UniCredit Bank

Clear answers for real benefits.

Annual Report for the First Half of 2013

UniCredit Bank

Customer testimonials are the common thread of this year's annual report to illustrate the concrete solutions we provide every day. These true stories were told first-hand and collected by the colleagues who worked with them to offer real benefits.

Each story lends an authentic voice to how we are having a positive impact on our stakeholders. We are making a difference by recognizing everyday challenges and opportunities, and by contributing to the economic, social and cultural well-being of the communities we serve.

This report's creative concept reflects our commitment by displaying two pieces that fit together. This represents the union between the real-life needs of our clients and the practical solutions that we offer.

Above all, we believe that being a commercial bank means engaging in meaningful dialogue with those with whom we come into contact. This enables us to provide simple, quick and effective responses that perfectly meet customer needs.

Inside you will find some of these stories. We hope the next one will be yours.

Annual Report for the First Half of 2013

PROTECTION

Supporting communities in critical times

“After one of our town’s largest employers closed its doors, our local communities went through a very tough time. UniCredit worked closely with government officials on an innovative initiative that helped those who had lost their jobs, like me, gain prompt access to unemployment benefits. The bank quickly facilitated funding for entitlements, protecting families from collapse.”

Franco F., customer of UniCredit in Italy

Contents

Supervisory Board, Board of Directors

From January 1, 2013 to June 30, 2013 the membership of the Management Board was as follows:

Chairman:	Ing. Miroslav Štrokendl	
Vice-Chairman:	Marco Cravario	(since 4. 4. 2013)
	Mag. Franz Wolfger	(until 31. 3. 2013)
Members:	Mag. Franz Wolfger	(since 1. 4. 2013)
	RNDr. Zuzana Žemlová	
	Ing. Monika Kohútová, MBA	

From January 1, 2013 to June 30, 2013 the membership of the Supervisory Board was as follows:

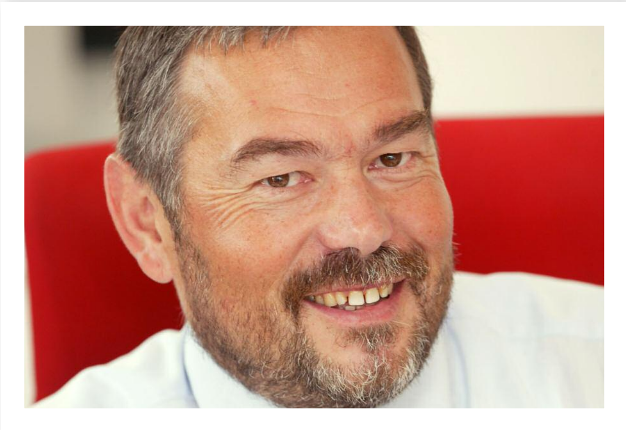
Chairman:	Heinz Meidlinger	
Vice-Chairman:	Gerhard Deschkan	
Members:	Alberto Devoto	
	Alessio Pomasan	
	Ing. Viera Durajová	(until 24. 2. 2013)
	Ing. Viera Durajová	(from 14. 5.2013)
	Ing. Jaroslav Hazlinger	
	Ing. Jana Szászová	
	Ing. Slávka Jánošíková, PhD.	
	Simone Marcucci	

Management

As of June 30, 2013 the management of UniCredit Bank Slovakia a. s. operated in the following structure:

Chief Executive Officer	Ing. Miroslav Štrokendl	
Internal Audit Division	Christian Hamberger	
Bank Secretariat	PhDr. Rudolf Hanuljak	
Human Resources Division	Silvia Cassano	
Identity and Communications	Ing. Alena Kľúčiková	
Legal and Compliance Division	Mgr. Vladimír Nagy	
Market Research & Strategy	Ing. Ľubomír Koršňák	
Private Banking	Raymond Kopka	
Corporate and Investment Banking Division	–	
Structured Finance and Large Corporates	Ing. Jaroslav Habo	
Mid Corporates	Ing. František Doležal	
Global Transaction Banking	Ing. Roland Viskupič	
Markets	Ing. Tomáš Perďoch	
Financial Division	Mag. Franz Wolfger	
Accounting	Ing. Viera Durajová	
Planning and Controlling	Mgr. Ľubomír Solčanský	
Global Banking Services Division	JUDr. Marián Áč	
Bank Operations	Ing. Miroslav Kešelák	
Change Management and ICT Support	Ing. Ján Grujbár	
Organization and Logistics	Ing. Tomáš Haramia	
Retail Division	Ing. Monika Kohútová, MBA	
Alternative Channels	Ing. Ľuboš Kováčik	
Segments and Products	Ing. Marian Burian	
Risk Management Division	RNDr. Zuzana Žemlová	
Special Credit	JUDr. Marek Melíšek	
Strategic Credit Risk Management	Ing. Mgr. František Zavadil	(until 28. 2. 2013)
Underwriting	Ing. Miroslav Gálus	

Opinion of the Supervisory Board



HEINZ MEIDLINGER
Chairman of the Supervisory Board

> „The financial statements of HY1 2013 present a clear picture about the financial situation and results of the Bank."

Dear Ladies and Gentlemen,
Dear shareholders,

Despite the negative impact of development in external environment, UniCredit Bank grew dynamically in retail loans in HY1 2013, increasing its market share to 4.7%. This increase was driven mainly by housing loans going up by 24.1% yoy. In spite of slower economic growth, the bank managed to keep its strong position in corporate lending as well.
Total deposits in UniCredit Bank remained stable, with an increase in corporate and SME deposits by 2.9% but 7.3% lower deposits from individuals due to irrational offers of competitors.
As of 30 June 2013, the registered capital of UniCredit Bank Slovakia a. s. amounted to EUR 235,492,694.26, which represents 38,353,859 pieces of registered shares issued in book entry form with nominal value of EUR 6.14 per share.
During HY1 2013, the bank's business strategy implementation and business activities management were actively inspected by the Supervisory Board in compliance with the legislation applicable in the Slovak Republic, the Articles of Association of the bank and in close cooperation with the Internal Audit Division. The Supervisory Board was regularly informed at its HY1 2013 meetings about the financial results of the bank and about the credit portfolio risk development. At the regular meetings, the Audit Committee, being the Supervisory Board's advisory body, reported to the Supervisory Board on its activities, providing also appropriate recommendations. The Audit Committee ensured that the Management Board reacted to the internal and external auditors' recommendations. Furthermore, it ensured that the Supervisory Board knew about the issues possibly having substantial impact on the financial situation or business affairs of the bank, enhancing clear communication among internal audit, external auditors and the Supervisory Board.
The Supervisory Board, based on its activity, hereby confirms that the accounting 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 HY1 2013 present fairly the financial situation and results of the bank, which was also affirmed by the opinion of the external auditor Deloitte.
The Supervisory Board certifies that according to HY1 2013 extraordinary financial statements, the bank generated an operating profit of EUR 7.7 million and the profit after taxation according to International Financial Reporting Standards amounted to EUR 1.2 million. The Supervisory Board consents to the proposal of the Management Board for the HY1 2013 net profit distribution and recommends its approval.

Heinz Meidlinger
Chairman of the Supervisory Board

Foreword of the Chairman of the Board of Directors and CEO

MIROSLAV ŠTROKENDL
Chairman of the Management Board and CEO

" The Bank's market share of UniCredit Bank in retail lending went up to 4.7 %. "

Dear shareholders,

Economic results of the bank in HY1 2013 were influenced by two important factors – slowdown of economic growth and the project of merging UniCredit Bank Slovakia and UniCredit Bank Czech Republic into a single cross-border bank, planned to be established in December 2013. In this situation, we grew in business results and focused on increasing revenues and maintaining costs of the bank.

The economic growth slowed down at the end of last year and in the first half of this year. Low corporate investment activity was reflected in continuing decrease of loans provided by the bank sector to domestic non-financial companies. On the other hand, the retail loans market kept growing dynamically, driven by both housing loans and consumer loans. UniCredit Bank managed to outperform the market growth and thanks to an increase by 24.1 %, the bank's market share in retail lending went up to 4.7 %. This increase was driven in particular by housing loans.

In HY1 2013, UniCredit Bank recorded revenues amounting to EUR 63.5 million, i.e. an increase by 2.2 % as compared with the same period of the previous year. In spite of record-low interest rates on the market, net interest income went up by 0.4%. Non-interest income grew as well by 5.2% – mainly thanks to operations on financial markets.

Strict cost management partially helped to offset higher bank levy the base for calculation of which changed in July 2012. Total costs amounted to EUR 42.3 mil., which is an increase by only 1.9%. Cost Income Ratio without the bank levy was 55.4%, with the bank levy 66.7%.

In HY1, UniCredit Bank's operating profit amounted to EUR 7.7 million, which is in line with the bank's plan. The year-on-year decrease of the operating profit was caused by higher bank levy and higher creation of provisions.

The bank's net profit reached EUR 1.2 million in HY1. In spite of growing customer business, the net profit dropped due to creation of reserves for a planned single payment of EUR 5.6 million to the Deposit Protection Fund, creation of loan provisions higher by EUR 5.1 million than in the previous half-year, the bank levy higher by EUR 2.3 million as well as due to costs of the cross-border merger. The single payment to the Deposit Protection Fund is linked to the ongoing cross-border merger with UniCredit Bank Czech Republic and transfer to the Czech Deposit Protection Fund with broader insurance.

Total assets of the bank remained with EUR 3,928 million at the level of the same period of last year, which represents a market share of 6.8%. Customer loans constitute 77.3 % of total assets, in line with UniCredit Group's strategy to keep increasing customer business in all segments.

As for lending, the bank continued its efforts to retain its strong position in corporate lending and at the same time strengthen its position in retail lending.

At the beginning of April, UniCredit Bank signed an agreement with the European Investment Fund and the Slovak Guarantee and Development Fund within the initiative JEREMIE (Joint European Resources for Micro to Medium Enterprises), allowing small and medium enterprises with up to 250 employees and annual turnover up to EUR 50 million to apply for investment financing with more advantageous and affordable conditions in the next two years. The available volume of loans to be provided by UniCredit Bank to small and medium enterprises within JEREMIE in the next two years is EUR 70 million.

The bank grew by 24.1% in retail loans, taking a more substantial share of the consumer loans market with an increase by 11.5 % yoy. The bank grew considerably also in housing loans (by 28.6%).

Total deposits in UniCredit Bank remain stable, close to last year's levels (-1.0%) with an increase in corporate and SME deposits by 2.9% but 7.3% lower deposits from individuals due to not competing with irrational pricing on the market.

Loan/Deposit Ratio stands at 118% and the LSFR at 106.4%, i.e. still below the limit (110%) defined by the NBS.

The capital situation of the bank improved further and with Capital Adequacy Ratio (Tier I & II) of 15.54% the bank is one of the best capitalized banks in Slovakia. The capital represents with EUR 455 million a stake of 11.6% of the bank's balance sheet.

The bank continued an active business strategy in all areas – services for individuals as well as entrepreneurs.

Dear shareholders,
Every transformation of a company is a demanding process. I am truly pleased that the bank exceeded the expected goals in terms of economic results in HY1 2013. UniCredit Bank successfully continues the process of merging UniCredit Bank Slovakia and UniCredit Bank Czech Republic into a single cross-border bank, which will operate on both markets from December 2013 and bring the expected synergic effects stemming from this merger in the coming years. The bank's ambition is to keep pursuing a strategy of growth in all customer business segments on the Slovak market.

Miroslav Štrokendl
Chairman of the Management Board and CEO

PLANNING

Customer care that crosses national boundaries

> *UniCredit Bank Hungary's products and services have had a strong impact on our business. And their representatives always demonstrate a keen interest in meeting our needs – delivering solutions with a high level of flexibility and professionalism. Their tailored solutions are priced appropriately and applied quickly and easily to our business. UniCredit's presence throughout numerous countries also makes the bank a reliable partner in internationalizing our business.*

Carlo Innocenti, CEO of Serioplast,
customer of UniCredit Bank in Hungary

Report on Business Activity and Assets in HY1 2013

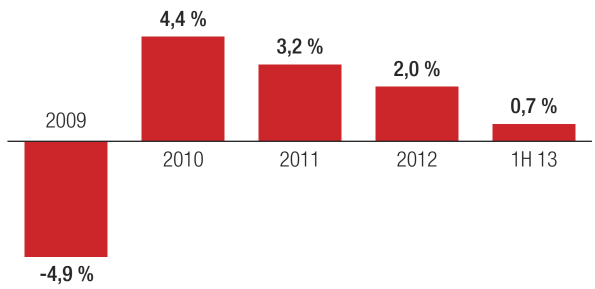
Economic and Competitive Environment in the SR

At the turn of the year, growth of the Slovak economy slowed down as a result of deteriorating external environment and continued weak domestic demand, still curbed by fiscal consolidation. In HY1 2013, the Slovak GDP went up only by 0.7% yoy and recorded the slowest growth since the economic crisis in 2009. In contrast to the previous year, the economy was no longer boosted by a supply shock in automotive industry. Recession in eurozone countries was reflected also in slower growth of the Slovak industry and exports. Nevertheless, economic growth continued to be driven solely by net export while the decreasing domestic consumption pushed down imports even more heavily. Therefore, even with weakly growing exports, foreign trade surplus reached new record-high levels.

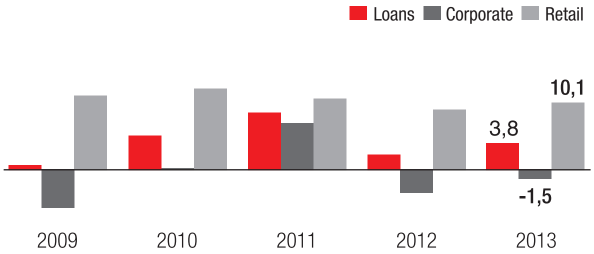
The eurozone started 2013 in an ongoing recession. However, its economic growth recovered in Q2 after six quarters of steady decrease. The ECB continued its efforts to support eurozone economies through a loose monetary policy. Conditions for such monetary policy setting were created also by slowing inflation in eurozone countries. The ECB hence lowered the eurzone's key interest rate to the historically lowest level of 0.5%. It is expected to remain at this level in 2013 and 2014 as well.

In HY1 2013, net profit of the banking sector went up by 5.1% and annualized ROE of the banking sector increased from 7.2% to 8.8%. Profitability of Slovak banks continued to be negatively affected by the bank levy, record-low interest rates on the interbank market but also by growing cost of risk. On the other hand, non-interest income – mainly from securities trading – prospered. Net income grew by 5.3% yoy (while net interest income dropped by 0.2%), whereas operating expenses of the banking sector increased only by 1.1% yoy. Operating profit thus grew by 21% yoy in the first half of the year. However, the cost of risk was considerably higher than last year (net creation of provisions rose by 108.9% yoy), even despite stabilization of defaulted loans level at 5.2% – 5.4%.

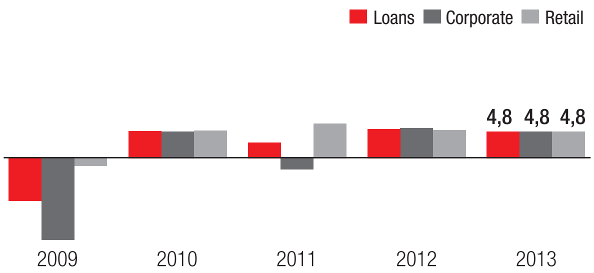
Yoy GPD Growth in Slovakia (constant prices)



Yoy Growth of Loans – Banking Sector (in %)



Yoy Growth of Deposits – Banking Sector (in %)



Expected Development of the Bank in 2013

Western European economies, in particular Germany, should start recovering in HY2 2013. Their recovery should have positive impact on the performance of the Slovak economy and GDP should return to relatively stronger quarter-on-quarter growth. Nevertheless, economic growth will continue to be driven almost exclusively by foreign demand. First signs of domestic demand recovery are not expected before the turn of the years 2013 and 2014. Low investment activity of domestic companies is still likely to keep the demand for bank loans at low levels. In spite of this, UniCredit Bank plans to maintain or even strengthen its position in corporate financing also in 2013.

The growth of the economy will not be sufficient to boost employment. The labour market will still be facing gradual unemployment increase. Even though slower growth of prices should help to reduce the fall of real salaries, no significant increase in total available funds of individuals is expected. However, low consumer confidence should keep the tendency to save at relatively high levels and together with continuing risk aversion support the growth of bank deposits of individuals. In the segment of loans to individuals, we expect continued dominance of housing loans, which should be the bank's leading product also in 2013. Nevertheless, UniCredit Bank intends to strengthen its position in the segment of consumer loans as well.

The bank continues to prepare the planned cross-border merger. As of 1 December 2013, UniCredit Bank Slovakia a. s. will merge with UniCredit Bank Czech Republic, a. s. and UniCredit in Slovakia will be transformed into a foreign bank branch. Despite the ongoing merger, the bank's ambition is to further improve its market position through high quality of services and increased focus on customer service and satisfaction. The bank will try to optimize costs and concentrate on risk management also in HY2 2013.

Selected Economic Results of the Bank in 1H 2013

The economic growth slowed down at the end of last year and in the first half of this year. Low corporate investment activity was reflected in continuing decrease of loans provided by the bank sector to domestic non-financial companies. On the other hand, the retail loans market kept growing dynamically, driven by both housing loans and consumer loans. UniCredit Bank could outperform the markets growth in retail loans and with an increase of 24.1% the market share could be increased to 4.7%. Mortgage loans were the main driver for this growth and the bank originated 15 % of the new mortgage loans in the first half of year 2013.

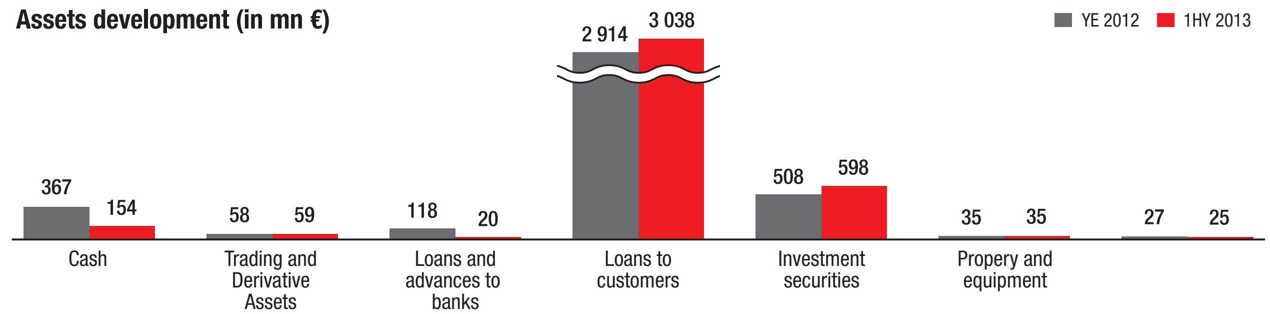
Despite external influences – lasting record-low interest rate levels and weak demand for corporate loans – the bank exceeded the expected goals in terms of economic results in HY1 2013.

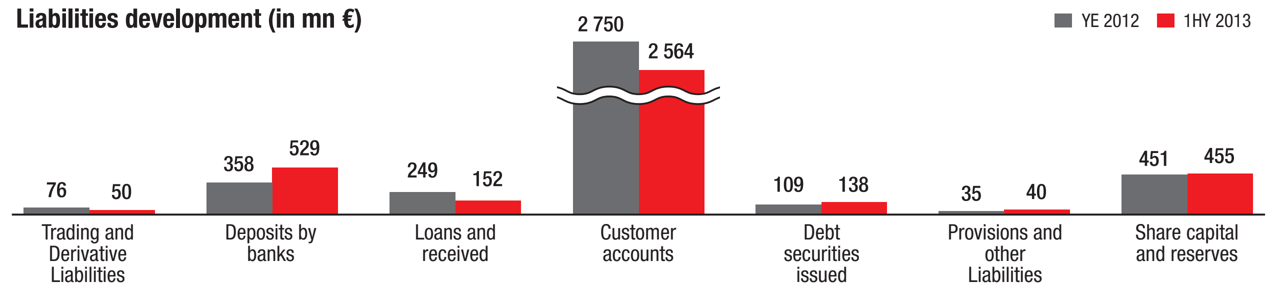
In HY1, UniCredit Bank recorded revenues amounting to EUR 63.5 million which is an increase compared to last year's first 6 months of 2.2%. In spite of the record-low interest rates on the market, net interest income increased by 0.4%. Non-interest income increased as well by 5.2%.

Strict cost management helped to off-set partially the higher bank levy which base for calculation changed in July 2012. Total costs amounted to € 42.3mn which is an increase by only 1.9%. Cost Income Ratio w/o bank levy was 55.4% resp. including bank levy 66.7%.

UniCredit Bank's operating profit amounted to EUR 7.7 million, which is in line with the bank's plan but compared to last year down by 37.1% mainly as a result of higher bank levy and higher creation of provisions. Without the bank levy, the bank's operating profit would have been EUR 14.8 million.

Total Assets of the bank remained with € 3,928mn at the level of same period previous year which represents a market share of 6.8%. Loans





to customers represent 77.3 % of the total assets and the bank is constantly increasing its customer business in all business lines.

As for lending, the bank continued its efforts to strengthen its position in retail lending by keeping at the same time it's strong position in corporate lending. The bank grew by 24.1% in retail loans, taking a more substantial share of the consumer loans market with an increase by 11.5 % yoy. The bank grew considerably also in housing loans (by 28.6%).

Total deposits in UniCredit Bank remain stable, close to last year's levels (-1.0%) with an increase in corporate and SME deposits by 2.9% but 7.3% lower deposits from individuals due to not competing with irrational pricing on the market.

Loan Deposit Ratio stand at 118 % and the LSFR (Long-term Stable Funding Ratio) at 106.4% herewith all-time below the limit (110%) defined by NBS.

The Capital Situation of the bank improved further and with a Capital Adequacy Ratio (Tier I & II) of 15.54 % the bank is one of the best capitalized banks in Slovakia. The Capital represent with € 455 mn a stake of 11.6% of the bank's balance sheet.

Risk Management of the Bank

In HY1 2013, the bank concentrated on achievement of the following goals:

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 prepare integration with its sister bank UniCredit Bank Czech Republic.

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 6.5 % as of the end of the monitored period, which is slightly above the banking sector level (5.4%). The cost of risk amounted to EUR 14 million in HY1 2013.

Corporate portfolio constitutes the largest portion of credit risk with 71.9 % of the total loan portfolio. The portfolio of customers-natural persons (23.5%) and small businesses (4.6 %) has better risk parameters and a long-term growing tendency.

Corporate and Investment Banking

Structured Finance and Large Corporates

In spite of a decrease in deposit revenues caused by a decrease in Euribor, the bank managed to retain and even slightly increase revenues in the Large Corporates segment in HY1 2013. It was mainly thanks to successful executions of several large structured and syndicate loan and guarantee transactions for bank customers operating especially in less cyclical industries such as energy industry, retail sales and basic infrastructure.

For instance, UniCredit Bank was the only local bank in Slovakia to participate as the arranger, bookrunner and initial underwriter directly in signing of a syndicate loan agreement amounting to EUR 1,500 million for financing of SPP a. s. acquisition. Moreover, the bank also provided a guarantee of EUR 35 million to a prominent customer for financing of stock purchased at the Warsaw Stock Exchange in a public offering for stock purchase.

Success in several large business transactions was achieved also thanks to close cooperation with colleagues from UniCredit Group. In addition to traditional cooperation with colleagues from Vienna, London, Munich and Milan, cooperation with colleagues from UniCredit Bank Czech Republic, a. s. became more intensive as well, profiting from the synergies brought about by cooperation between both countries.

The bank continued its participation also in other projects related to renewable energy sources, namely in projects focused on biogas stations and biomass cogeneration units. UniCredit Bank's involvement in renewable energy sources projects is closely connected with its social responsibility strategy in the area of environment protection aimed at reduction of production of direct and indirect emissions.

In order to obtain funds for financing of long-term investment projects, UniCredit Bank has been long cooperating with the European Investment Bank and the European Bank for Reconstruction and Development.

Mid Corporates

In HY1 2013, the Mid Corporates segment experienced positive development in interest income from the loan portfolio, which grew by about 7.3% p.a. yoy even though the loan portfolio volume remained more or less unchanged. This was mainly thanks to a change in the loan portfolio composition where the bank's key focus was on smaller but more stable exposures.

As for deposits, the bank recorded an opposite tendency driven by the low interest rate policy. In spite of year-on-year growth of primary funds of our customers by approximately EUR 100 million resulting from our acquisition activities, interest income dropped by more than 50 %. As regards fees, the bank continues to strengthen its position in POS terminals market penetration, which leads to higher volumes of transactions made through the bank. The bank keeps acquiring new customers, concentrating in particular on a stable pillar of our clientele – agriculture.

At the beginning of April 2013 UniCredit Bank signed an agreement with the European Investment Fund (EIF) and Slovenský záručný a rozvojový fond (SZRF) under the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative. Thanks to this, both small and mid-sized enterprises with number of employees up to 250 and with an annual turnover of max. EURO 50 mil. will during the coming two years be able to apply for investment financing under more favourable and affordable conditions.

EURO 70 mil. shall be the available volume of loans, which will be provided to small and mid-sized entrepreneurs by UniCredit Bank under the JEREMIE initiative during the next two years.

Financial Institutions

In HY 2013, the Financial Institutions segment maintained a large volume of stable primary funds, supported by special deposit products prepared and implemented together with customers. The bank continued its close cooperation with pension management companies and insurance companies.

The Financial Institutions department works with internationally recognized know-how of the Global Transaction Services product units (Cash Management, Global Securities Services) and offers customers – financial institutions – a full range of tailored products and services.

Report on Business Activity and Assets in HY1 2013 (continuation)

Trading Desk and Treasury Sales

In Treasury, the bank concentrated strongly on efficient management of its short-term liquidity, where it managed to allocate excess short-term liquidity for revenues exceeding Euribor rates while maintaining low risk levels. As for trading on the capital market, the bank acted prudently and followed the approved investment strategy focused mainly on utilization of limits for the Slovak Republic. Just like in the past, also in HY1 2013 the results of FX trading contributed significantly to the overall positive result of Treasury & Trading.
In the area of Treasury products, the bank intensified its orientation toward creation of sophisticated solutions, focusing chiefly on hedging of customers against market risks such as currency or interest rate fluctuation. In 2013, Treasury Sales paid more attention to support and training of the corporate segment sales network in the field of Treasury products and processes viewed by the bank as essential requirements for development and growth of Treasury business.

Retail Banking

In HY1 2013, the Retail Banking Division continued to pursue a strategy concentrated on provision of loans to individuals, acquisition of new customers, stabilization of primary deposits as well as strengthening of the traditionally high customer satisfaction.

The bank was notably successful in retail loans, reaching the first billion of loans. In June, the bank even recorded the highest increase in housing loans on the market. UniCredit Bank's share on the total housing loans increase was almost 20% and its market share rose to 6% as of the end of June 2013. This result was strongly aided by exceptionally successful campaigns focused on sale of consumer loans and mortgage loans. For retail loan products, the bank introduced insurance of loan repayment ability paid by a single payment and aimed at maximization of added value for customers as well as for the bank. It was also thanks to this new offer that retail loans became unrivalled on the market.

In HY 2013, UniCredit Bank was the only bank not only in Slovakia but also in UniCredit Group's network to launch a pilot project of a modern and innovative service You@Bank. It is a new way of communication between customers and the bank, creating room for sale of bank products and services without customers having to visit a bank branch in person. You@Bank brings to the Slovak market benefits offering the highest customer comfort. Service users will receive special care of their personal banker in Online Banking through video calls or chat – around the clock* and comfortably at home, at a café, in their office or on the beach.

As for electronic banking, the bank extended the use of its mobile banking application BankAir, adding the possibility to make payments by means of scanning the bar code or QR code on postal orders or invoices. UniCredit Bank thus became the first bank in Slovakia offering automatic generation of payments in mobile banking from such a wide range of postal orders.

The bank continued to broaden and improve cooperation with selected external sales networks chiefly in sale of mortgage loans and non-purpose consumer loans, which also contributed to the bank's market share increase.

No major changes took place in the branch network as of 30 June 2013.

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* in pilot operation from 9:00 to 20:00

Private Banking

In HY1 2013, private banking continued to pursue the strategy of building customer relations based on family banking. The focus was chiefly on stabilization and strengthening of customer satisfaction especially in terms of the ongoing merger, with maximum effort to eliminate risks that could occur considering the high sensitivity of the private segment.

The most outstanding business success was the progress of development of the global investment strategy – the offer of open architecture of mutual funds of renowned world asset managers, which remains unparalleled in the private banking segment of universal banks on the Slovak market.

The product segment of investment certificates flourished as well. Customers could choose from a wide range of more than 70 different certificates.

Last but not least, the successful cooperation with ERGO in the field of guaranteed investments continued. Private banking of UniCredit Bank Slovakia a. s. ranks first among UniCredit entities in CEE countries in sales of ERGO issues.

Human Resources

As of 30 June 2013, the employee headcount of the Bank was 1,163, out of which 63,3 % in front office positions.

HY overall staff turnover is approximately in line with the banking market.

The average age of employees is 38.5 years and 72 % of them have university education. The balance between men and women is 29:71, showing a significant majority of women. The ratio is different on senior positions, up to 44% of women among the first reporting line to the CEO.

Among the main focuses of the Human Resources activity in the first half 2013:

– Performance management and effective follow up in terms of feedback and development plan for employees. Before and during the feedback sessions, managers were supported in and asked to build individual development plans with strong focus on „learning on the job", as one of the most effective learning tools. In any case, also a „Development Catalogue", including the range of possible development tools and the recommended ones based on needs/objectives, has been designed and made available. In close connection with the managers, HR Business Partners meet periodically to check the status of the Plans and the possibility of cross-divisional initiatives with the aim to strengthen our skilled, competent and valuable human capital.

– RISK and BUSINESS job rotation – our plan is to be focused on enlargement of people's know-how, in order of better understanding by giving opportunity to spend appropriate time working with counterparts form another Division.

– Collective Agreement 2013 has been successfully concluded.

– The update of the Variable incentive Policy has been concluded.

– KIDs DAY – on 28th of June about 70 children of our employees visited our Bank. They spent in the Bank whole afternoon with the possibility to join tour via bank building, including meeting CEO and other Board members. Rest of the time children enjoyed by playing, painting and other activities.

– CEO/COO Quarterly Lunch with Talents was introduced in April. Talents have the chance to meet and openly discuss with CEO, COO and HR manager.

Within the Training and Development area, the ongoing bank strategy is to strengthen the development of internal courses versus external providers ones, also thanks to the already existing expertise within the Group and broaden cooperation with UniCredit Leasing Slovakia, a. s. and UniCredit Bank Czech Republic, a. s. For example, two trainings were already developed in Risk and Corporate area on Risk assessment in cooperation with Bank Austria. Three learning workshops again on Risk culture a Decision making will be delivered in the second half of the year.

With regard to the tools, a high emphasis is also given to the e-learning, as effective and efficient way to deliver technical trainings. Today, the bank can offer more than 100 e-courses, including 34 compulsory courses.

In spite of a very cost-aware budget by the 30th of June 2013, the bank provided 927 training days which means 6581 training hours (5,65 training hour per employee).

Corporate Philanthropy and Sponsoring

In HY 2013, the bank continued its long-term cooperation and support of partners concentrating their activities on sport. The UniCredit brand was linked in particular to partnership with HC Slovan and group sponsorship of UEFA Champions League.

As for philanthropy, the bank carried on the support of non-profit organizations Návrat and Magna Deti v núdzi, helping children grow up in better living conditions. The humanitarian organization Magna Deti v núdzi helps children in developing countries receive regular nutrition and healthcare. Their effort has been successful also thanks to the project Magna Záchranca, actively supported by UniCredit Bank and its employees through their regular voluntary financial donations.

In the first half of the year, UniCredit Bank organized again an employee book collection for children in substitute care for whom the Návrat association had found foster parents. In addition, the bank also supports activities of Návrat through provision of free financial and legal advisory. Another form of this partnership is the support of the project Trvalý návrat based on regular donations from individuals by means of a standing order in any amount.

In HY1, the bank, in cooperation with the National Transfusion Service of the SR, organized twice the Drop of Blood – a philanthropic event widely attended by employees and their family members.

Shareholders

As of June 30, 2013, 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.

During H1 2013, 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 June 30, 2013

SHAREHOLDER	SHARE (%)
UniCredit Bank Austria AG	99,03
Ministry of Agriculture and Rural Development of the SR	0,36
Domestic shareholders with less than 1%	0,60
Foreign shareholders with less than 1%	0,01

RECHARGING

Supporting enterprise with concrete actions
UniCredit International

"I own a small business that produces equipment for recycling precious metals. After winning a bid for a project with the Indian government last year, we were in need of a qualified partner to manage our complex operations abroad. UniCredit believed in us and our work, providing us with the initial warranty request, a letter of credit and the loans we needed. Thanks to their support, we successfully completed the project."

Paolo Balestri, Balestri impianti,
customer of UniCredit in Italy

Branch network of UniCredit Bank Slovakia a.s. as of June 30, 2013

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
821 08 Bratislava, Krížna 50, BRAC	02/49 50 44 17, 18, 15, 16	
811 01 Bratislava, Mostová 6	02/59 42 80 01, 02, 03, 04, 05, 06, 07	02/59 42 80 00
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 01, 09	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 – 65	02/50 20 20 66
813 33 Bratislava, Šancová 1/A	02/49 50 23 30, 29, 34, 25 02, 25 04	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
811 06 Bratislava, Hurbanovo nám. 1	02/59 30 54 15, 13, 16	02/54 41 66 96
821 09 Bratislava, Plynárenská 7/A	02/58 10 30 80, 12, 13	02/58 10 30 85
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, 05, 04, 03, 02, 01	02/49 11 48 00
821 04 Bratislava, Ivanská cesta 16, Avion SC	02/48 25 27 01, 02	02/48 25 27 00

Regional retail network – West I

BRANCH – ADDRESS	PHONE	FAX
917 00 Trnava, Štefánikova 48	033/590 83 09	033/590 83 05
901 01 Malacky, 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 03
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. Štefanika 161/4	042/437 99 51	042/437 99 55
903 01 Senec, Lichnerova 30	02/40 20 20 51	02/4020 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, 02	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 01 – 21	035/691 12 00
940 01 Nové Zámky, Majzonovo nám. 2	035/691 34 10 – 15	035/691 34 33
934 01 Levice, Bernolákova 2	036/635 03 19	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 01 – 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
974 01 Banská Bystrica, Na Troskách 25, SC EUROPA	048/472 30 01	048/472 30 00
974 01 Banská Bystrica, Nám. SNP 18	048/471 97 06	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 June 30, 2013 (continuation)

Regional retail network – East

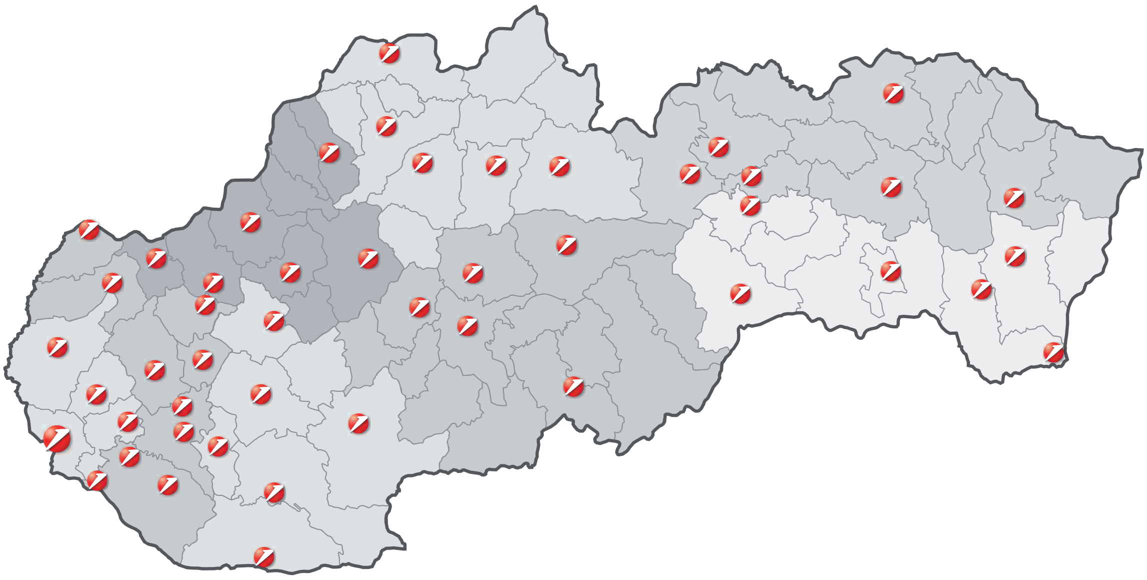
BRANCH – ADDRESS	PHONE	FAX
040 01 Košice, Rooseveltova 10	055/680 51 30	055/623 27 41
040 01 Košice, Toryská 1/C	055/788 18 64	055/788 18 60
040 01 Košice, Mlynská 7	055/728 19 02	055/728 19 11
040 01 Košice, Nám. osloboditeľov, AUPARK	055/726 25 06	055/726 25 00
071 01 Michalovce, Nám. osloboditeľov 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 22	052/787 03 27
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 Slovakia

BRANCH – ADDRESS	PHONE	FAX
821 08 Bratislava, Krížna 50	02/4950 42 02	02/5542 27 74
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 05	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 02 Bratislava, Mostová ulica 6	02/594 280 16 – 17	02/594 280 40
917 01 Trnava, Štefánikova 48	033/5908 311	033/5908 353
949 01 Nitra, Štefánikova tr. 13	037/6926 014	037/6926 050
929 01 Dunajská Streda, Hlavná 3B	031/5905 533	031/5905 520
010 01 Žilina, Národná 12	041/5628 231	041/5628 204
036 80 Martin, M. R. Štefánika 1	043/4207 002	043/4224 892
960 01 Zvolen, Nám. SNP 50	045/5248 049	045/5320 700
040 01 Košice, Rooseveltova 10	055/6805 183	055/6805 184

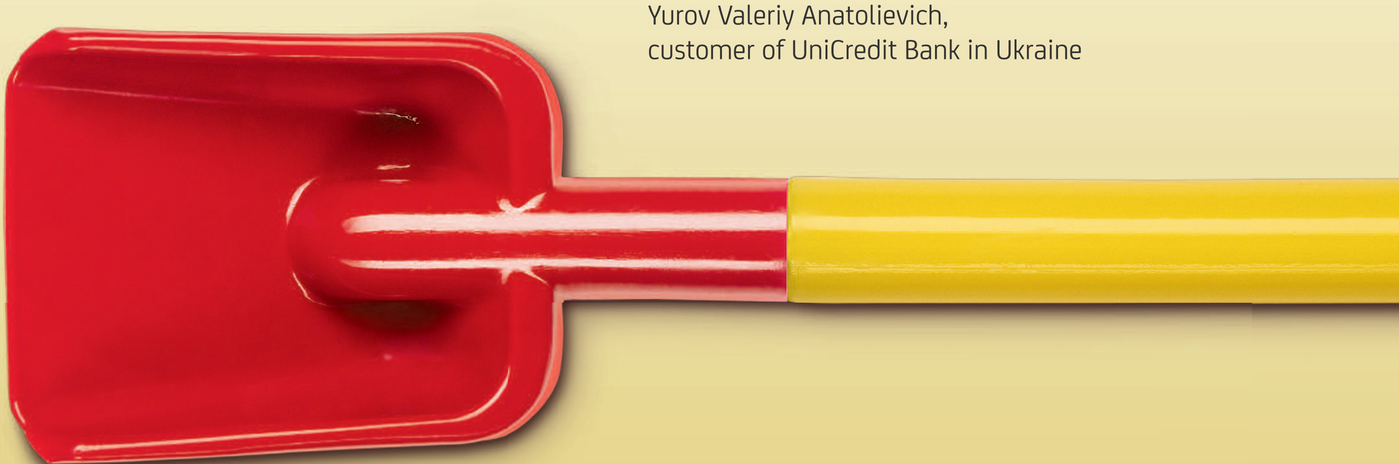


PEACE OF MIND

How to save a Customer's holiday

"When I lost my Visa card while on vacation abroad, UniCredit Bank's emergency cash disbursal service saved me from what could have been a disastrous situation.
I used the service twice while visiting Paris and Moscow and it exceeded my expectations, allowing me to pay for my hotel, entertainment and other expenses. I was impressed by the service's quality and speed – I was able to have cash in-hand in less than an hour.
This experience taught me that my bank is 100 percent prepared to support me at anytime, even in the most difficult of situations.
I know now that I can count on UniCredit's professional advice and real solutions for whatever I need."

Yurov Valeriy Anatolievich,
customer of UniCredit Bank in Ukraine



Separate Financial statements

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

for a 6-month period ended 30 June 2013

Contents

UniCredit Bank Slovakia a.s.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying extraordinary separate financial statements (the "financial statements") of UniCredit Bank Slovakia a.s. (the "Bank"), which comprise the separate statement of financial position as at 30 June 2013, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the extraordinary separate financial statements present fairly, in all material respects, the financial position of UniCredit Bank Slovakia a.s. as at 30 June 2013, and its financial performance and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

We draw attention to Notes 2 (b) and 41 to the extraordinary separate financial statements stating that as a result of the ongoing merger as at 1 December 2013 the Bank will be dissolved without liquidation and UniCredit Bank Czech Republic, a.s. will become its legal successor. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of UniCredit Bank Slovakia a.s. for the year ended 31 December 2012 were audited by another auditor who expressed an unqualified opinion thereon dated 4 March 2013.

Bratislava, 26 August 2013

Deloitte

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

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

Separate statement of financial position
As at 30 June 2013

UniCredit Bank Slovakia a. s.

Separate statement of financial position
As at 30 June 2013

	Notes	30 June 2013 € '000	31 December 2012 € '000
Assets			
Cash and cash equivalents	7	153,609	366,556
Trading assets	9	55,890	54,940
Derivative assets held for risk management	10	3,205	3,182
Loans and advances to banks	11	19,707	118,204
Loans and advances to customers	12	3,037,502	2,913,952
Investment securities	14	598,225	508,326
Property and equipment	15	34,502	35,309
Intangible assets	16	1,314	3,238
Corporate income tax –asset	23	-	1,785
Deferred tax asset	24	20,423	17,899
Other assets	17	1,417	3,067
Prepayments and accrued income		1,702	676
		3,927,496	4,027,134
Liabilities			
Trading liabilities	9	26,560	42,310
Derivative liabilities held for risk management	10	23,158	34,071
Deposits by banks	18	528,989	357,922
Customer accounts	19	2,563,684	2,749,999
Loans received	20	152,389	249,291
Debt securities issued	21	137,727	108,515
Provisions	22	27,713	22,804
Corporate income tax – liability	23	787	-
Other liabilities		5,476	4,637
Accruals and deferred income		6,325	7,068
		3,472,808	3,576,617
Share capital and reserves			
Share capital	25	235,493	235,493
Reserves	26	219,195	215,024
		454,688	450,517
		3,927,496	4,027,134

The financial statements, which include the notes on pages 34 to 107, were approved by the Management Board on 26 August 2013 and signed by:

Miroslav Štrokendl
Chairman of the Management Board

Franz Wolfger
Member of the Management Board
and Financial Division Director

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

Viera Durajová
Head of Accounting

Separate statement of comprehensive income for a 6-month period ended 30 June 2013

	Notes	30 June 2013 €'000	31 Dec 2012 €'000
Interest income	28	56,815	124,071
Interest expense	29	(17,518)	(48,583)
Net interest income		**39,297**	**75,488**
Fee and commission income	30	22,722	39,872
Fee and commission expense	30	(3,629)	(7,112)
Net fee and commission income	**30**	**19,093**	**32,760**
Net trading income	31	4,737	9,442
Other income		367	452
		5,104	9,894
Operating income		**63,494**	**118,142**
Administrative expenses	32	(38,148)	(78,124)
Depreciation	15	(2,257)	(4,553)
Amortisation	16	(1,927)	(3,846)
Operating expenditure		**(42,332)**	**(86,523)**
Operating profit before impairment losses and provisions		**21,162**	**31,619**
(Impairment losses)/net release on loans and advances	13	(14,151)	3,054
Net release/(impairment losses) on property and equipment	15, 16	3	1,364
Impairment losses on other assets	17	(35)	(116)
(Creation)/release of provisions	22	691	(19,403)
Operating profit before costs related to the Bank's merger		**7,670**	**16,518**
Merger-related costs		(580)	–
Extraordinary contribution to the Deposit Protection Fund		(5,600)	–
Profit before taxation		**1,490**	**16,518**
Income tax expense	33	(296)	(916)
Profit after taxation		**1,194**	**15,602**
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value, net of tax		832	(60)
Net amount transferred to profit or loss		–	–
Available-for-sale assets:			
Change in fair value, net of tax		209	19,570
Net amount transferred to profit or loss		2,079	2,274
Other comprehensive income		**3,120**	**21,784**
Total comprehensive income for the year		**4,314**	**37,386**
Basic and diluted earnings per share (expressed in EUR per share)	**34**	**0.03**	**0.41**

The notes on pages 34 to 107 are an integral part of these financial statements.

Separate statement of changes in shareholders' equity for a 6-month period ended 30 June 2013

	Share capital €'000	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 1 January 2012	**235,493**	**177,387**	**40,041**	**(23,243)**	**(1,205)**	**428,473**
Total comprehensive income for the year						
Profit for 2012	–	15,602	–	–	–	15,602
Other comprehensive income						
Available-for-sale assets:						
Change in fair value, net of tax	–	–	–	19,570	–	19,570
Net amount transferred to profit or loss	–	–	–	2,274	–	2,274
Cash flow hedges:						
Effective portion of changes in fair value, net of tax	–	–	–	–	(60)	(60)
Net amount transferred to profit or loss	–	–	–	–	–	–
Total other comprehensive income	–	–	–	21,844	(60)	21,784
Total comprehensive income for the year	–	15,602	–	21,844	(60)	37,386
Transactions with owners						
Dividends	–	(15,342)	–	–	–	(15,342)
Transfers	–	(3,176)	3,176	–	–	–
At 31 December 2012	**235,493**	**174,471**	**43,217**	**(1,399)**	**(1,265)**	**450,517**

See also notes 25 and 26 for details of movements in shareholders' equity accounts during the year.
The notes on pages 34 to 107 are an integral part of these financial statements.

Separate statement of changes in shareholders' equity for a 6-month period ended 30 June 2013 (continuation)

	Share capital €'000	Retained earnings €'000	Legal reserve fund €'000	Fair value reserve €'000	Cash flow hedge reserve €'000	Total €'000
At 1 January 2013	**235,493**	**174,471**	**43,217**	**(1,399)**	**(1,265)**	**450,517**
Total comprehensive income for the year						
Profit for 6-month period ended 30th June 2013	–	1,194	–	–	–	1,194
Other comprehensive income						
Available-for-sale assets:						
Change in fair value, net of tax	–	–	–	209	–	209
Net amount transferred to profit or loss	–	–	–	2,079	–	2,079
Cash flow hedges:						
Effective portion of changes in fair value, net of tax	–	–	–	–	832	832
Net amount transferred to profit or loss	–	–	–	–	–	–
Total other comprehensive income	–	–	–	2,288	832	3,120
Total comprehensive income for the year	–	1,194	–	2,288	832	4,314
Transactions with owners						
Dividends	–	–	–	–	–	–
Transfers	–	(1,560)	1,560	–	–	–
Merge with UniCredit CAIB Slovakia, a.s.	–	(143)	–	–	–	(143)
At 30 June 2013	**235,493**	**173,962**	**44,777**	**889**	**(433)**	**454,688**

See also notes 25 and 26 for details of movements in shareholders' equity accounts during the year.
The notes on pages 34 to 107 are an integral part of these financial statements.

Separate statement of cash flows for a 6-month period ended 30 June 2013

	Notes	30 June 2013 €'000	31 Dec 2012 €'000
Cash flows from operating activities			
Cash flows from operating activities before changes in working capital, interest received and paid and income taxes paid	**35**	**(14,670)**	**(28,906)**
(Increase)/decrease in securities held for trading		(17,294)	1,948
(Increase)/decrease in derivative assets held for risk management		–	(1,393)
(Increase)/decrease in loans and advances to banks		98,497	(94,890)
(Increase)/decrease in loans and advances to customers		(137,624)	42,703
Decrease in other assets		589	807
Decrease in trading liabilities		–	(2,809)
(Decrease)/increase in derivative liabilities held for risk management		–	12,912
(Decrease)/increase in deposits by banks		175,468	(182,103)
(Decrease)/increase in customer accounts		(187,984)	360,380
Use of provisions		–	(1,500)
(Decrease)/increase in other liabilities		96	(1,486)
Cash (used in) earned from operations before interest paid and received and income taxes paid		(82,922)	105,663
Interest paid		(19,339)	(55,916)
Interest received		59,859	122,789
Income tax paid		(1,180)	(7,268)
Net cash from/ (used in) operating activities		**(43,582)**	**165,268**
Cash flows from investing activities			
Acquisition of investment securities		(277,046)	(132,893)
Sale of investment securities		177,736	210,881
Purchase of property and equipment		(1,451)	(2,274)
(Purchase)/sale of intangible assets		(3)	1
Net cash from investing activities		**(100,764)**	**75,715**
Cash flows from financing activities			
(Repayment of)/ proceeds from loans received		(96,829)	(42,626)
Issuance of debt securities		30,000	–
Maturity of debt securities		(1,772)	(7,695)
Dividends paid		–	(15,342)
Net cash (used in)/ from financing activities		**(68,601)**	**(65,663)**
Net increase/ (decrease) in cash and cash equivalents		**(212,947)**	**175,320**
Cash and cash equivalents at beginning of the period		**366,556**	**191,236**
Cash and cash equivalents at end of the period	**7**	**153,609**	**366,556**

The notes on pages 34 to 107 are an integral part of these financial statements.

Notes to the separate financial statements for a 6-month period ended 30 June 2013

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 Bank was established on 31 May 1990 and recorded in the Commercial Register on 2 July 1990. The ultimate shareholder is UniCredit S.p.A., a bank incorporated in Italy.

At 31 December 2012, 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 2012, were approved by the General Meeting of Shareholders on 22 April 2013.

The financial statements of the Bank are included in the consolidated financial statements of the ultimate parent company, UniCredit S.p.A. These financial statements are available at Piazza Cordusio, 20123 Milan, Italy. The immediate parent company and immediately-consolidating company is UniCredit Bank Austria AG, Vienna, Austria.

The members of the Management Board are as follows:

Miroslav Štrokendl – chairman, repeatedly from 1 April 2013
Marco Cravario – vice-chairman, from 4 April 2013
Franz Wolfger, repeatedly from 1 April 2013
Zuzana Žemlová, repeatedly from 1 April 2013
Monika Kohútová, repeatedly from 4 May 2013

The members of the Supervisory Board are as follows:

Heinz Meidlinger – chairman, repeatedly from 22 April 2013
Gerhard Deschkan – vice-chairman
Alberto Devoto,
Alessio Pomasan, repeatedly from 22 April 2013
Jaroslav Hazlinger
Jana Szászová
Simone Marcucci,
Slávka Jánošíková,
Viera Durajová, repeatedly from 14 May April 2013

The members of the Audit Committee are as follows:

Heinz Meidlinger
Alberto Devoto,
Gerhard Deschkan

2. Basis of preparation

(a) Statement of compliance

The extraordinary separate financial statements ("financial statements") for a six-month period ended 30 June 2013 and comparatives for 2012 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") in Commission Regulation (EC) 1126/2008, and in accordance with the current interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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

The IFRS as endorsed for use by the EU do not differ from the IFRS issued by the International Accounting Standards Board, except for certain requirements regarding the portfolio hedge accounting according to IAS 39 not endorsed by the EU. According to the Bank, the potential authorisation of the portfolio hedge accounting according to IAS 39 by the EU as at the reporting date should not have a significant impact on the financial statements.

(b) Basis of measurement

The extraordinary separate financial statements in the Slovak Republic have been prepared in accordance with Act No. 431/2002 Coll. on Accounting, as amended. The Bank's extraordinary separate financial statements were prepared as at 30 June 2013 as a result of the Bank's merger with UniCredit Bank Czech Republic, a.s., as decided by the General Meeting of the Bank's shareholders on 19 June 2013 based on the Group's decision upon prior consent of the National Bank of Slovakia. The Bank will be dissolved without liquidation and UniCredit Bank Czech Republic, a.s. will become its legal successor. For accounting and income tax purposes, the decisive date set in the merger agreement is 1 July 2013. The legal merger will become effective as at 1 December 2013. The merged company will operate in the Slovak Republic in the form of a branch of a foreign bank recorded in the Commercial Register.

The extraordinary separate financial statements contain no adjustments that may arise from the merger process or changes in the scope of the Bank's activities or strategy resulting in changes in the classification or measurement of assets and liabilities.

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

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

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 or 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 by future changes in the economic conditions, business strategies, regulatory measures, accounting rules, and/or other factors and may result in a change in estimates that may have a material impact on the Bank's financial position and results of operations.

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) Changes in accounting policies

There were no changes in accounting policy during the year ended 30 June 2013.

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 published by the European Central Bank 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 published by the European Central Bank as at the reporting 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 profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate 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 of 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 provided. When a loan commitment is not expected to result in the draw-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.

(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.

The Bank calculated the current income tax in line with the legal regulations applicable in the Slovak Republic based on the taxable profit for the given year. The taxable profit differs from the profit reported in the statement of comprehensive income as it excludes the items of revenues or expenses that are taxable or deductible from the tax base in other years or items that are not taxable or deductible from the tax base. The Bank's current income tax liability is calculated using the tax rates effective or enacted before the reporting date.

Deferred income 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 though 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

3. Significant accounting policies (continuation)

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 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 ask price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask 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 any 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 an 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. This part includes Trading Derivatives as well.

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 (see note 10). 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 measurement, 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 the 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.

3. Significant accounting policies (continuation)

(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) 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 rate 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 two to five 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. The Bank doesn't use leased assets.

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 (see accounting policy 3 (g)), 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.

3. Significant accounting policies (continuation)

(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 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 the service is provided.

(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 Management Board (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 effective in the current period

The Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its activities and are effective for annual periods beginning on 1 January 2013. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current reporting period:

IFRS 13 "Fair Value Measurement", *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013)*

IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013)*

The first amendment replaces references to a fixed date of "1 January 2004" with "the date of transition to IFRSs", thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans, *adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013)*

This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. It also adds an exception to the retrospective e application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" in 2008.

Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, *adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013)*

The amendments require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

Amendments to IAS 1 "Presentation of financial statements" – Presentation of Items of Other Comprehensive Income, *adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012)*

The amendments require companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets, *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013)*

IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment Property". The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale.

Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits, *adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013)*

The amendments make important improvements by: (1) eliminating an option to defer the recognition of gains and losses, known as the "corridor method", improving comparability and faithfulness of presentation; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations; (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

3. Significant accounting policies (continuation)

Amendments to various standards "Improvements to IFRSs (2012)" *resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013)*

Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) Repeated application of IFRS 1, (ii) Borrowing costs under IFRS 1, (iii) Clarification of the requirements for comparative information, (iv) classification of servicing equipment, (v) tax effect of distribution to holders of equity instruments, (vi) Interim financial reporting and segment information for total assets and liabilities.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013)*

The interpretation states that costs associated with a "stripping activity" should be accounted for as an addition to, or an enhancement of, an existing asset, and that this component should be amortised over the expected useful life of the of the identified component of the ore body that becomes more accessible as a result of the stripping activity (using the units of production method unless another method is more appropriate).

The adoption of the above new standards and interpretations has not led to any changes in the Bank's accounting policies that would affect amounts reported for the current and preceding period.

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

IFRS 10 "Consolidated Financial Statements", *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014)*

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 "Joint Arrangements", *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014)*

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

IFRS 12 "Disclosures of Interests in Other Entities", *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014)*

IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

IAS 27 (revised in 2011) "Separate Financial Statements", *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014)*

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", *adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014)*

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, *adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014)*

The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.

Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities, *adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014)*

Amendments provide clarifications on the application of the offsetting rules and focus on four main areas (a) the meaning of "currently has a legally enforceable right of set-off"; (b) the application of simultaneous realisation and settlement; (c) the offsetting of collateral amounts; (d) the unit of account for applying the offsetting requirements.

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

The International Accounting Standards Board (IASB) also adopted the following standards and amendments to the existing standards and interpretations that have not been endorsed for use by the EU as at 30 June 2013:

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

IFRS 9 "Financial Instruments" was published by IASB on 12 November 2009. On 28 October 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss.

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" *– Mandatory Effective Date and Transition Disclosures*

Amendments defer the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities *(effective for annual periods beginning on or after 1 January 2014)*

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

Amendments to IAS 36 "Impairment of assets" – Recoverable Amount Disclosures for Non-Financial Assets *(effective for annual periods beginning on or after 1 January 2014)*

These narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. Current amendments clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

3. Significant accounting policies (continuation)

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting *(effective for annual periods beginning on or after 1 January 2014)*

The narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

IFRIC 21 "Levies" *(effective for annual periods beginning on or after 1 January 2014)*

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

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

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

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 the 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 Management Board 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.

As at 31 December 2012 the Bank performed stress testing of an average PD (probability of default) parameter used in the calculation of IBNR allowances for credit losses calculated for corporate portfolio. Should an original average PD parameter of 2.77% increase to 5.74%, IBNR allowances for credit losses would increase by € 4,338 thousand. IBNR allowances for credit losses are portfolio allowances created for performing loans. The Bank performed no such stress testing as at 30 June 2013.

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.

Provisions

The amounts recognised as provisions are based on the management judgement and represent the best estimate of expenses needed to settle a liability of uncertain timing or uncertain amount.

Taxes

The income tax rules and regulations have recently experienced significant changes; there is limited historical precedent and/or case-law with respect to the extensive and complex issues affecting the banking sector. Furthermore, tax authorities have broad powers as regards the interpretation of tax laws and regulations during the tax audit of taxpayers. As a result, there is a higher degree of uncertainty as to the final outcome of the potential audits conducted by tax authorities.

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.

4. Use of estimates and judgements (continuation)

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.

The Bank uses widely recognized valuation models for determining the fair value of common 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 recognized 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 structured derivatives, certain loans and securities for which there is no active market and retained interests in securitizations. 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.

Critical accounting judgements in applying the Bank's accounting policies continued

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's 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 the valuation methodology at 30 June 2013 were as follows:

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets					
Trading assets	9	12,877	43,013	–	55,890
Derivative assets held for risk management	10	–	3,205	–	3,205
Investment securities	14	–	598,225	–	598,225
		12,877	**644,443**	**–**	**657,320**
Liabilities					
Trading liabilities	9	–	26,560	–	26,560
Derivative liabilities held for risk management	10	–	23,158	–	23,158
		–	**49,718**	**–**	**49,718**

The reported amounts of financial instruments stated at fair value analysed according to the valuation methodology at 31 December 2012 were as follows:

	Note	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Assets					
Trading assets	9	5,056	49,884	–	54,940
Derivative assets held for risk management	10	–	3,182	–	3,182
Investment securities	14	–	508,326	–	508,326
		5,056	**561,392**	**–**	**566,448**
Liabilities					
Trading liabilities	9	–	42,310	–	42,310
Derivative liabilities held for risk management	10	–	34,071	–	34,071
		–	**76,381**	**–**	**76,381**

The Bank did not have financial assets or liabilities in the Level 3 fair value hierarchy during the periods ended 30 June 2013 and 31 December 2012.

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.

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 Management Board 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 and Reputational 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 a financial entity, or against a group of entities of which at least one is a financial one, may not exceed the higher of 25% of the Bank's capital or EUR 150 million;
- Compulsory minimum reserves are calculated as 1 % 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 and participations;
- 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 Management Board. 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 Management Board. Larger facilities require approval by the Management Board 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 open derivative positions. 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 on-going 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 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

5. Financial risk management (continuation)

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	
	30 June 2013 €'000	31 Dec 2012 €'000	30 June 2013 €'000	31 Dec 2012 €'000	30 June 2013 €'000	31 Dec 2012 €'000
Individually impaired						
Grade 2: Impaired	1,259	1,673	–	–	–	–
Grade 3: Impaired	5,344	12,337	–	–	–	–
Grade 4: Impaired	101,390	112,497	–	–	–	–
Grade 5: Impaired	75,898	41,459	–	–	–	–
Gross amount	183,891	167,966	–	–	–	–
Allowance for impairment	(60,211)	(49,925)	–	–	–	–
Carrying amount	123,680	118,041	–	–	–	–
Collectively impaired						
Grade 2: Impaired	1,929	1,117	–	–	–	–
Grade 3: Impaired	455	165	–	–	–	–
Grade 4: Impaired	3,737	4,505	–	–	–	–
Grade 5: Impaired	10,931	12,241	–	–	–	–
Gross amount	17,052	18,028	–	–	–	–
Allowance for impairment	(5,628)	(7,019)	–	–	–	–
Carrying amount	11,424	11,009	–	–	–	–
Past due but not impaired						
Grade 1	208,156	177,015	–	–	–	–
Gross amount	208,156	177,015	–	–	–	–
Allowance for impairment	(882)	(738)	–	–	–	–
Carrying amount	207,274	176,277	–	–	–	–
Past due but not impaired comprises:						
1 – 30 days	196,482	146,442	–	–	–	–
30 – 60 days	2,958	16,296	–	–	–	–
60 – 90 days	493	1,585	–	–	–	–
90 – 180 days	5,513	8	–	–	–	–
180 days +	1,828	6,012	–	–	–	–
Carrying amount	207,274	170,343	–	–	–	–
Neither past due nor impaired						
Grade1: Low-fair risk	2,699,896	2,613,434	19,707	118,204	598,225	508,326
Gross amount	2,699,896	2,613,434	19,707	118,204	598,225	508,326
Allowance for impairment	(4,772)	(4,809)	–	–	–	–
Carrying amount	2,695,124	2,608,625	19,707	118,204	598,225	508,326
Total carrying amount	**3,037,502**	**2,913,952**	**19,707**	**118,204**	**598,225**	**508,326**

5. Financial risk management (continuation)

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.

- Risk grade 1 includes unimpaired loans. Grades 2, 3, 4, and 5 make up the impaired portfolio of UniCredit Bank Slovakia, a. s.
- Grade 1 (Standard loans) 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 (Past due) comprises loans, where payments are overdue more than 90 days but less than 180 days or show signs that the client is unlikely to pay.
- Grade 3 (Restructured) 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 (Doubtful) 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 31-360 days a second time (i.e. after signing the restructuring agreement).
- Grade 5 (Non-performing loans) comprises non-performing loans, which have become overdue by more than 360 days and/or other signs of default existed.

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**
30 June 2013						
Grade 2: Individually impaired	1,259	880	–	–	–	–
Grade 3: Individually impaired	5,344	4,198	–	–	–	–
Grade 4: Individually impaired	101,390	81,210	–	–	–	–
Grade 5: Individually impaired	75,898	37,392	–	–	–	–
	183,891	**123,680**	**–**	**–**	**–**	**–**
31 December 2012						
Grade 2: Individually impaired	1,673	1,028	–	–	–	–
Grade 3: Individually impaired	12,337	9,608	–	–	–	–
Grade 4: Individually impaired	112,497	93,904	–	–	–	–
Grade 5: Individually impaired	41,459	13,501	–	–	–	–
	167,966	**118,041**	**–**	**–**	**–**	**–**

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 30 June 2013 or 31 December 2012.

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

	Loans and advances to customers	
	30 June 2013 €'000	31 Dec 2012 €'000
Against individually impaired		
Pledged accounts and pledged term deposits	79	333
Guarantees	187	187
Mortgages	103,124	99,622
Trade receivables	4,682	6,317
Pledged movables and other collateral	6,396	5,135
Against collectively impaired		
Mortgages	6,535	5,402
Trade receivables	206	302
Pledged movables and other collateral	20	77
Against past due but not impaired		
Pledged accounts and pledged term deposits	4,514	5,028
Guarantees	778	860
Mortgages	72,967	68,062
Trade receivables	24,841	16,479
Pledged movables and other collateral	16,600	14,939
Against neither past due nor impaired		
Pledged accounts and pledged term deposits	364,687	257,672
Guarantees	66,396	73,204
Mortgages	1,076,588	989,643
Trade receivables	221,310	273,477
Pledged movables and other collateral	88,661	91,131
	2,058,571	**1,907,870**

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:

	30 June 2013 €'000	31 Dec 2012 €'000
Property	1,714	5,311
Other	–	289

5. Financial risk management (continuation)

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	
	30 June 2013 €'000	31 Dec 2012 €'000	30 June 2013 €'000	31 Dec 2012 €'000	30 June 2013 €'000	31 Dec 2012 €'000
Concentration by sector						
Government	24,141	25,309	–	–	505,385	400,232
Corporate	2,169,326	2,131,863	–	–	42,917	43,707
Bank	–	–	19,707	118,204	49,923	64,387
Retail	915,528	819,271	–	–	–	–
	3,108,995	**2,976,443**	**19,707**	**118,204**	**598,225**	**508,326**

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	30 June 2013 €'000	31 Dec 2012 €'000	30 June 2013 €'000	31 Dec 2012 €'000	30 June 2013 €'000	31 Dec 2012 €'000
Concentration by location						
Slovak Republic	2,932,468	2,876,254	19,707	116,071	596,277	506,335
Netherlands	100,335	214	–	–	–	–
Luxemburg	21,419	26,804	–	–	–	–
Czech Republic	14,417	30,180	–	–	1,918	1,961
Croatia	11,607	12,703	–	–	–	–
Great Britain	8,398	1,959	–	–	–	–
Denmark	5,855	1,267	–	–	–	–
Romania	2,946	3,241	–	–	–	–
Poland	2,556	6,438	–	–	–	–
Bahamas	2,208	1,887	–	–	–	–
Switzerland	2,105	2,430	–	–	–	–
Germany	1,297	8,497	–	–	–	–
Austria	1,106	2,168	–	–	–	–
Italy	641	740	–	–	–	–
Ireland	262	268	–	–	–	–
France	210	219	–	–	–	–
Serbia	156	202	–	–	–	–
Ukraine	118	120	–	–	–	–
Hungary	108	110	–	–	–	–
Spain	66	71	–	–	–	–
USA	44	57	–	–	–	–
Turkey	–	–	–	2,133	–	–
Belarus	–	–	–	–	–	–
Belgium	–	–	–	–	30	30
Other	673	614	–	–	–	–
	3,108,995	**2,976,443**	**19,707**	**118,204**	**598,225**	**508,326**

Concentration by location for loans and advances is measured based on the location of the borrower. Concentration by location of the investment securities is measured based on the location of the issuer of the security.

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

	30 June 2013 €'000	31 Dec 2012 €'000
Agriculture and forestry	142,984	114,935
Industry:		
Metallurgy and machinery	159,187	220,432
Transport	153,477	139,559
Food	52,895	47,911
Energy	425,812	357,960
Construction	114,421	114,970
Chemical and pharmaceutical	80,301	84,895
Other	69,203	71,484
Trade and services	844,952	838,664
Housing	754,752	652,491
Public administration	65,642	67,027
Finance and insurance	112,878	92,142
Other industries	132,491	173,973
	3 108 995	**2 976 443**

The loans and advances in the Construction and Trade and services sector include also loans provided for construction or development of office, industrial and retail premises and flats in the amount of €344,559 thousand (31 December 2012: € 274,627 thousand).

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 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 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.

5. Financial risk management (continuation)

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 government 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 every month.

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 and trigger levels set for this liquidity ratio – for the cumulative gap over one year (limit), over three years (trigger level) and over five years (trigger level). Due to upcoming merger with UniCredit Bank Czech Republic are the liquidity positions assessed on a combined bank basis since May 2013. Details of the reported Bank's standalone liquidity ratios at the reporting date and during the reporting period were as follows:

	Over 1 year	Over 3 years	Over 5 years
Minimum limits	0.90	0.85	0.80
30 June 2013	0.87	0.77	0.83
Average for the period	0.92	0.81	0.86
Maximum for the period	0.99	0.88	0.90
Minimum for the period	0.86	0.76	0.81

	Over 1 year	Over 3 years	Over 5 years
Minimum limits	0.90	0.85	0.80
31 December 2012	0.99	0.89	0.92
Average for the period	0.95	0.87	0.84
Maximum for the period	1.02	0.96	0.92
Minimum for the period	0.89	0.81	0.79

Limits: Over 1 year – limits determined by the group, Over, 3, 5 years used as liquidity triggers.

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 (i.e. minor currencies) and a total liquidity position.

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, with which the Bank was compliant during 2013:

- 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 1% 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 30 June 2013 is 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	153,609	–	–	–	–	153,609
Trading assets	3,404	1,756	23,764	26,966	–	55,890
Derivative assets held for risk management	–	33	3,100	72	–	3,205
Loans and advances to banks	19,707	–	–	–	–	19,707
Loans and advances to customers	627,154	477,815	954,823	834,187	143,523	3,037,502
Investment securities	6,953	333,736	161,522	87,421	8,593	598,225
Deferred tax asset	–	–	–	–	20,423	20,423
Other assets	–	–	–	–	1,417	1,417
Prepayments and accrued income	–	–	–	–	1,702	1,702
	810,827	**813,340**	**1,143,209**	**948,646**	**175,658**	**3,891,680**

	1 – 3 months €'000	**4 – 12 months €'000**	**1 – 5 years €'000**	**More than 5 years €'000**	**Not specified €'000**	**Total €'000**
Monetary liabilities						
Trading liabilities	2,724	1,960	17,380	4,496	–	26,560
Derivative liabilities held for risk management	117	1,540	9,005	12,496	–	23,158
Deposits by banks	224,450	153,098	151,441	–	–	528,989
Customer accounts	1,913,411	483,956	163,894	2,423	–	2,563,684
Loans received	31,147	4,697	66,545	50,000	–	152,389
Debt securities issued	1,474	4,544	131,709	–	–	137,727
Corporate income tax – liabilities	–	–	–	–	787	787
Other liabilities	–	–	–	–	5,476	5,476
Accruals and deferred income	–	–	–	–	6,325	6,325
	2,173,323	**649,795**	**539,974**	**69,415**	**12,588**	**3,445,095**

5. Financial risk management (continuation)

The remaining period to maturity of monetary assets and liabilities at 31 December 2012 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	366,556	–	–	–	–	366,556
Trading assets	6,620	11,773	26,845	9,702	–	54,940
Derivative assets held for risk management	–	19	3,163	–	–	3,182
Loans and advances to banks	116,071	2,133	–	–	–	118,204
Loans and advances to customers	414,954	630,592	957,511	768,956	141,939	2,913,952
Investment securities	14,935	87,876	306,468	89,727	9,320	508,326
Corporate income tax- assets	–	–	–	–	1,785	1,785
Deferred tax asset	–	–	–	–	17,899	17,899
Other assets	–	–	–	–	3,067	3,067
Prepayments and accrued income	–	–	–	–	676	676
	919,136	**732,393**	**1,293,987**	**868,385**	**174,686**	**3,988,587**

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary liabilities						
Trading liabilities	1,827	10,160	23,757	6,566	–	42,310
Derivative liabilities held for risk management	53	392	16,097	17,529	–	34,071
Deposits by banks	196,869	60,009	101,044	–	–	357,922
Customer accounts	2,081,769	386,282	279,104	2,844	–	2,749,999
Loans received	20,247	5,837	173,252	49,955	–	249,291
Debt securities issued	1,375	1,262	105,878	–	–	108,515
Other liabilities	–	–	–	–	4,636	4,636
Accruals and deferred income	–	–	–	–	7,068	7,068
	2,302,140	**463,942**	**699,132**	**76,894**	**11,704**	**3,553,812**

The remaining period to maturity of commitments and contingencies at 30 June 2013 is 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	4,458	23,471	8,399	–	36,328
Customer guarantees	69,988	42,978	69,496	1,444	183,906
Customer guarantees, classified	50,304	–	–	–	50,304
Irrevocable letters of credit	6,231	2,057	930	–	9,218
Confirmed credit lines	399,543	205,992	200,828	4,235	810,598
	530,524	**274,498**	**279,653**	**5,679**	**1,090,354**

The classified customer guarantees include a guarantee in the amount of € 47,431 thousand issued in favour of the parent company for a classified corporate client (see note 22).

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Total €'000
Contract/ notional amount of derivative instruments					
Trading derivatives					
Outflow	**191,151**	**64,565**	**16,857**	**1,418**	**273,991**
Inflow	**191,128**	**64,240**	**15,901**	**1,534**	**272,803**
Currency derivatives					
Currency forwards and swaps	183,148	64,288	–	–	247,436
Cross currency swaps	–	–	–	–	–
Currency options	5,504	–	–	–	5,504
Share options	–	–	–	–	–
Commodity options	–	–	–	–	–
Interest rate derivatives	–	–	–	–	–
Interest rate swaps and forward rate agreements	228,200	138,712	815,504	88,999	1,271,415
Options	82,500	8,800	38,131	2353	131,784
Derivatives held for risk management					
Designated as cash flow hedges:					
Interest rate swaps	6,639	486,639	243,958	18,319	755,555
Designated as fair value hedges:					
Interest rate swaps	–	100,000	102,732	70,827	273,559
	505,991	**798,439**	**1,200,325**	**180,498**	**2,685,253**

5. Financial risk management (continuation)

The remaining period to maturity of commitments and contingencies at 31 December 2012 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	9,255	7,342	16,668	–	33,265
Customer guarantees	40,220	24,847	50,698	23,380	139,145
Customer guarantees, classified	49,337	–	–	–	49,337
Irrevocable letters of credit	11,993	1,944	–	–	13,937
Confirmed credit lines	408,391	242,333	176,354	13,556	840,634
	519,196	**276,466**	**243,720**	**36,936**	**1,076,318**

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Total €'000
Contract/ notional amount of derivative instruments					
Trading derivatives					
Outflow	**125,813**	**72,943**	**22,168**	**2,070**	**222,994**
Inflow	**127,204**	**72,707**	**20,705**	**2,015**	**222,631**
Currency derivatives					
Currency forwards and swaps	120,270	54,240	–	–	174,510
Cross currency swaps	–	–	–	–	–
Currency options	8,392	6,553	–	–	14,945
Share options	–	–	–	–	–
Commodity options	–	–	–	–	–
Interest rate derivatives					
Interest rate swaps and forward rate agreements	80,012	634,825	773,696	106,259	1,594,792
Options	–	95,785	38,296	1,955	136,036
Derivatives held for risk management					
Designated as cash flow hedges:					
Interest rate swaps	–	13,278	178,958	10,319	202,555
Designated as fair value hedges:					
Interest rate swaps	–	–	202,732	70,827	273,559
	208,674	**804,681**	**1,193,682**	**189,360**	**2,396,397**

The estimated remaining period to maturity of monetary assets and liabilities at 30 June 2013 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	153,609	–	–	–	–	153,609
Trading assets	31,773	1,441	16,159	4,382	–	53,755
Derivative assets held for risk management	–	33	3,100	72	–	3,205
Loans and advances to banks	19,707	–	–	–	–	19,707
Loans and advances to customers	600,939	394,371	1,026,141	872,528	143,523	3,037,502
Investment securities	387,751	54,424	96,545	18,112	8,593	565 425
Deferred tax asset	–	–	–	–	20,423	20 423
Other assets	–	–	–	–	1,417	1 417
Prepayments and accrued income	–	–	–	–	1,702	1,702
	1,193,779	**450,269**	**1,141,945**	**895,094**	**175,658**	**3,856,745**

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary liabilities						
Trading liabilities	2,724	1,960	17,380	4,496	–	26,560
Derivative liabilities held for risk management	117	1,540	9,005	12,496	–	23,158
Deposits by banks	224,450	153,098	151,441	–	–	528,989
Customer accounts	728,746	621,336	806,340	407,262	–	2,563,684
Loans received	31,147	4,697	66,545	50,000	–	152,389
Debt securities issued	1,474	4,544	131,709	–	–	137,727
Corporate income tax- liabilities	–	–	–	–	787	787
Other liabilities	–	–	–	–	5,476	5,476
Accruals and deferred income	–	–	–	–	6,325	6,325
	988,658	**787,175**	**1,182,420**	**474,254**	**12,588**	**3,445,095**

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.

Derivatives are shown as a summary of net cash flows from individual derivatives in the respective time periods. Cash flows from Loans and advances to banks and customers are shown as a principal and interest repayments in the respective time periods.

5. Financial risk management (continuation)

The estimated remaining period to maturity of monetary assets and liabilities at 31 December 2012 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	366,564	–	–	–	–	366,564
Trading assets	130,046	74,862	26,327	6,060	–	237,295
Derivative assets held for risk management	389	3,349	5,549	4,158	–	13,445
Loans and advances to banks	116,071	–	–	–	–	116,071
Loans and advances to customers	591,160	533,429	1,124,915	1,151,604	171,655	3,572,763
Investment securities	15,149	91,145	327,366	99,940	9,319	542,919
Corporate income tax – assets	–	–	–	–	1,785	1,785
Deferred tax asset	–	–	–	–	17,899	17,899
Other assets	–	–	–	–	3,067	3,067
Prepayments and accrued income	–	–	–	–	676	676
	1,219, 379	**702,785**	**1,484,157**	**1,261,762**	**204,401**	**4,872, 484**

	1 – 3 months €'000	4 – 12 months €'000	1 – 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary liabilities						
Trading liabilities	125,813	72,943	22,168	2,070	–	222,994
Derivative liabilities held for risk management	2,152	8,353	24,164	10,418	–	45,087
Deposits by banks	199,393	60,063	100,343	–	–	359,799
Customer accounts	786,177	551,645	992,321	431,412	–	2,761,555
Loans received	21,674	17,921	176,633	39,607	–	255,835
Debt securities issued	–	2,352	103,658	–	–	106,010
Other liabilities	–	–	–	–	4,636	4,636
Accruals and deferred income	–	–	–	–	7,068	7,068
	1,135,209	**713,277**	**1,419,287**	**483,507**	**11,704**	**3,762,984**

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 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 2012 the Bank performed stress testing in which credit and market risks were combined to simulate a financial crisis. Based on result of the stress test Bank would not have a problem to fulfil the Basel 2 capital ratios.

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). The Bank uses for VaR calculations the new group internal model IMOD. This model is based upon a 99 per cent confidence level and assumes a 1-day holding period. The VaR model used is based on historical simulations. 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, which are then compared to bank's trading limits.

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 per cent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one per cent 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 VaR figure represents the total market risk of the whole portfolio (interest rate risk together with foreign exchange risk and spread risk). The Bank defines VaR limits for the Trading book and also VaR warning levels for the Trading desk, ALM, Banking book and Total portfolio.

The overall structure of the 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.

5. Financial risk management (continuation)

A summary of the VaR position of the Bank's trading portfolios at 30 June 2013 and 31 December 2012 and during the period is as follows:

	At 30 June €'000	Average €'000	Maximum €'000	Minimum €'000
2013				
Overall	183	136	242	55

	At 31 December €'000	Average €'000	Maximum €'000	Minimum €'000
2012				
Overall	72	64	205	30

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.

The Bank also monitors the Stressed VaR, i.e. VaR calculated based on a defined historical period of significant stress. Stressed VaR represents the 1-day VaR which would be generated in the case of extreme stressful conditions in the market. At present, is the Stressed VaR calculation based on 1-year window of historical data which includes the financial crisis since April 2008 until March 2009.

A summary of the stress testing position at 30 June 2013 and 31 December 2012 and during the period is as follows:

	At 30 June €'000	Average €'000	Maximum €'000	Minimum €'000
2013				
Overall	297	168	337	68

	At 31 December €'000	Average €'000	Maximum €'000	Minimum €'000
2012				
Overall	86	120	241	68

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. 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 does not use any kind of assumptions concerning loan prepayments and the behavior of non-maturity deposits for monitoring and managing the interest rate risk through the repricing gap analysis.

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, and in case of a decrease a floor of 0%) 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
2013				
At 30 June	14,248	(12,642)	3,759	(3,887)
Average for the period	21,106	(14,009)	5,511	(5,743)
Maximum for the period	24,906	(16,301)	6,487	(6,720)
Minimum for the period	14,248	(12,468)	3,759	(3,887)
2012				
At 31 December	14,905	(12,620)	3,973	(4,936)
Average for the period	27,015	(22,102)	7,062	(7,460)
Maximum for the period	36,437	(34,917)	9,481	(9,760)
Minimum for the period	14,905	(12,620)	3,973	(4,936)

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
2013				
At 30 June	(21,278)	13,715	(5,536)	4,885
Average for the period	(23,830)	14,221	(6,203)	5,955
Maximum for the period	(26,944)	16,173	(6,994)	6,732
Minimum for the period	(21,278)	12,409	(5,536)	4,885
2012				
At 31 December	(20,628)	12,851	(5,421)	5,318
Average for the period	(24,363)	18,629	(6,387)	6,511
Maximum for the period	(28,369)	25,220	(7,412)	7,641
Minimum for the period	(20,628)	12,851	(5,421)	5,318

5. Financial risk management (continuation)

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 30 June 2013:

	Euro €'000	US dollar €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	122,510	17,260	13,839	153,609
Trading assets	55,890	–	–	55,890
Derivative assets held for risk management	3,205	–	–	3,205
Loans and advances to banks	19,707	–	–	19,707
Loans and advances to customers	2,968,853	31,883	36,766	3,037,502
Investment securities	596,307	–	1,918	598,225
Deferred tax asset	20,423	–	–	20,423
Other assets	1,415	1	1	1,417
Prepayments and accrued income	1,702	–	–	1,702
	3,790,012	**49,144**	**52,524**	**3,891,680**
Liabilities				
Trading liabilities	26,560	–	–	26,560
Derivative liabilities held for risk management	23,158	–	–	23,158
Deposits by banks	526,406	–	2,583	528,989
Customer accounts	2,450,505	37,683	75,496	2,563,684
Loans received	152,389			152,389
Debt securities issued	137,489	238	–	137,727
Corporate income tax – liabilities	787	–	–	787
Other liabilities	4,000	1,476	–	5,476
Accruals and deferred income	6,322	3	–	6,325
	3,327,616	**39,400**	**78,079**	**3,445,095**

The Bank had the following currency positions at 31 December 2012:

	Euro €'000	US dollar €'000	Other €'000	Total €'000
Assets				
Cash and cash equivalents	314,905	35,589	16,062	366,556
Trading assets	54,940	–	–	54,940
Derivative assets held for risk management	3,182	–	–	3,182
Loans and advances to banks	118,204	–	–	118,204
Loans and advances to customers	2,828,428	44,497	41,027	2,913,952
Investment securities	506,365	–	1,961	508,326
Corporate income tax – assets	1,785	–	–	1,785
Deferred tax asset	17,899	–	–	17,899
Other assets	3,067	–	–	3,067
Prepayments and accrued income	676	–	–	676
	3,849,451	**80,086**	**59,050**	**3,988,587**
Liabilities				
Trading liabilities	42,310	–	–	42,310
Derivative liabilities held for risk management	34,071	–	–	34,071
Deposits by banks	356,377	–	1,545	357,922
Customer accounts	2,638,582	43,893	67,524	2,749,999
Loans received	243,603	5,688	–	249,291
Debt securities issued	108,240	275	–	108,515
Other liabilities	4,636	–	–	4,636
Accruals and deferred income	7,056	12	–	7,068
	3,434,875	**49,868**	**69,069**	**3,553,812**

(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 of 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

5. Financial risk management (continuation)

- 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.

There has been a Stable working group created to the Commission for Operational and Reputational risk as an advisory body focusing on identifying sources of operational risk and for reducing operational risk exposure of the Bank.

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 Management Board 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 credit risk and 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. 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 uses from 1 July 2012 the internal rated based approach and the standardized approaches to credit risk management.

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 the surplus of the sum of expected losses for individual assets, which are not in the Bank's balance sheet over the 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 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 the 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 30 June 2013 and 31 December 2012 was as follows:

	30 June 2013 €'000	31 Dec 2012 €'000
Regulatory capital		
Tier 1 capital		
Ordinary share capital (note 25)	235,493	235,493
Reserve funds and other funds created from profit (note 26)	44,777	43,217
Retained earnings less profit for the year (note 26)	172,768	158,869
Less: Software	(1,310)	(3,238)
Negative revaluation reserve	(331)	(396)
Surplus of expected losses for individual assets	(28,204)	(39,828)
Total	**423,193**	**394,117**
Tier 2 capital		
Positive revaluation reserve	15,995	19,358
Total	**15,995**	**19,358**
Položky odpočítateľné od vlastných zdrojov		
Net book value of the Bank's investment in other bank or financial institutions, greater than 10% (note 14)	(6,625)	(7,308)
IRB shortfall	(6,841)	(11,252)
	(13,466)	(18,560)
	425,722	**394,915**
Požiadavky na kapitál		
Capital required to cover credit risk	197,977	206,267
Capital required to cover business partner risk	1,358	1,793
Capital required to cover risks from debt financial instruments, capital instruments, foreign exchange and commodities	2,811	1,968
Capital required to cover operational risk	16,957	16,057
Total capital resources requirements	**219,103**	**226,085**
Capital ratios		
Regulatory capital	15.54%	13.97%
Tier 1 capital	15.45%	13.95%

The calculation of expected losses (based on the NBS regulation) and the impairment allowances under the IFRS is based on the different approach in the usage of clients' collateral.

5. Financial risk management (continuation)

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, counterparty risk and credit migration risk and default risk in trading securities portfolio), 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 single risk types, their aggregation to obtain the 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 the risks to which the Bank is exposed in its activities. The internal capital is expressed as the 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. The capital cushion represents the additional capital required to face the measurement risks inherent in any model and the impact of economic cycle on capital requirements.

Available financial resources ('AFR') are resources that 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. The 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 Management Board.

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 quarterly 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), 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 quarterly basis. The ALCO, Management Board 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 Management Board 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
On 16 January 2012 the Financial Market Supervision Unit of the National Bank of Slovakia issued the Recommendation No 1/2012 on supporting 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 Tier 1 capital ratio at a level not lower than 9% at least during the period until the reasons why the Recommendation was issued by the NBS will disappear. At the same time the Bank has decided to maintain its capital adequacy level in line with the results of the joint decision of supervisory authorities on internal capital adequacy assessment process evaluation.

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 Management Board 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 Management Board. 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.

6. Operating segments (continuation)

	Total Bank 30 June 2013 €'000	Retail and Private 30 June 2013 €'000	Corporate and Markets 30 June 2013 €'000	Others 30 June 2013 €'000
Net interest income	**39,297**	**16,884**	**27,151**	**(4,738)**
Internal revenue	–	516	1,724	(2,240)
Net fee and commission income	**19,093**	**9,296**	**9,485**	**312**
Net trading income	4,737	844	1,887	2,006
Other income	367	–	–	367
Non-interest income	**24,197**	**10,140**	**11,372**	**2,685**
Total segment revenue	**63,494**	**27,024**	**38,523**	**(2,053)**
Operating expenditure	**(42,332)**	**(24,172)**	**(15,550)**	**(2,610)**
Operating profit before impairment and provisions	**20,582**	**2,852**	**22,973**	**(4,663)**
Impairment losses/ net release of impairment losses	(14,183)	–	–	(14,183)
Provisions	691	–	–	691
Operating profit before costs related to the Bank's merger	**7,670**	**2,852**	**22,973**	**(18,155)**
Merger-related costs	(6,180)	–	–	(6,180)
Profit before taxation	**1,490**	**2,852**	**22,973**	**(24,335)**
Income tax expense	(296)			
Profit after taxation	**1,194**			
Other information:				
Reportable segment assets	**3,927,496**	**1,040,601**	**2,061,221**	**825,673**
Reportable segment liabilities	**3,467,208**	**1,205,464**	**1,238,106**	**1,023,638**

	Total Bank 31 Dec 2012 €'000	Retail and Private 31 Dec 2012 €'000	Corporate and Markets 31 Dec 2012 €'000	Others 31 Dec 2012 €'000
Net interest income	**75,488**	**33,678**	**56,512**	**(14,702)**
Internal revenue	–	1,049	4,835	(5,884)
Net fee and commission income	**32,760**	**12,913**	**19,949**	**(102)**
Net trading income	9,442	4,017	3,953	1,472
Other income	452	–	–	452
Non-interest income	**42,654**	**16,930**	**23,902**	**1,822**
Total segment revenue	**118,142**	**50,608**	**80,414**	**(12,880)**
Operating expenditure	**(86,523)**	**(45,928)**	**(29,168)**	**(11,427)**
Operating profit before impairment and provisions	**31,619**	**4,680**	**51,246**	**(24,307)**
Impairment losses/ net release of impairment losses	4,302	–	–	4,302
Provisions	(19,403)	–	–	(19,403)
Operating profit before costs related to the Bank's merger	**16,518**	**4,680**	**51,246**	**(39,408)**
Merger-related costs	–	–	–	–
Profit before taxation	**16,518**	**4,680**	**51,246**	**(39,408)**
Income tax expense	(916)			
Profit after taxation	**15,602**			
Other information:				
Reportable segment assets	**4,027,134**	**932,965**	**2,035,046**	**1,059,123**
Reportable segment liabilities	**3,576,616**	**1,268,228**	**1,420,825**	**887,563**

7. Cash and cash equivalents

	30 June 2013 €'000	31 Dec 2012 €'000
Cash and balances at the central bank (note 8)	130,173	51,959
Loans and advances to banks with contractual maturity up to 3 months (note 11)	23,436	314,597
	153,609	**366,556**

8. Cash and balances at the central bank

	30 June 2013 €'000	31 Dec 2012 €'000
Balances with the National Bank of Slovakia:		
Compulsory minimum reserve	19,707	116,071
Cash in hand	60,174	51,959
	79,881	168,030
Less compulsory minimum reserve (note 11)	(19,707)	(116,071)
	60,174	**51,959**

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

	30 June 2013 €'000	31 Dec 2012 €'000
Trading assets		
Securities (a)	30,504	13,210
Derivative instruments (b)	25,386	41,730
	55,890	**54,940**
Trading liabilities		
Derivative instruments (b)	26,560	42,310

(a) Securities

Slovak government bonds	17,627	8,155
German government bond	12,877	5,055
	30,504	**13,210**

(b) Derivative instruments

	Contract/ notional amount €'000	30 June 2013 Fair value Assets €'000	30 June 2013 Fair value Liabilities €'000	Contract/ notional amount €'000	31 December 2012 Fair value Assets €'000	31 December 2012 Fair value Liabilities €'000
Currency derivatives						
Currency forwards and swaps	247,715	983	721	174,510	2,699	679
Cross currency swaps	–	–	–	–	–	–
Currency options	5,504	6	6	14,945	496	496
Share options	**–**	**–**	**–**	**–**	**–**	**–**
Interest rate derivatives						
Interest rate swaps and forward rate agreements	1,271,415	23,758	25,446	1,594,792	37,178	39,778
Options	131,784	639	387	136,036	1,357	1,357
	1,656,418	**25,386**	**26,560**	**1,920,283**	**41,730**	**42,310**

10. Derivatives held for risk management

	Contract/ notional amount €'000	30 June 2013 Fair value Assets €'000	Liabilities €'000	Contract/ notional amount €'000	31 December 2012 Fair value Assets €'000	Liabilities €'000
Designated as cash flow hedges:						
Interest rate swaps	755,555	3,205	3,892	202,555	3,163	5,491
Currency swaps				2,041	19	53
Designated as fair value hedges:						
Interest rate swaps	273,559	–	19,266	273,559	–	28,527
	1,029,114	**3,205**	**23,158**	**478,155**	**3,182**	**34,071**

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
30 June 2013			
Cash inflows	1,126	1,446	–
Cash outflows	960	3,957	442
31 December 2012			
Cash inflows	184	689	–
Cash outflows	465	1,554	203

During 2013, a net amount of € 832 thousand (31 December 2012: net amount of € 60 thousand) relating to the effective portion of cash flow hedges was recognised in other comprehensive income.

11. Loans and advances to banks

	30 June 2013 €'000	31 Dec 2012 €'000
Repayable on demand	23,436	295,098
Other loans and advances by remaining maturity:		
– 3 months or less	–	19,499
– 1 year or less but over 3 months	–	2,133
– over 1 year	–	–
Compulsory minimum reserve (note 8)	19,707	116,071
	43,143	432,801
Less amounts with contractual maturity up to 3 months (note 7)	(23,436)	(314,597)
	19,707	**118,204**

12. Loans and advances to customers

	30 June 2013 €'000	31 Dec 2012 €'000
Repayable on demand	6,514	5,150
Other loans and advances to customers by remaining maturity:		
– 3 months or less	620,640	472,295
– 1 year or less but over 3 months	549,308	630,592
– 5 years or less but over 1 year	954,823	957,511
– over 5 years	834,187	768,956
– not specified	143,523	141,939
	3,108,995	2,976,443
Allowances for impairment (note 13)	(71,493)	(62,491)
	3,037,502	**2,913,952**

12. Loans and advances to customers (continuation)

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

	30 June 2013			31 December 2012		
	Gross amount €'000	Impairment allowances €'000	Carrying amount €'000	Gross amount €'000	Impairment allowances €'000	Carrying amount €'000
Retail customers						
Mortgage lending	805,748	(2,069)	803,679	700,687	(1,532)	699,155
Personal loans	42,627	(948)	41,679	38,083	(716)	37,367
Credit cards	4,661	(214)	4,446	5,009	(289)	4,720
Other	35,394	(2,493)	32,902	48,634	(2,839)	45,795
Corporate customers						
Small business	155,498	(6,822)	148,676	144,435	(8,427)	136,007
Corporate	1,100,342	(54,362)	1,045,980	1,077,225	(47,525)	1,029,701
Large corporate	761,609	(607)	761,002	757,378	(547)	756,831
Real estate	203,116	(3,978)	199,138	204,992	(616)	204,376
	3,108,995	**(71,493)**	**3,037,502**	**2,976,443**	**(62,491)**	**2,913,952**

13. Impairment losses on loans and advances

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

	30 June 2013 €'000	31 Dec 2012 €'000
Specific allowances for impairment:		
At 1 January	49,925	59,253
(Release)/ charge for the year	15,435	(1,337)
Release of impairment losses on loans written-off	(5,149)	(7,991)
At the end of the period	60,211	49,925
Collective allowances for impairment:		
At 1 January	12,566	14,283
(Release)/ charge for the year	(1,284)	(1,717)
Release of impairment losses on loans written-off	–	–
At the end of the period	11,282	12,566
Total allowances for impairment	**71,493**	**62,491**

14. Investment securities

	30 June 2013 €'000	31 Dec 2012 €'000
Debt securities held to maturity (a)	47,979	71,900
Debt securities available for sale (b)	543,571	429,068
Equity shares available for sale (c)	6,675	7,358
	598,225	**508,326**

At 30 June 2013, debt securities available for sale in amount of € 66 446 thousand (31 December 2012: € 66,314 thousand) were pledged as collateral to the National Bank of Slovakia for inter-day credit and of €113,404 thousand (31 December 2012: €113,719 thousand) as collateral to the National Bank of Slovakia for refinancing. The Bank has pledged investment securities of €61,468 thousand for a loan received from the European Investment Bank (31 December 2012: € 58,077 thousand). See note 20.

(a) Debt securities held to maturity

	30 June 2013 €'000	31 Dec 2012 €'000
Slovak government bonds	13,655	27,567
Slovak corporate and bank bonds	34,324	44,333
	47,979	**71,900**

At 30 June 2013, the fair value of held-to-maturity securities was €49 million (31 December 2012: €72 million).

(b) Debt securities available for sale

	30 June 2013 €'000	31 Dec 2012 €'000
Slovak government bonds	491,730	372,667
Slovak corporate and bank bonds	49,923	54,440
Participation certificate AXA	1,918	1,961
	543,571	**429,068**

14. Investment securities (continuation)

(c) Equity shares available for sale

Name	Activity	30 June 2013 €'000	31 Dec 2012 €'000
RVS, a.s.	Conference and leisure	–	–
S.W.I.F.T.	International funds Transfer	29	29
BCPB, a.s.	Stock exchange	21	21
UniCredit Leasing Slovakia, a.s.	Financial services	6,625	6,625
MasterCard Incorporated	Financial services	–	–
Visa Europe Limited	Financial services	–	–
UniCredit CAIB Slovakia, a. s.	Advisory services		683
Váhostav SK, a.s.	Building	–	–
		6,675	**7,358**

The Bank acquired a 100% share in UniCredit CAIB Slovakia, a.s. in August 2012. By agreement of General Meeting of Shareholders the Bank realised merge with UniCredit CAIB Slovakia, a.s. (see note 26). The Bank acquired 1 share of the company Váhostav a.s. in nominal value of € 49, 03 in connection with this merge.

The Bank owns 19.9% 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.

Movements in securities and equity shares available for sale during the year were as follows:

	June 2013 €'000	31 Dec 2012 €'000
As at 1 January	436,426	436,185
Additions	281,439	129,847
Disposals	(170,590)	(157,975)
Profit/ (Loss) from changes in fair value	2,971	28,369
At the end of the period	**550,246**	**436,426**

There was no impairment of investment securities in 2013 or in 2012.

15. Property and equipment

	Land andy buildings €'000	Furniture, fittings and equipment €'000	Assets not yet in use €'000	Total €'000
Cost				
At 1 January 2012	55,335	29,329	977	85,641
Additions	–	–	3,026	3,026
Transfers	364	439	(803)	–
Disposals	(2,006)	(1,752)	–	(3,758)
At 31 December 2012	53,693	28,016	3,200	84,909
At 1 January 2013	53,693	28,016	3,200	84,909
Additions	–	–	1455	1,455
Transfers	2,280	1,307	(3,587)	–
Disposals	–	(1,231)	–	(1,231)
At 30 June 2013	55,973	28,092	1,068	85,133
Depreciation and impairment losses				
At 1 January 2012	24,609	24,585	–	49,194
Charge for the year	2,664	1,889	–	4,553
Net reversal of impairment	(1,303)	(61)	–	(1,364)
Disposals	(1,064)	(1,719)	–	(2,783)
At 31 December 2012	24,906	24,694	–	49,600
At 1 January 2013	24,906	24,694	–	49,600
Charge for the year	1,341	916	–	2,257
Net reversal of impairment	–	(3)	–	(3)
Disposals	(2)	(1,221)	–	(1,223)
At 30 June 2013	26,245	24,386	–	50,631
Value after depreciation				
At 31 December 2012	28,787	3,322	3,200	35,309
At 30 June 2013	29,728	3,706	1,068	34,502

The Bank reversed impairment losses of € 3 thousand (31 December 2012: € 1,364 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.

16. Intangible assets

	Software €'000	Assets not yet in use €'000	Total €'000
Cost			
At 1 January 2012	30,313	559	30,872
Transfers	559	(559)	–
Disposals	(1)	–	(1)
At 31 December 2012	30,871	–	30,871
At 1 January 2013	30,871	–	30,871
Transfers	1	2	3
Disposals	–	–	–
At 30 June 2013	30,872	2	30,874
Amortisation and impairment losses			
At 1 January 2012	23,787	–	23,787
Charge for the year	3,846	–	3,846
Disposals	–	–	–
At 31 December 2012	27,633	–	27,633
At 1 January 2013	27,633	–	27,633
Charge for the year	1,927	–	1,927
Disposals	–	–	–
At 30 June 2013	29,560	–	29,560
Value after amortisation			
At 31 December 2012	3,238	–	3,238
At 30 June 2013	1,312	2	1,314

17. Other assets

	June 2013 €'000	31 Dec 2012 €'000
Inventory	376	370
Operating prepayments	475	590
Receivables	701	2,238
	1,552	3,198
Impairment losses	(135)	(131)
	1,417	**3,067**

Pohyby na špecifických opravných položkách na zníženie hodnoty ostatného majetku boli počas roka nasledujúce:

	June 2013 €'000	31 Dec 2012 €'000
At 1 January	131	55
Increase for the year	35	116
Write-offs	(31)	(40)
	135	**131**

18. Deposits by banks

	June 2013 €'000	31 Dec 2012 €'000
Repayable on demand	42,267	26,195
Other deposits by banks with remaining maturity:		
– 3 months or less	182,183	170,674
– 1 year or less but over 3 months	153,098	60,009
– over 1 year	151,441	101,044
	528,989	**357,922**

	June 2013 €'000	31 Dec 2012 €'000
Current accounts	39,654	24,765
Term deposits	489,289	332,858
Other liabilities	46	299
	528,989	**357,922**

19. Customer accounts

	June 2013 €'000	31 Dec 2012 €'000
Repayable on demand	1,643,453	1,672,753
Other deposits with agreed maturity dates or periods of notice, by remaining maturity:		
– 3 months or less	269,958	409,016
– 1 year or less but over 3 months	483,956	386,282
– 5 years or less but over 1 year	163,894	279,104
– over 5 years	2,423	2,844
	2,563,684	**2,749,999**

19. Customer accounts (continuation)

	June 2013 €'000	31 Dec 2012 €'000
Current accounts	1,511,992	1,665,322
Term deposits	847,484	929,702
Savings accounts	18,978	19,992
Current accounts from municipalities	10,513	7,431
Term deposits from municipalities	51,070	51,034
Loans received	11,003	17,716
Bills of exchange issued	8,413	4,376
Other liabilities	104,231	54,426
	2,563,684	**2,749,999**

20. Loans received

	June 2013 €'000	31 Dec 2012 €'000
European Bank for Reconstruction and Development	12,869	14,997
European Investment Bank	123,197	208,054
UniCredit Bank Austria AG, Vienna	16,001	20,000
EXIM Taiwan	–	5,688
Slovenská záručná a rozvojová banka, a.s.	322	552
	152,389	**249,291**

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 € 12, 9 million principal at the balance sheet date (31 December 2012: € 15 million) were provided under three contracts (two of 3 million and one of 9 million) with contract date in 2011. Principal and interest repayments are due semi-annually. The annual rates was 1.480%.

European Investment Bank
The amounts due to the European Investment Bank ('EIB') comprise loans of € 4,5 million, € 15 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 € 4,5 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 0.339% and it matures on 16 June 2014.

The second loan of € 15 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 0.339% and it matures on 15 June 2016.

The third 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 0.840% and it matures on 31 October 2023.

20. Loans received (continuation)

The fourth 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 0.924% and it matures on 30 November 2023.

UniCredit Bank Austria AG, Vienna
The amount due to UniCredit Bank Austria AG, Vienna comprised a loan of € 16 million under a contract entered into on 28 June 2013. Interest and principal was repaid in one instalment on 1 July 2013. The loan bore interest at an annual rate of 0.35%.

EXIM Taiwan (Export-Import Bank of the Republic of China)
The amount due to EXIM Taiwan comprised a loan of USD 7,5 million (2011:USD 15 million) under a contract entered into on 2 September 2010. The loan was repaid prematurely on 14 March 2013. Interest and principal was payable semi-annually. The loan bore 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 the principal.

21. Debt securities issued

	June 2013 €'000	31 Dec 2012 €'000
Mortgage bonds		
Issue 1 (b)	17,247	16,861
Issue 2	17,224	16,809
Issue 3 (a)	16,603	16,604
Issue 5	30,087	30,094
Issue 6	20,010	20,011
Issue 7	30,165	–
	131,336	100,379
Long-term bills	6,391	8,136
Debt securities issued	**137,727**	**108,515**

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 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. The bonds will be redeemed on 17 December 2015 from repayments of mortgage loans provided to customers.

Issue 7 comprises 30,000 bonds with a nominal value of € 1 thousand each, which were issued on 27 March 2013 with a coupon 2.100% per annum. The bonds will be redeemed on 27 March 2018 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 2013 and 2012.

22. Provisions

Pohyby na účtoch rezerv boli počas roka nasledujúce:

	Litigations €'000	Extraordinary contribution to Deposit Protection Fund €'000	Other €'000	Total €'000
At 1 January 2012	1,600	1,600	3,301	4,901
(Decrease)/ increase for the year	(100)	(100)	19,503	19,403
Usage for the year	(1,500)	(1,500)	–	(1,500)
At 31 December 2012	–	–	22,804	22,804
At 1 January 2013	–	–	22,804	22,804
(Decrease)/ increase for the year	–	5,600	(691)	4,909
Usage for the year	–	–	–	–
At 30 June 2013	**–**	**5,600**	**22,113**	**27,713**

Litigations
This provision related to claims and court cases that the Bank was defending.

Extraordinary contribution to the Deposit Protection Fund
This provision was created for the liability related to the Bank's extraordinary contribution to the Deposit Protection Fund due to the Bank's merger under preparation and changes in the insurance of the Bank's deposits.

Other
This provision relates to credit cards, other liabilities related to operational and credit risks and credit risk participations.

Credit risk participation in the total amount of €47,431 thousand was granted for one corporate client. Formerly the Bank provided the loan to the client and received an interbank guarantee from UniCredit Bank Austria. The loan was transferred to UniCredit Bank Austria in September 2012 and the Bank provided a guarantee to the parent company. The Bank released the respective loan loss allowances and created the provision in the same amount of € 20,554 thousand.

23. Corporate income tax

	June 2013 €'000	31 Dec 2012 €'000
Tax payable for the current period (note 33)	3,817	5,118
Tax prepayments	(3,030)	(6,903)
Corporate income tax (receivable)/ payable	**787**	**(1,785)**

24. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Assets/ (liabilities) June 2013 €'000	Assets/ (liabilities) 31 Dec 2012 €'000
Available-for-sale securities	(265)	418
Property and equipment	280	145
Provisions	6,363	5,290
Impairment losses on loans	13,916	11,668
Cash flow hedge	129	378
Deferred tax asset	**20,423**	**17,899**

The deferred tax assets have been calculated using a corporate income tax rate of 23% (31 December 2012: 23%).

The movements in deferred tax were as follows:

	June 2013 €'000	31 Dec 2012 €'000
At 1 January	17,899	18,625
Charge to profit or loss (note 33)	3,456	4,214
Charge to other comprehensive income	(932)	(4,940)
At the end of the period	**20,423**	**17,899**

25. Share capital

	June 2013 €'000	31 Dec 2012 €'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 2012	**174,471**	**43,217**	**(1,399)**	**(1,265)**	**215,024**
Dividends (a)	–	–	–	–	–
Transfers (b)	(1,560)	1,560	–	–	–
Merge with UniCredit CAIB Slovakia, a.s. (c)	(143)	–	–	–	(143)
Available-for-sale assets:					
Change in fair value, net of tax	–	–	209	–	209
Net amount transferred to profit or loss	–	–	2,079	–	2,079
Cash flow hedges:					
Effective portion of changes in fair value, net of tax	–	–	–	832	832
Net amount transferred to profit or loss	–	–	–	–	–
Profit for 2013	1,194	–	–	–	1,194
At 30 June 2013	**173,962**	**44,777**	**889**	**(433)**	**219,195**

26. Reserves (continuation)

(a) Dividends
The General Meeting of Shareholders held on 22 April 2013 approved no dividends to be paid from the profit for the year ended 31 December 2012.

(b) Legal reserve fund
The General Meeting also approved the transfer to the legal reserve fund of € 1,560 thousand from the 2012 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) Merge with UniCredit CAIB Slovakia, a.s.
Based on the decision of the General Meeting held on 22 April 2013, a merger of UniCredit Bank Slovakia a.s. and UniCredit CAIB Slovakia, a.s. took place on 31 May 2013. Assets and liabilities of CAIB were assigned to the bank in a book value determined according to the financial statements as of 31 May 2013. The result of the merger was a deficit which was posted into equity. The reason and aim of the merger of the two companies was to become more efficient in achievement of goals in the area of corporate financing on the Slovak market. Both companies were members of UniCredit Group. Prior approval of the merger was granted by the NBS on 19 April 2013.

(d) Proposed allocation of profit
The Management Board will propose the following profit allocation for the period ended 30 June 2013:

	€'000
Transfer to legal reserve fund	119
Dividends	–
Retained earnings	1,075
	1,194

(e) 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.

(f) 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.

27. Off balance sheet items

	June 2013 €'000	31 Dec 2012 €'000
Contingent liabilities:		
Bank guarantees	36,328	33,265
Customer guarantees	183,906	139,145
Customer guarantees, classified	50,304	49,337
Irrevocable letters of credit	9,218	13,937
Commitments:		
Confirmed credit lines	810,598	840,634
Derivative instruments:		
Trading assets and liabilities (note 9)	1,656,418	1,920,283
Held for risk management (note 10)	1,029,114	478,155
	3,775,886	**3,474,756**

The Bank is able to cancel the confirmed credit lines in case of the contract breach.

The classified customer guarantees include a guarantee in the amount of € 47,431 thousand (31 December 2012: € 47,431 thousand) issued in favour of the parent company for a classified corporate client (see note 22).

28. Interest income

	June 2013 €'000	31 Dec 2012 €'000
Loans and advances to banks	373	1,495
Loans and advances to customers	49,783	105,786
Investment securities	6,659	16,790
	56,815	**124,071**

Interest income for the period ended 30 June 2013 includes interest of €2,292 thousand accrued on impaired financial assets (31 December 2012: € 3,959 thousand).

Included within interest income for the period ended 30 June 2013 is total interest of € 620 thousand relating to debt securities held-to-maturity (31 December 2012: € 3,046 thousand).

29. Interest expense

	June 2013 €'000	31 Dec 2012 €'000
Deposits by banks	2,111	10,128
Customer accounts	13,162	30,168
Loans received	786	4,980
Mortgage bonds	1,340	2,915
Long-term bills	119	392
	17,518	**48,583**

Included within interest expense for the period ended 30 June 2013 are fair value losses of € 5,901 thousand (31 December 2012: € 14,980 thousand) on derivatives held in qualifying fair value hedging relationships, and € 8,835 thousand (31 December 2012: € 10,285 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 2013 and 2012 no gains and no losses 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 2013 or 2012.

30. Net fee and commission income

	June 2013 €'000	31 Dec 2012 €'000
Fee and commission income:		
Corporate banking credit related fees	11,350	22,403
Retail and Private banking customer fees	10,374	16,464
Other	998	1,005
Total fee and commission income	22,722	39,872
Fee and commission expense:		
Corporate banking fees	(1,865)	(2,454)
Retail and Private banking fees	(1,078)	(3,551)
Other	(686)	(1,107)
Total fee and commission expense	(3,629)	(7,112)
Net fee and commission income	**19,093**	**32,760**

31. Net trading income

	June 2013 €'000	31 Dec 2012 €'000
Net income from foreign exchange operations	4,005	3,867
Net income/(loss) from derivatives (a)	(923)	2,651
Net income from securities (b)	1,655	2,924
	4,737	**9,442**

(a) Net income/(loss) from derivatives

	June 2013 €'000	31 Dec 2012 €'000
Income from currency derivatives	–	1,342
Losses relating to currency derivatives	(1,702)	(5)
Net income from currency derivatives	(1,702)	1,337
Income from interest rate derivatives	20,398	21,570
Losses relating to interest rate derivatives	(19,723)	(20,558)
Net income from interest rate derivatives	675	1,012
Income from options	4,863	8,544
Losses relating to options	(4,759)	(8,242)
Net income from options	104	302
	(923)	**2,651**

b) Net income from securities

	June 2013 €'000	31 Dec 2012 €'000
Gains from securities	2,428	3,306
Losses from securities	(773)	(382)
	1,655	**2,924**

32. Administrative expenses

June 2013 31 Dec 2012	€'000	€'000
Employee costs:		
Wages and salaries	10,002	20,413
Social insurance	3,548	7,140
Other personnel expenses	2,013	3,388
	15,563	30,941
Service-related expenses	9,079	18,238
Material-related expenses	988	2,253
Rent	2,175	4,434
Marketing expenses	1,228	3,566
Operating fees	263	415
Other services	1,584	2,721
Bank Levy	7,129	14,108
Other administrative expenses	138	1,448
	22,584	47,183
	38,148	78,124

The cost of services provided by the statutory auditor during the period ended 30 June 2013 and year ended 31 December 2012 was as follows:

	June 2013 €'000	31 Dec 2012 €'000
Statutory audit (including regulatory reporting to NBS)	56	247

During the year 2013, the average number of full time employees was 1,156 (31 December 2012: 1,169). Other administrative expenses include payments to the Deposit Protection Fund of 0 € thousand in 2013 (31 December 2012: € 1,097 thousand).

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

	June 2013 €'000	31 Dec 2012 €'000
At 1 January	158	344
Creation of social fund	435	899
Use of social fund	(358)	(1,085)
At the end of the period	**235**	**158**

33. Income tax expense

	June 2013 €'000	31 Dec 2012 €'000
Current tax expense		
Current year (note 23)	3,817	5,118
Adjustments in respect of prior years	(65)	12
	3,752	5,130
Deferred tax expense		
Origination and reversal of temporary differences (note 24)	(3,456)	(4,214)
Total income tax expense	**296**	**916**

33. Income tax expense (continuation)

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

	Tax base 30 June 2013 €'000	Tax at 23 % 30 June 2013 €'000	Tax base 31 Dec 2012 €'000	Tax at 19 % 31 Dec 2012 €'000
Profit before taxation	1,490	343	16,518	3,138
Tax non-deductible expenses				
Loans written off	153	35	1,836	349
Current year allowances for impairment	14,542	3,345	18,036	3,427
Other	6,033	1,387	5,318	1,010
Non-taxable income				
Non-taxable income from securities	(228)	(52)	(989)	(188)
Release of impairment losses on loans	(3,849)	(885)	(6,804)	(1,293)
Provisions	–	–	(5,149)	(978)
Other	(1,546)	(356)	(1,828)	(347)
		3,817		5,118
Adjustments in respect of previous year	(283)	(65)	61	12
Deferred tax		3,752		5,130
		(3,456)		(4,214)
Total tax expense		**296**		**916**
Effective tax rate		**19.89 %**		**5.55 %**

	30 June 2013			31 Dec 2012		
	Before tax €'000	Tax benefit €'000	Net of tax €'000	Before tax €'000	Tax benefit €'000	Net of tax €'000
Cash flow hedges	(562)	129	(433)	(78)	18	(60)
Available-for-sale-assets	1,154	(265)	889	26,802	(4,958)	21,844
	592	**(136)**	**456**	**26,724**	**(4,940)**	**21,784**

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

	June 2013 €'000	31 Dec 2012 €'000
Profit attributable to shareholders (€'000)	1,194	15,602
Weighted average number of ordinary shares in issue	38,353,859	38,353,859
Basic earnings per share (expressed in € per share)	**0.03**	**0.41**

Diluted

There were no dilutive factors during either year.

35. Profit before changes in operating assets and liabilities

	June 2013 €'000	31 Dec 2012 €'000
Profit before taxation	1,490	16,518
Adjustments for non-cash items:		
Interest expenses	17,518	48,583
Interest income	(56,815)	(124,071)
Depreciation	2,257	4,553
Amortisation	1,927	3,846
(Profit)/loss from the revaluation of derivatives held for trading	594	–
Loss on disposal of property and equipment	4	223
(Net release of)/ impairment losses on loans	14,151	(3,054)
(Net release of)/ impairment losses on property and equipment	(3)	(1,364)
Impairment losses on other assets	35	116
Creation/ (release) of provisions	4,909	19,403
Other non-cash transactions	(737)	6,341
Cash flows from operating activities before changes in working capital, interest received and paid and income taxes paid	(14,670)	(28,906)

36. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	June 2013 €'000	31 Dec 2012 €'000
Less than one year	1,029	1,076
	1,029	**1,076**

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 30 June 2013 (31 December 2012: 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:

	June 2013 €'000	31 Dec 2012 €'000
Assets		
Trading assets	–	–
Derivative assets held for risk management	–	–
Loans and advances to banks	1,658	5,666
Other assets, prepayments and accrued income	698	1,477
Liabilities		
Trading liabilities	–	–
Derivative liabilities held for risk management	–	–
Deposits by banks	330,774	220,494
Loans received	16,000	20,000
Other liabilities, accruals and deferred income	–	–
Transactions during the year were as follows:		
Interest income	6	76
Interest expense	(1,211)	(9,844)
Fee and commission income	170	542
Fee and commission expense	(392)	(1,505)
Other revenues	–	5
Administrative expenses	680	1,400

37. Related party transactions (continuation)

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

Amounts due from and to companies related to the ultimate shareholder UniCredito Italiano were as follows:

	June 2013 €'000	31 Dec 2012 €'000
Assets		
Trading assets	5,101	8,779
Derivative assets held for risk management	1,967	1,894
Loans and advances to banks	6,037	5,716
Loans and advances to customers	38,325	38,995
Other assets, prepayments and accrued income	436	221
Liabilities		
Trading liabilities	19,298	32,962
Derivative liabilities held for risk management	16,088	23,886
Deposits by banks	52,671	9,965
Customer accounts	2,406	3,538
Other liabilities, accruals and deferred income	512	228
Transactions during the year were as follows:		
Interest income	769	2,098
Interest expense	(101)	(172)
Fee and commission income	460	832
Fee and commission expense	(45)	(75)
Other revenues	419	915
Administrative expenses	(6 382)	(12 631)

(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:

	June 2013 €'000	31 Dec 2012 €'000
Assets		
Loans and advances to customers	466	490
Liabilities		
Customer accounts	847	941
Transactions during the year were as follows:		
Interest income	12	31
Interest expense	(7)	(14)
Fee and commission income	1	3

37. Related party transactions (continuation)

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:

	June 2013 €'000	31 Dec 2012 €'000
Management Board	337	993
Senior Managers	1,049	2,196
Supervisory Board	6	12
	1,392	**3,201**

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 € 3,794 million (31 December 2012: € 3.509 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 30 June 2013, the Bank paid € 52 thousand (31 December 2012: € 66 thousand) and employees paid € 54 thousand (31 December 2012: € 105 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 30 June 2013 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	–	–	153,609	–	–	153,609	153,609
Trading assets	9	55,890					55,890	55,890
Derivative assets held for risk management	10	3,205	–	–	–	–	3,205	3,205
Loans and advances to banks	11	–	–	19,707	–	–	19,707	19,707
Loans and advances to customers	12	–	–	3,037,502	–	–	3,037,502	3,138,567
Investment securities	14	–	47,979	–	550,246	–	598,225	599,501
Measured at fair value		–	–	–	550,246	–	550,246	550,246
Measured at amortised cost		–	47,979	–	–	–	47,979	49,255
Financial liabilities								
Trading liabilities	9	26,560	–	–	–	–	26,560	26,560
Derivative liabilities held for risk management	10	23,158	–	–	–	–	23,158	23,158
Deposits by banks	18	–	–	–	–	528,989	528,989	524,611
Customer accounts	19	–	–	–	–	2,563,684	2,563,684	2,585,796
Loans received	20	–	–	–	–	152,389	152,389	151,127
Debt securities issued	21	–	–	–	–	137,727	137,727	139,633

40. Fair values and accounting classification (continuation)

The carrying amounts and estimated fair values of the Bank's financial assets and liabilities at 31 December 2012 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	–	–	366,556	–	–	366,556	366,566
Trading assets	9	54,940	–	–	–	–	54,940	54,940
Derivative assets held for risk management	10	3,182	–	–	–	–	3,182	3,182
Loans and advances to banks	11	–	–	118,204	–	–	118,204	118,033
Loans and advances to customers	12	–	–	2,913,952	–	–	2,913,952	2,654,936
Investment securities	14	–	71,900	–	436,426	–	508,326	508,435
Measured at fair value		–	–	–	436,426	–	436,426	436,426
Measured at amortised cost		–	71,900	–	–	–	71,900	72,009
Finančné záväzky								
Trading liabilities	9	42,310	–	–	–	–	42,310	42,310
Derivative liabilities held for risk management	10	34,071	–	–	–	–	34,071	34,071
Deposits by banks	18	–	–	–	–	357,922	357,922	354,625
Customer accounts	19	–	–	–	–	2,749,999	2,749,999	2,732,423
Loans received	20	–	–	–	–	249,291	249,291	243,268
Debt securities issued	21	–	–	–	–	108,515	108,515	105,678

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.

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.

40. Fair values and accounting classification (continuation)

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.

41. Subsequent events

Based on a Group decision, Merger Prior-Approval of NBS and approval of General Meeting of Shareholders on 19 June 2013, the Bank will realise the merge with UniCredit Bank Czech Republic, a.s in 2013. Both entities are currently subsidiaries of UniCredit Bank Austria AG. The Bank will be dissolved without liquidation and UniCredit Bank Czech Republic will be its legal successor. The decisive date for accounting and corporate income tax purposes was set to be 1 July 2013. Legally the merger shall be effective as at 1 December 2013. The merged entity would conduct its business in Slovakia via its branch registered in the Commercial Register ako pobočka zahraničnej banky.

As at 31 July 2013, Ing. Zuzana Žemlová, Member of the Board of Directors, terminated her employment with the Bank.

Between the balance sheet date and the authorisation date of these financial statements, there were no other significant events that would require adjustments or additional disclosure.

LISTENING

Making a difference from anywhere, even in a taxi

“One day while driving my taxi, I struck up conversation with my passengers and found out they worked at UniCredit.
I told them that I was one of their customers and that I owned a fleet of taxis.
I also explained that I was trying to expand my business and had asked for a loan, but had yet to learn if my request was successful.
The next day one of them called me to follow up with the information I needed. She cared about helping me solve my problem, and I could not have been more satisfied with her support.
I thanked her and said that if she ever needed a taxi in Vienna - even to Milan - I would be there for her, as she was for me.”

Taxi driver, customer of UniCredit Bank in Vienna

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 as of 30 June 2013.

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

The Internal Audit Division and the Risk Management Division report is directly subordinated to the statutory body of the Bank.

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 Internal Audit Division inspects, on an independent basis, the adequacy of the entire system of internal control and reports to the Management Board and to the Audit Committee on its main findings and on corrective measures recommended for risk-balancing purposes. 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 as later amended and supplemented, 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. As of 30 June 2013, 3 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 Audit Unit;

u) approves the Rules of Procedure of the Compensation Committee;
v) 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.

The Supervisory Board shall be entitled to request that the 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 22 April 2013. Shareholders approved annual individual financial statements and a motion to distribute profit, approved the annual report and the external auditor for 2013 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 the Articles of Association of the Company. The Supervisory Board may convene an Extraordinary General Meeting if the Company's interest requires so or when the Articles of Association of the Company stipulate so. The Extraordinary General Meeting of shareholders was held on 19 June 2013. The Extraordinary General Meeting approved the cross-border merger with UniCredit Bank Czech Republic, a.s. with effect from 1 December 2013.

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.

As of 30 June 2013, the Management Board carried out its activity with a composition of five members. Meetings of the Management Board take place every two weeks. The Management Board met at 12 ordinary meetings as of 30 June 2013.

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 7 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.

Declaration of Corporate Governance Pursuant to Act No. 431/2002 coll. on Accounting (continuation)

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 8 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.
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.

The Bank does not carry out any activities hostile to the environment.

The Bank does not have any organizational units abroad.

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.

UniCredit Bank