Rules of the Company.

Information about management methods is provided in the financial statements.

C.
The internal control systems of the Bank are designed and operated in a manner to support the identification, assessment and management of risks affecting the Bank and the business environment in which it operates. As such, they are subject to continuous review in the case of a change in circumstances and origination of new risks.

The following are the main features of the internal control system:

The written principles and procedures determining the lines of responsibility and delegation of powers, the determination of main regulations and comprehensive reporting and analyses in accordance with the approved standards and budgets.

Risk minimization by attempting to provide for implementation of the appropriate infrastructure, regulations, systems and people within the entire scope of the business. The main principles applied in the management of risks include the segregation of duties, approval of transactions, monitoring, financial and management reporting.

Alignment to and efficiency of the internal control systems is warranted through management inspections, internal audit inspections, regular reporting to the Audit Committee and regular meetings with external auditors.

The directors are responsible for the internal control system of the Bank and for regular inspection of its efficiency.

Main features of the risk management system:

The risk management system has been developed by UniCredit Bank Slovakia a. s. in a manner to meet the requirements of the Directive 2006/48/EC of the European Parliament and of the Council of June 14, 2006, relating to the taking up and pursuit of the business of credit institutions, Act No. 483/2001 Coll. on Banks, as well as of the applicable decrees of the National Bank of Slovakia.

The objective of the Bank's risk management system is to:

- develop it in a manner to be in line with the set business objectives of the Bank as well as with its risk appetite,
- set up a system for the organization of business transactions in such a manner as to be in line with the risk profile of such transactions,

- create an adequate system for assigning powers and responsibilities,
- have available an effective system for reporting – reporting system,
- have available an effective risk control system.

The Management Board of the Bank is responsible for the implementation of three independent functions, which represent an effective system of internal control in the area of risk. These functions include:

- a risk control function which ensures compliance with risk management policies,
- a compliance function which identifies and assesses the compliance risk,
- an internal audit function, which is an instrument used by the managing authority to ensure that the quality of the risk control function is reasonable.

According to Article 9, Paragraph 9.16 of the Articles of Association of the Company, the Supervisory Board has established an advisory committee for auditing – the Audit Committee, and approved its Statute. The Audit Committee is made up of three Supervisory Board members. The responsibilities of the Audit Committee are set out in its Statute. At the same time, the Audit Committee may give an order to carry out inspections and special audits of banking activity, of other sub-departments/units of the Bank and its subsidiaries. The Audit Committee may also request evaluation of the correctness of bank-to-bank transactions and other transactions which represent, directly or indirectly, a conflict of interests.

The Supervisory Board shall supervise the exercise of powers by the Management Board and the conduct of the Company's business activities. Meetings of the Supervisory Board take place when needed, however, at least once in a quarter. In 2011, 5 ordinary and 1 extraordinary meetings of the Supervisory Board took place.

The Supervisory Board shall arrange for and perform such duties as are vested to its authority by the generally binding legal regulations and these Articles of Association, in particular:

- a) to stipulate the exact number of the Management Board members, to elect and remove members of the Management Board, to elect the Chairman and the Vice-Chairman of the Management Board from its members, to approve the rules of remuneration of the members of the Management Board, to take decisions concerning their bonuses and to approve agreements with members of the Management Board concerning their offices;
- b) to approve the Statute of the Internal Control and Internal Audit Unit of the Company;
- c) to supervise the compliance and implementation of the Holding Company Guidelines;

- d) to be responsible for the performance of duties which are vested to the authority of the Supervisory Board by the Holding Company Guidelines;
- e) to grant approval of the audit of the Company internal control system by the Internal Control and Internal Audit Unit of the Holding Company;
- f) to approve the Rules of Procedure of the Supervisory Board and any amendments thereof;
- g) to approve the Rules of Procedure of the Management Board and any amendments thereof;
- h) to approve annual and long-term business, financial and strategic plans of the Company prepared by the Management Board and to review the fulfilment thereof;
- i) to approve capital participation of the Company in other companies, including any disposal of such capital participation of the Company;
- j) to approve establishment and closure of any branches and organizational units of the Company which are subject to registration at the Commercial Register pursuant to the applicable provisions of the Commercial Code;
- k) to approve the concept of the Bank's internal capital adequacy assessment system;
- l) to inspect accounting books and records of the Company related to its business activities;
- m) to review compliance of the accounting books of the Company with legal regulations and the Articles of Association;
- n) to review the ordinary individual and extraordinary individual financial statements, proposals of the Management Board concerning the distribution of profit or the settlement of loss, reports of the Management Board prior to their submission to the General Meeting and to submit to the General Meeting its opinion;
- o) to convene meetings of the Management Board and the General Meetings if the interests of the Company so require;
- p) to inform the General Meeting on results of its inspection activities and to propose to the General Meeting reasonable measures to be taken by the Company;
- q) to give prior approval for selection of external auditors of the Company;
- r) to give prior approval for the appointment and removal of the CEO and General Manager of the Company
- s) to give prior approval for the appointment and removal of the holders of a special Power of Attorney (prokurista) of the Company;
- t) to give prior approval for the appointment and removal of the Head of the Internal Control and Internal Audit Unit;
- u) to take decisions in other matters which are vested to the powers and authority of the Supervisory Board by legal regulations or these Articles of Association.

Declaration of corporate governance pursuant to Act No. 431/2002 Coll. on Accounting

The Supervisory Board shall be entitled to request that the Internal Control and Internal Audit Division perform any internal inspection in the extent specified by the Supervisory Board.

The Supervisory Board shall be composed of 9 (nine) members who shall be elected for a term of office of 3 (three) years. Re-election of the members of the Supervisory Board is permitted. 6 (six) members of the Supervisory Board shall be elected and removed by the General Meeting. Each shareholder of the Company as well as each member of the Management Board shall be entitled to propose candidates for members of the Supervisory Board elected and removed by the General Meeting as well as to propose the members of the Supervisory Board to be removed. 3 (three) members of the Supervisory Board shall be elected and removed by the employees of the Company. The Election Procedures concerning the election and removal of the members of the Supervisory Board and its amendments shall be prepared and approved by the trade union.

The Supervisory Board may further establish committees from its members. One such committee is the Remuneration Committee, which shall define the principles and approve remuneration of the Management Board members.

D.

The General Meeting is the supreme body of the Company. The Annual General Meeting of shareholders took place on April 20, 2011. Shareholders approved annual individual financial statements and a motion to distribute profit, approved the annual report and the external auditor for 2011 and elected new members of the Supervisory Board.

The Management Board shall be obliged to convene the Annual General Meeting so that it is held within 4 (four) months of the end of the previous calendar year. The Management Board shall convene an Extraordinary General Meeting if so required by legal regulations or these Articles of Association. The Supervisory Board may convene an Extraordinary General Meeting if the Company's interest requires so or when the Articles of Association stipulate so.

It is within the powers of the General Meeting to:

- a) approve the Articles of Association and its amendments;
- b) decide to increase or decrease the registered capital and the issue of bonds;
- c) elect and remove members of the Supervisory Board other than those who are elected and removed by the employees of the Company and to approve the rules for remuneration of the members of the Supervisory Board;

- d) approve ordinary individual financial statements, extraordinary individual financial statements, decisions concerning the distribution of profits or the losses settlement and determination of royalties;
- e) approve the Annual Report of the Company;
- f) approve external auditors of the Company;
- g) adopt decisions concerning the abolishment of the Company;
- h) resolve on division, merger, consolidation of the Company or on the sale of the enterprise or its part;
- i) acknowledge the Supervisory Board activity reports;
- j) resolve other matters which are reserved for the General Meeting by generally binding legal regulations, these Articles of Association or such matters which the General Meeting itself reserves for its resolution.

The shareholder of the Company shall be entitled to participate in the management of the Company, shall have the right to profits of the Company (right to a dividend), which are to be distributed among the shareholders by virtue of a decision of the General Meeting taken with reference to the business results of the Company and the right to share the liquidation balance upon the abolishment of the Company with liquidation. The shareholder principally exercises the right to participate in the management of the Company by voting at the General Meeting, while it is obliged to adhere to the organization measures governing the organization of the General Meeting. Each shareholder shall be entitled to vote at the General Meeting of the Company, to request information and explanations concerning matters of the Company or parties controlled by the Company, which are related to the agenda of the General Meeting and to make proposals at the General Meeting. The shareholder is entitled to perform its rights at the General Meeting in person or through an authorized representation holding a written power of attorney (the "proxy holder"). A member of the Supervisory Board may not act as the proxy holder.

The shareholder shall be entitled to raise its proposals at the General Meeting for a duration not exceeding 5 (five) minutes. In the event that the speech lasts longer than 5 (five) minutes, the Chairman of the General Meeting may ask the shareholder to make a proposal for the resolution on which the shareholder requests to vote, or to formulate its request for information or for an explanation. If the shareholder does not satisfy such request of the Chairman of the General Meeting, the Chairman of the General Meeting may terminate the shareholder's speech and such shareholder is then entitled to send the part of the speech which could not be presented in writing to the Management Board. In the event that the shareholder's request for information or an explanation does not relate to the respective item on the agenda of the General Meeting that is being discussed, the General Meeting may ignore it.

The shareholder of the Company shall be entitled to inspect the minutes from the Supervisory Board meetings. The request of the shareholder

for access to the minutes must be in writing and duly delivered to the Company and must contain the identification of the respective item of the agenda and the meeting of the Supervisory Board for which the access is required; such request must be dated and signed by the shareholder. The Company may refuse access to the minutes from the Supervisory Board meetings, if such access would be an infringement of the generally binding legal regulations or supply of the information could harm the Company. Any information provided by the Company to the shareholder must remain confidential.

E. The Management Board carried out its activity in 2011 with a composition of five members. Meetings of the Management Board take place every two weeks. The Management Board met at 25 ordinary meetings last year.

Advisory bodies of the Management Board are special-purpose groups of employees responsible for the evaluation of problems and tasks in the area defined by the Charter of the advisory body. The advisory bodies of the Management Board include:

Loss Committee of the Head Office of UniCredit Bank Slovakia a. s.

The Loss Committee discusses specified loss cases incurred by the Bank, presents opinions on loss events based on submission of the relevant documentation, assesses origin of damage and submits proposals for settlement of damage incurred. The Loss Committee has 9 members.

Asset & Liability Committee (ALCO)

In compliance with the need to achieve financial and regulatory objectives of the Bank, the ALCO Committee adopts decisions concerning the subject and principles of asset and liability management and the plan and budget of the Bank and proposes asset and liability management, while taking into account the previous and anticipated development of balance items. The ALCO has 8 members.

Occupational Health and Safety Committee of UniCredit Bank Slovakia a. s.

The task of the Occupational Health and Safety Committee is to enforce observance of generally binding regulations, observance of the Articles of Association of the Company and resolutions of the Management Board related to occupational health and safety; to assess the condition of occupational health in the Bank, observance of obligations in the area of occupational health and safety; to propose to the Management Board measures in the area of management and control of the condition of occupational safety; and to regularly evaluate the condition of the working environment and working conditions for employees. The Committee has 5 members.

Security Committee of UniCredit Bank Slovakia a. s.

The Security Committee, which has 3 members, has competences in the area of evaluating regulations of the current condition of the Bank's security, assessing security incidents and evaluating results of security inspections within the Bank, evaluating the condition of projects relating to security and performing other activities relating to security.

Committee for Work Accident Compensations of UniCredit Bank Slovakia a. s.

The Committee for Work Accident Compensations has 5 members and objectively assesses every job-related injury in terms of liability for its occurrence, establishes the cause of the job-related injury and proposes the means and amount of compensation for the job-related injury.

Liquidation Committee of UniCredit Bank Slovakia a. s.

The Liquidation Committee discusses all presented proposals for liquidation of the Bank's assets and submits to the Bank's Management Board proposals for performance of asset liquidation, discusses all motions concerning liquidation of small tangible and intangible assets, long-term tangible and intangible assets of the Bank and inventories recorded in the Bank. The Liquidation Committee has 5 members.

Personal Data Protection Committee

The Personal Data Protection Committee enforces observance of generally binding regulations, the Articles of Association of the Company and resolutions of the Management Board related to issues of personal data protection, and observance of personal data protection principles pursuant to internal regulations of the Bank; regularly examines the activity of persons performing supervision over personal data protection in the Bank; and proposes measures in the field of prevention against unauthorized manipulation of personal data. The Committee has 12 members.

Operational Risk Committee of UniCredit Bank Slovakia a. s.

The task of the Operational Risk Committee is to discuss proposals of policy, rules and methodology for operational risk management and insurance; propose and monitor limits; monitor risk exposures; monitor procedures proposed to mitigate risk; assess significant operational risk events; discuss operational risk reports; and to act as a steering committee for operational risk related projects. The Committee has 7 members.

F. The shareholder's equity is divided into 38,353,859 (to wit: thirty-eight million three hundred and fifty-three thousand eight hundred and fifty-nine) pieces of registered shares in book entry form, while the nominal value of one share is EUR 6.14 (to wit: six euros and fourteen cents). The Company's shares are not admitted for trading on the regulated market.

Declaration of corporate governance pursuant to Act No. 431/2002 Coll. on Accounting

No special rights or obligations are attached to the issued shares.

Transferability of shares is not restricted.

Qualified interest in the registered capital of UniCredit Bank Slovakia a. s. is held by UniCredit Bank Austria AG, seated in Schottengasse 6-8, 1010 Vienna, Austria.

With regard to the fact that no special rights or obligations are attached to the issued shares, no shareholder is vested with special rights of control.

The Company issued no employee shares.

The voting rights attached to the Company's shares are not restricted. The Company is not aware of any agreements among the securities holders which might restrict transferability of both the securities and the voting rights.

The members of the Management Board shall be elected and removed by the Supervisory Board.

When a member of the Management Board is elected or removed, each nominee is subject to a separate vote. If there are more nominees, the nominees awarded the highest number of votes shall become the members of the Management Board. If the prior approval of the National Bank of Slovakia to the election or the removal of the member of the Management Board must be obtained pursuant to legal regulations, the Supervisory Board may decide on the election or the removal only if such approval is granted, otherwise the effectiveness of the decision of the Supervisory Board will be conditional upon acquiring such approval.

If the Chairman of the Management Board, Vice-Chairman of the Management Board or a member of the Management Board resigns, is removed or the term of his or her office is terminated as a result of his or her death or another reason, the Supervisory Board shall elect, within 3 (three) months, a new member or designate a new Chairman or Vice-Chairman. The term of office of such a newly elected member of the Management Board shall expire on the date of expiration of the term of the Management Board, whose term of office was being served at the time of the election of the new member.

If a member of the Management Board resigns from office, the resignation on the membership of the Management Board is effective on the day of the first Supervisory Board meeting following delivery of the written resignation notice; if a Management Board member resigns at the Supervisory Board meeting, the resignation is effective immediately. If, after delivery of the resignation notice on the membership in the Management Board or resignation at the Supervisory Board meeting, the Supervisory Board agrees with the member of the Management Board on a date of the termination of office, the office of the member of the Management Board shall terminate on such agreed date.

Any amendment of the Articles of Association is subject to a decision of the General Meeting and shall be approved by a two-third majority of votes of all shareholders. Such decision of the General Meeting shall be taken in the form of a notary deed.

The powers of the Management Board related to decision-making on the issuance of shares are governed by the provisions of Act No. 513/1991 Coll., the Commercial Code.

The Company entered into no agreements pursuant to Article 20, Paragraph 7(i) and (j) of the Act No. 431/2002 Coll. on Accounting.

Through its system for management of environment protection, health protection and work safety, the Bank creates safe and health-friendly environment for its employees, demonstrates its maximum effort in the area of environment protection management when executing bank activities and related activities and does not carry out any activities which would negatively influence the environment.

After a successful implementation of environmental management (EMS) into activities of the bank and a certification according to STN ISO 14001 in 2010, the bank confirmed its ecological commitment also in 2011 when it implemented a certified system of energy management according to the European technical standard EN 16001.

The Bank does not have any organizational units abroad.

The Bank has no research and development costs.





