# Annual Report 2010

2010

# Contents

# The company at a glance

Registered office: Tomášikova 48
832 37 Bratislava
Slovak Republic
Company Registration Number (IČO): 00151653
Legal form: joint stock company
Line of business: universal bank

## Shareholders as at 31 December 2010:

EGB Ceps Holding GmbH - 100.00%

## Significant participations:

Realitná spoločnosť Slovenskej sporiteľne, a.s., 100.00%
Factoring Slovenskej sporiteľne, a.s., 100.00%
Leasing Slovenskej sporiteľne, a.s., 96.66%
Derop B.V., 85.00%
Informations-Technologie Austria SK, spol. s r.o., 51.00%
Procurement Services SK, spol. s r.o., 51.00%
Slovak Banking Credit Bureau, spol. s r.o., 33.33%
Erste Corporate Finance, a.s., 25.00%
s IT Solutions SK, s.r.o., 23.50%
Prvá stavebná sporiteľňa, a.s., 9.98%

**Contact:**

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www.slsp.sk
info@slsp.sk

## Credit ratings of Slovenská sporiteľňa, a.s. at 31 December 2010

**Fitch Ratings**

Long-term liabilities – A
Short-term liabilities – F1
Individual rating – C/D
Support rating – 1
Outlook – stable

**Standard and Poor's**

Credit rating – A-pi (based on published information)

This Annual Report was prepared in accordance with Act no.431/2002 Coll. on Accounting as amended.

This explanatory report was prepared in accordance with Section 20(8) of the Accounting Act.

The members of the Board of Directors of Slovenská sporiteľňa, a.s. hereby confirm that the Summary Corporate Governance Report of Slovenská sporiteľňa, a.s. (hereinafter referred to as „the Report") was prepared with due professional care and is based on the best knowledge and expertise of the members of the Board of Directors of Slovenská sporiteľňa, a.s.; they declare that the information contained in the Report was up to date, complete and true as at the date of the Report's preparation, and that the Report does not omit any data or information which could affect its meaning.

# Statement by the Chairman of the Board of Directors / CEO

## Dear shareholders, dear customers,

In terms of business, we have a demanding but also a highly successful year behind us. However, it was also a year in which a natural disaster changed the lives of many Slovak families. I am pleased that we were also able to provide help to those who needed it the most after the devastating floods. Our timely aid reached 74 municipalities mostly in Eastern Slovakia.

We were also actively supporting communities throughout the year and were involved in more than 230 charitable projects. Last year, we continued the activities that are typical for the business model of Erste Group.

Our main focus last year was on what we know best – retail banking for individuals and for small and medium-sized enterprises. This business enabled us to come through the crisis – and all the related market turbulences – without suffering any serious shocks. We realize that we can only do as good as our customers are doing, and therefore we strive to be a reliable partner for them.

The Bank's operating profit reported strong growth that resulted from a surge in lending and from prudential risk management. We maintained this growth by simultaneously increasing operating income and cutting operating expenses. With a cost income ratio below 41 percent, we have become one of the most efficient banks in the Slovak banking market. Amid tough competition, we again confirmed ourselves as the market leader by number of branches and ATMs. This shows the trust that our customers have in us.

We also demonstrated our solidarity with customers, as we continued to finance them also in difficult times. Owing to this, we were able to continually increase the volume of provided loans. We remain the market leader in consumer loans and also housing loans. We were also successful in lending to corporate and municipal customers. Under an agreement signed last year with the European Bank for Reconstruction and Development (EBRD), the Bank is implementing a lending programme to support the financing of projects that promote energy efficiency, renewable sources of energy and energy savings.

Slovaks saved more last year than in previous years, even though their wages did not rise significantly. The proportion of longer fixed-term customer deposits rose in 2010, which stabilized our retail portfolio and strengthened our liquidity. Last year we extended the range of saving services under the Bank's Personal Account product. Furthermore, over 100,000 of our customers took the opportunity to invest in mutual funds managed by the Asset Management Slovenskej sporiteľne. Almost all of the funds under its management reported positive returns for the year.

Almost 90% of transactions, i.e. more than 22 million transactions per year, are realized via electronic banking in our bank. More and more satisfied customers started using electronic banking due to its comfort and flexibility and over the past year it became a popular method for acquiring bank products and services without having to visit the bank in person.

In order to be available to our customers exactly where they need us, we expanded our branch and ATM network. A total of 19 new sales points were opened, 40 underwent renovation, and six were relocated to more attractive sites. We have the largest branch and ATM network in Slovakia, ensuring a high degree of convenience for the customers using our services and a pleasant working environment for our employees. By the end of 2010, the Bank had 291 branches, 10 SPOROcentres for Housing, 18 commercial centres and 705 ATMs, which is almost one third of the total number of ATMs in Slovakia. Our excellent sales results were supported by marketing and advertising activities. The marketing strategy that had been used for many years was replaced by a new one in the autumn of last year.

We also made changes in the organization of the Bank's retail network and continued to streamline work procedures, the aim being to make access to our services as easy and quick as possible, without any unnecessary paperwork. Back-office activities for the whole of Slovakia were centralized in Banská Bystrica. This freed-up staffing capacity in the branches, allowing employees to concentrate fully on customers and effective selling.

It seems that the worst of the economic turbulences are now behind us. A global recovery is expected and this should be reflected in the economy as well as in a gradual increase in private sector demands. Growth is expected to be stronger in Central and Eastern Europe than in Western Europe. This will lay a sound basis for Slovenská sporiteľňa to continue its successful operation in the period ahead, when we will seek to support our traditional business by strengthening our lending activities vis-à-vis corporations and municipalities.

I would like to take this opportunity to thank our staff, who demonstrated exceptional diligence and perseverance throughout the year. We were motivated by the confidence shown in us by our shareholders, customers and business partners. I have no doubt that we will continue to fulfil our resolutions in 2011 and that the combination of our experience and rising living standards in Slovakia will ensure favourable conditions for our further successful growth and development.

Jozef Síkela

# Financial highlights

| According to IFRS<br>Prepared in accordance with the International Financial Reporting Standards | as of 31 Dec 2007 (mil. €) | as of 31 Dec 2008 (mil. €) | as of 31 Dec 2009 (mil. €) | as of 31 Dec 2010 (mil. €) |
|---|---|---|---|---|
| Balance sheet total | 10 088 | 12 557 | 11 485 | 11 027 |
| Receivables from banks | 1 132 | 2 713 | 1 198 | 1 253 |
| Receivables from clients | 5 204 | 5 711 | 6 050 | 6 075 |
| Securities and participations | 3 163 | 2 435 | 3 714 | 3 331 |
| Liabilities towards clients | 7 634 | 8 563 | 7 802 | 8 158 |
| Equity | 732 | 802 | 782 | 929 |
| After tax profit | 138 | 142 | 30 | 150 |
| **Selected ratios** | | | | |
| ROE | 19.8% | 18.7% | 3.9% | 17.7% |
| ROA | 1.5% | 1.3% | 0.3% | 1.3% |
| Cost income ratio | 51.8% | 49.7% | 48.6% | 40.5% |
| Non-interest income to Operating income | 27% | 28.6% | 23.2% | 21.6% |
| Net interest margin | 4.0% | 4.0% | 4.0% | 4.3% |
| Loans to Deposits ratio | 68.2% | 66.7% | 77.6% | 74.4% |
| Capital adequacy (%) according to NBS | 10.3% | 9.6% | 10.5% | 13.2% |
| **Other figures** | | | | |
| Number of employees | 4 728 | 4 876 | 4137 | 3816 |
| No. of branches | 273 | 275 | 279 | 291 |
| No of ATMs | 587 | 627 | 660 | 705 |
| No of Payment cards | 1 264 215 | 1 340 427 | 1 288 139 | 1 334 079 |
| final SKK/EUR exchange rate (fixed in June of 2008) | 33.6 | 30.1 | n.a. | n.a. |

The corresponding financial information from the years 2006 to 2008 was converted into euro using the official conversion rate of 30.1260 SKK/EUR, set on 30 June 2008.

# Top management

## Board of directors of Slovenská sporiteľňa

### JOZEF SÍKELA

**Chairman of the Board and CEO**

Jozef Síkela is a graduate of the University of Economics in Prague and has worked in the banking sector since 1992. His banking career began at Creditanstalt in Vienna, where he worked in the International Risk Management Department. In 1999, he moved to Bank Austria Creditanstalt, in the Czech Republic, where he was Director of the Corporate Customers Division, and then, in 2001, he took charge of corporate banking at Česká spořitelna, In 2006, he joined Erste Bank Ukraine, serving as Deputy CEO responsible for corporate banking and regional network development, and in 2009 he became CEO of Erste Bank Ukraine, with responsibility for corporate banking, financial markets, controlling, accounting, human resources and communication.
The Supervisory Board of Slovenská sporiteľňa elected Mr Síkela as Chairman of the Board of Directors and CEO of Slovenská sporiteľňa with effect from 1 June 2010. He is responsible for risk management, human resources, marketing, market analyses, legal services, and communication.

**Positions with other companies:**
Mr Síkela is a member of the Managing Board of the Slovak Banking Association, the Council of the Deposit Protection Fund, the Board of the Slovak-Austrian Trade Chamber, the Supervisory Boards of Prvá stavebná sporiteľňa, Factoring Slovenskej sporiteľne, Leasing Slovenskej sporiteľne and a Chairman of the Board of Directors of Nadácia Slovenskej sporiteľne.

### ŠTEFAN MÁJ

**Deputy Chairman of the Board and First Deputy CEO**

Štefan Máj, is a graduate of the Management Faculty at the University of Economics in Bratislava. From 1991 to 1995, he worked for Slovenská sporiteľňa, first as head of the Property Management Staff Unit, then as general director of the Technology Division, and later as a member of the Board of Directors. In 1995, he joined Komerční banka, Bratislava, serving as a member of the Board of Directors and deputy CEO until December 1998, when he returned to Slovenská sporiteľňa to become Deputy Chairman of the Board of Directors. Mr Máj was a member of the Slovak Finance Ministry's Steering Group for the restructuring and privatization of selected banks and restructuring of the financial sector, and he played a significant role in the privatization of Slovenská sporiteľňa. He is the Bank's Chief Financial Officer and has responsibility for accounting and controlling, property management, balance sheet management, physical security, and the Bank's participations.

**Positions with other companies:**
Štefan Máj is a member of the Supervisory Boards of Factoring Slovenskej sporiteľne, Leasing Slovenskej sporiteľne, LANED, and Nadácia Slovenskej sporiteľne, he is managing director of Procurement Services SK and Chairman of the Administrative Board of the non-profit civic association Včelí dom (Bee house).

## JIŘÍ HUML
**Member of the Board and Deputy CEO**

Jiří Huml studied economics at the Czech University of Agriculture and at New York State University/CEU. Since 1989 he has been working at the Ministry of Agriculture and Federal ministry of Economy as a deputy director for agricultural politics and economics. In 1992, he joined McKinsey & Company in Frankfurt am Main, where he specialized in banking, insurance and corporate finance. During eight years with McKinsey, he worked for customers in Germany, Czech Republic, Hungary and Russia. In 2000 he joined Komerční banka in Prague as a member of the Board of Directors and COO. He then joined Česká pojišťovna as Deputy CEO responsible for operations, customer service and IT.

Since 2007 he focused on the retail business while being responsible for private banking and retail distribution of financial markets products in Česká spořitelna. He was also involved in private banking implementation projects at Erste Group members in Hungary, Romania and Slovakia. As of 1 June 2010, he was elected a member of the Board of Directors of Slovenská sporiteľňa a.s., with responsibility for retail sales management, product management, and the Retail Central Back Office.

Positions with other companies:
Mr Huml is a member of the Supervisory Board of Prvá stavebná sporiteľňa.

## PETER KRUTIL
**Member of the Board and Deputy CEO**

Peter Krutil graduated from the Management Faculty at the University of Economics in Bratislava, and served internships at Creditanstalt Vienna and Creditanstalt London. From 1991 to 1993, he was a securities dealer for VÚB, where he worked on the introduction of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka, a.s. as a dealer in the money and capital market. Later that year, he took up a senior management position at Creditanstalt Securities, where he stayed until 1998, eventually becoming a member of the Board of Directors. In 1998, Mr Krutil moved to the Slovak Economy Ministry, and in December of the same year he was elected a member of the Board of Directors of Slovenská sporiteľňa. He is responsible for the management of corporate banking and capital markets.

Positions in other companies:
Mr Krutil is a member of the Supervisory Boards of Factoring Slovenskej sporiteľne, Leasing Slovenskej sporiteľne, Erste Corporate Finance and Nadácia Slovenskej sporiteľne.

## MARTIN PILECKÝ
**Member of the Board and Deputy CEO**

Martin Pilecký is a graduate of the Czech Technical University in Prague. His banking career began in 1991 at Živnostenská banka in Prague, where he was responsible for electronic banking and payments, corporate banking, and, later on, the IT and organization division. He went from there to General Electric and then to Komerční banka, where in his capacity as Chief Information Officer he oversaw mainly the bank's IT services and subsidiaries. His next position was at Alfa-Bank Moscow, working first as the Board-level Chief Information Officer and then, from 2004, as Chief Consultant to the Board of Directors with responsibility for managing the bank's IT and transaction activities. On 1 August 2009, he joined Slovenská sporiteľňa as a member of the Board of Directors, with responsibility for information technologies, payments and settlement, and the Bank's organization.

Positions in other companies:
Mr Pilecký is managing director of the Slovenská sporiteľňa subsidiary Informations Technologie Austria SK, s.r.o., and he oversees Erste Group's core banking system strategy.



# Supervisory Board
## of Slovenská sporiteľňa

**Martin Škopek (from 14 September 2010)**
**Chairman of the Supervisory Board**

**Wolfgang Schopf**
**Deputy Chairman of the Supervisory Board**

**Franz Hochstraser**
**Member of the Supervisory Board**

**Herbert Juranek**
**Member of the Supervisory Board**

**Beatrica Melichárová**
**Member of the Supervisory Board**

**The following persons also served as members of the Supervisory Board in 2010:**

**Bernhard Spalt – until 24 March 2010**
**Martin Rohmann – from 24 March 2010 to 13 September 2010**

# The Slovak economy in 2010

## The economy continued to recover

The year 2010 was marked by continuing economic recovery in the euro area, and particularly in Germany, which recorded its strongest growth since the early 1990s. As Germany is Slovakia's largest export market, its upturn provided a boost to the growth of the Slovak economy, too. The real gross domestic product (GDP) of Slovakia climbed last year by 4.0%, almost fully rebounding from the contraction in 2009. The recovery was seen mainly in industry, where output surpassed the levels recorded in the first half of 2008, prior to the onset of the crisis. In this sector, the strongest growth was recorded in electrical and engineering industry. The recovery in other sectors of the economy, such as retail trade and construction, however, was not as substantial as in industry. This also affected the situation in the labour market, which has yet to benefit significantly from the economic revival. The average rate of unemployment, as measured by the Statistical Office of the Slovak Republic, rose to 14.4%, from 12.1% in 2009.

## Inflation remained below 1% last year

With consumer purchasing power subdued by the effects of the crisis and rising unemployment, and with energy prices at favourable levels, consumer prices in Slovakia recorded only a small rise in 2010. For the second year in a row, the average inflation rate did not reach 1% (the rate as measured by the Harmonised Index of Consumer Prices was 0.9% in 2009 and only 0.7% in 2010). At the beginning of 2011, however, energy prices went up and a number of fiscal consolidation measures were introduced (including a rise in the VAT rate, from 19% to 20%). As a result, price inflation is expected to accelerate in 2011.

## Consolidation of public finances put off until 2011

Owing to the recession and consequent drop-off in tax receipts, the condition of public finances has worsened. Lower tax revenues and a lack of will to make savings resulted in the 2009 general government deficit ballooning to 7.9% of GDP. Since hardly any consolidation measures were implemented in 2010, the budget deficit for the year made a negligible improvement, to stand at 7.8% of GDP according to the estimate of the Slovak Finance Ministry (the original budget proposal had projected deficit of 5.5% of GDP). Government debt for 2010 is expected to have exceeded 40% of GDP. Fiscal consolidation measures are planned and budgeted for 2011, with the aim of reducing the general government deficit to below 5% of GDP, and subsequently to below 3% of GDP by 2013.

## The European Central Bank continued to provide liquidity to banks

Slovakia joined the euro area on 1 January 2009, thereby adopting the European single currency and accepting interest rates set by the European Central Bank (ECB). Throughout 2010, the ECB kept its key interest rates at the historically low level of 1.0%, despite the unmistakeable signs of economic recovery. Its policy reflected the fact that economic development in the euro area was accompanied by several risks, including the fiscal difficulties of some of the bloc's members. Yet with the economic recovery advancing, the ECB exited from certain non-standard measures, for example, by not renewing 12-month and 6-month refinancing operations. It continued, however, to provide liquidity through the shorter 1-month and 3-month tenders. Money market rates rebounded from their all-time lowest levels in response to a modest liquidity surplus in the money market. By early November, the 3-month EURIBOR was back to the level of 1.0%, ECB's key rate (1.0%). In the second half of the year, the ECB began to purchase government bonds issued by peripheral euro area countries facing fiscal difficulties, and in doing so it slowed the growth in their yields on the secondary market. The ECB continued to pursue this tactics at the beginning of 2011.



# Management report on activities in 2010

**Figures are taken from the Consolidated Financial Statements.**

## REVIEW OF FINANCIAL RESULTS

- **The balance sheet total declined by 4% in year-on-year terms largely due to a lower volume of securities and an accompanying drop in loans received from banks on the liability side of the balance sheet**
- **Positive changes in the balance sheet structure in favour of customer deposits and customer loans, mainly in the retail segment**
- **Continuing growth in retail lending**
- **Increase in overall deposits, reflecting mainly increased deposits taken from the retail and public sectors**
- **Loan-to-deposit ratio rose to 74.5%**
- **Higher interest income caused by increasing volumes, a change in the balance sheet structure, and efficient liquidity management**
- **Stable income from fees and commissions; trading income declined slightly (revaluation of derivatives)**
- **Substantial drop in provisioning as a result of the responsible lending policy and improved economic environment**
- **Cost-to-income ratio fell from 48.6% to 40.5%**

## Customer loans and deposits grew, while securities and deposits received from banks declined

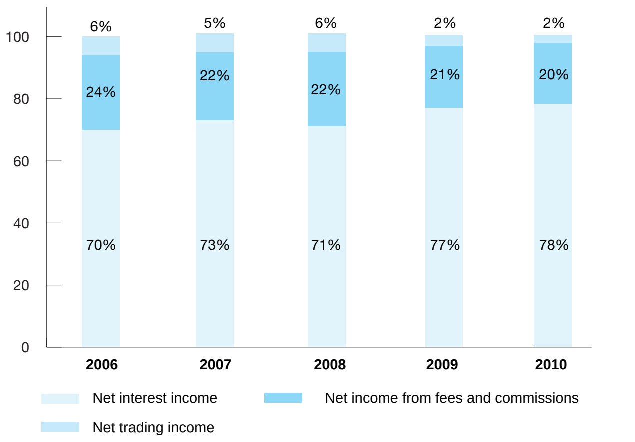
As at 31 December 2010, Slovenská sporiteľňa reported a balance sheet total of € 11.0 billion, representing a year-on-year decline of 4% (around € 458 million) and a market share of 20%. Among asset-side items, the most significant change was recorded in securities, which fell by more than € 380 million. The main reasons for this were the maturing and sale of securities in the „available for sale" and „held to maturity" portfolios. The amount of loans to customers reached almost € 6.1 billion, which represents more than 55% of total assets.

On the liabilities side, deposits taken from banks fell sharply, by almost 44% to € 1.2 billion. The overall volume of deposits rose in year-on-year terms by 4.6% (€ 357 million), to stand at almost € 8.2 billion, or 74% of total liabilities. This increase was driven mainly by deposits from the general government and retail sectors. The loan-to-deposit ratio ended the year at 74.5%. Changes in the balance sheet structure in favour of customer assets and liabilities are creating a potential scope for sustainable growth in the years ahead.

## Interest income rose sharply

Interest income grew substantially in 2010, reflecting mainly developments in deposit-taking and lending as well as the efficient management of surplus liquidity. Slovenská sporiteľňa managed to increase its net interest income by more than € 37 million, or 9.2%, in comparison with the previous year. As a share of the Bank's total income, net interest income climbed to 78.2% in 2010 (compared to 76.8% in 2009). Despite aggressive pricing policies of rival banks, Slovenská sporiteľňa maintained its position as the market leader and was able to increase its net interest margin to 4.3%, from around 4% in 2009. Net interest income was also boosted by the rigorous management of interest costs, as the bank eschewed entering into a price war, although this did mean that deposit growth was more moderate than it may otherwise have been.

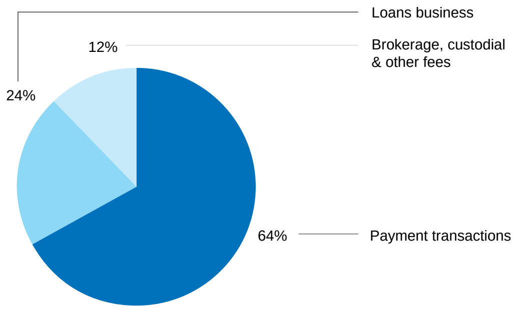
**Weight of interest income increased**



## Fee income grew

Net income from fees and commissions increased by 4.5%, to almost € 115 million, largely due to to fees charged for lending activities and for maintaining accounts. Income from securities brokerage fees declined, especially in the area of asset management, which suffered from the unfavourable situation in financial markets. As a share of the Bank‘s total income for 2010, fee and commission income represented more than 20%.

**Transactions generate 64% of fee income**



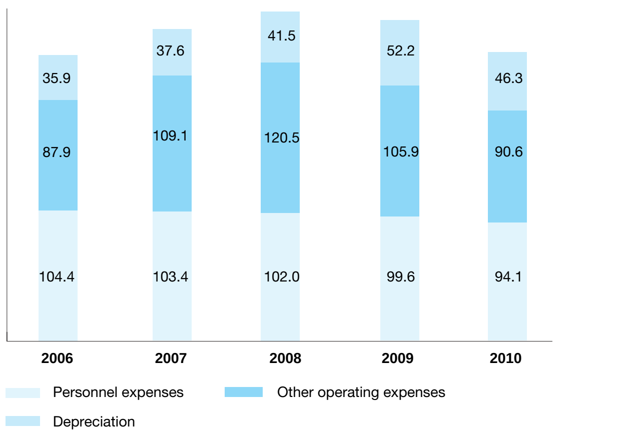

## Provisions were substantially lower

The net amount of provisions stood at almost € 130 million, which is about € 31 million less than in 2009. This positive trend was supported mainly by the Bank‘s prudent lending policy as well as by the improving economic situation and consequent slight improvement in the risk profiles of customers. Although the financial crisis continued to have repercussions – particularly in the sectors of real estate financing and corporate clients – its adverse effects on the loan portfolio were largely eliminated by changes in the Bank‘s product structure in favour of products with stronger credit protection and higher quality, as well as by the implementation of a strict lending policy.

## Expenses reduced through streamlining of processes

General operating expenses fell by 10% year-on-year, despite cost increases related to investments in future development (marketing, branch network enlargement and refurbishment, and the gradual implementation of new bank information systems). Wage costs fell by 5.5% year-on-year, to € 94 million, partly because of staff reductions. The Bank managed a substantial improvement in its key efficiency indicator – the cost-to-income ratio –which was reported at 40.5% (compared to 48.6% at the end of 2009). The overall reduction in costs reflects the streamlining of processes and strict cost management.

**Operating expenses declined again (EUR millions)**




## Net profit on pre-crisis levels

The operating profit increased in year-on-year terms by almost 25% (around € 68 million), to € 339 million. Operating income rose by € 42 million, to € 570 million, even though conditions in the market had remained unfavourable due to the fading effects of the crisis and the escalating price war. The consolidated net profit of Slovenská sporiteľňa was € 150 million, which represented an increase of almost € 120 million (398%) on the 2009 result. The rise was largely driven by growth in net interest income and declines in operating expenses and in credit risk costs. The net profit was also boosted by the other operating result, which compared with 2009 included fewer negative revaluations and one-off effects.

## RETAIL SERVICES

- **The Bank‘s retail loan market share increased**
- **The share of longer-term deposits increased still further**
- **The new savings account offered clients a decent return on their savings**

## The Bank maintained its leading position in the housing loan market

Bank provided new housing loans in the amount of € 736 million, representing an increase of almost 5% year-on-year. Roughly 80% of the new loans were granted with an interest rate fixation period of at least three years. The Bank‘s successful products, such as the Housing Loan and the Mortgage Loan for the Young Clients, remained on sale.

Housing loans were also in demand among customers who wanted to refinance their loans from other banks. The sale of this product was also promoted on the Bank‘s website, where an online calculator was available to help customers to calculate how much money they can save on monthly loan repayments to Slovenská sporiteľňa, compared to loan repayments to other banks.

In 2010, the Bank focused on adjusting and optimising its working procedures, on centralising certain activities at the new Central Back Office in Banská Bystrica, and on accelerating the process of simplifying the parameters of selected products. Through these efforts, the Bank increased its market share by almost one percentage point on a year-on-year basis, to 25.8% in December 2010. Thus, Slovenská sporiteľňa strengthened its leading position in the housing loan market.

The average amount of a housing loan increased by € 2,000 year-on-year, to € 43,300. The average maturity also increased slightly, to approximately 25 years.

## Consumer loans from the market leader

The successful sale of consumer loans continued in 2010, with the Bank‘s market share reaching 43.7% at the year-end. This was attributable to the simplified selling process and the optimized product parameters. The loan application process was also simplified, interest rates on small loans were adjusted, and ineffective products were withdrawn from the market.

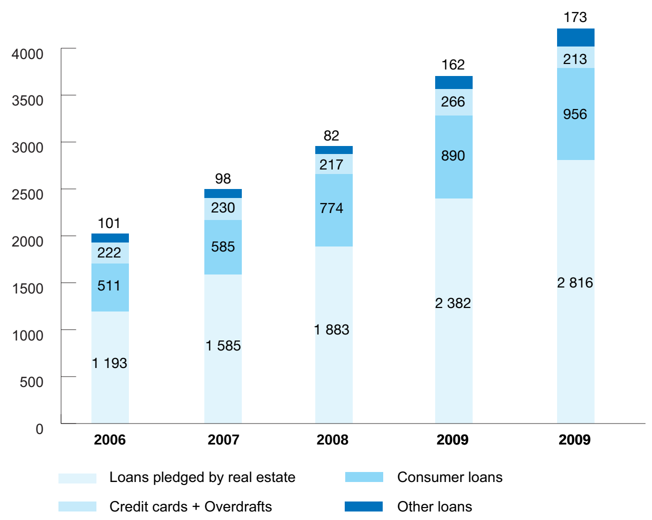
A new consumer loan product offered via Internet Banking was a small loan worth € 500. Customers continued to show interest in loan insurance and lending via the electronic banking facility. Loan insurance was purchased by more than 50% of the borrowers. The sale of loans was also promoted through direct e-mail campaigns.

Slovenská sporiteľňa continued providing its successful pre-approved credit limits, too. More than 15% of the new consumer loans were provided using this fast and simple way.

The amount of new consumer loans reached more than € 405 million. The average amount of a new loan increased from € 5,300 to € 5,400, while loans larger than € 10,000 accounted for approximately 18%.

There was a steady demand for consumer loans for university students, which as a share of total new lending represented almost 3%.

**Growth of retail loans continued (mil. €)**




## The new savings account

Simple, comfortable and transparent. The Personal Account introduced by Slovenská sporiteľňa in September 2009 meets all requirements for a modern bank product. Personal accounts were opened by 120,000 customers over the course of 2010. Thus, the Bank‘s ‚basic product‘ was being used by more than 153,000 customers at the year-end. In addition to standard services, the Personal Account package also includes a benefit in the form of a bonus for the use of a payment card. Card holders receive a bonus of 0.5% of the amount of card payments.

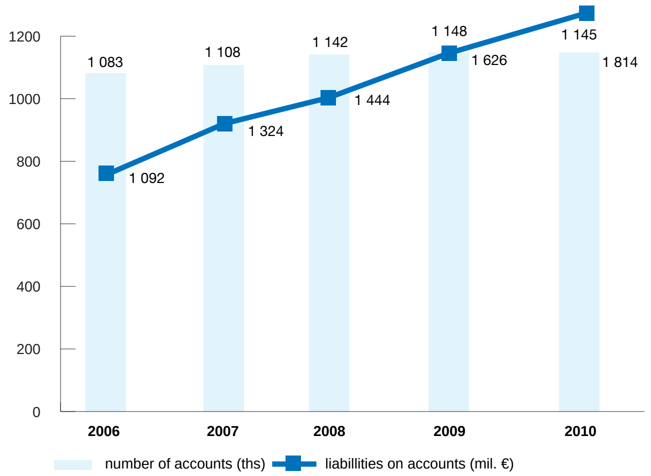
In September 2010, Slovenská sporiteľňa extended its Personal Account package to include an advantageous saving facility. Not only are account holders now offered a favourable rate of interest, they can invest part of their savings and thus earn an additional return. Within less than four months, the saving facility was taken up by roughly 30,000 personal account holders.

## Longer-term deposits represented almost a half of all private deposits

Slovenská sporiteľňa managed to stabilize its private deposit portfolio by switching funds from short-term deposits to long-term deposits. The share of long-term (2 and 3-year) deposits in the total amount of fixed-term deposits increased to 42.6% in 2010.

Retail deposits grew to € 6.1 billion and accounted for 65% of the Bank‘s overall deposits. Compared with 2009, when deposits decreased by 6.2% year-on-year, the amount of deposits in 2010 increased moderately by more than 2%.

Higher balances on personal accounts

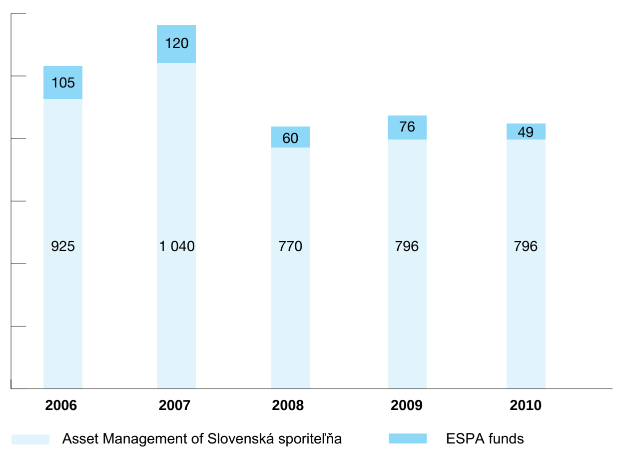



## The amount of securities sold to retail customers increased

In 2010, Slovenská sporiteľňa maintained its significant position in trading in securities. Its leading position in the domestic securities market (28.3% of the turnover on the Bratislava Stock Exchange) created conditions for the successful sale of securities to retail customers.

Despite the financial crisis, the issuance of own debt securities, especially mortgage bonds, remained an alternative to conservative deposit products. Therefore, Slovenská sporiteľňa made as many as 15 issues of bonds and mortgage bonds in 2010. More than € 74.5 million was invested in these bonds in the retail sector alone.

Mutual funds




# PAYMENTS AND TRANSACTIONS

- **The number of cross-border payments increased by almost a quarter**
- **Electronic payments accounted for almost 90% of all payments**

## Both domestic and foreign payments increased in number; they were dominated by electronic payments

The number of cross-border payments grew by as much as 22% year-on-year, while domestic payments recorded an annual increase of 5%. In the area of domestic payments, Slovenská sporiteľňa maintained its significant position: 22% of the total number of payments processed in the Slovak banking sector was made in Slovenská sporiteľňa. Almost 90% of all transfers abroad and from abroad were carried out through the electronic banking facility. The number of payment orders made in paper form dropped by 20% compared with the previous year.

In December 2010, electronic banking services were used by 712,000 customers, representing a year-on-year increase of 8%.

## Following the euro adoption, foreign-currency cash processing fell in volume by 41%

Slovenská sporiteľňa processed cash in the total amount of € 6.1 billion, which was 14% more than in 2009. The Bank processed 37 million banknotes and 18 million coins during the year. The number of coins processed nearly tripled in comparison with the previous year. Slovenská sporiteľňa processed foreign-currency cash in the amount of € 163 million, which was 41% less than in 2009.

# DISTRIBUTION NETWORK

- **The branch network continued to be extended and modernized**
- **Increase in the number of issued payment cards and card payments**
- **Further broadening of Internetbanking services**

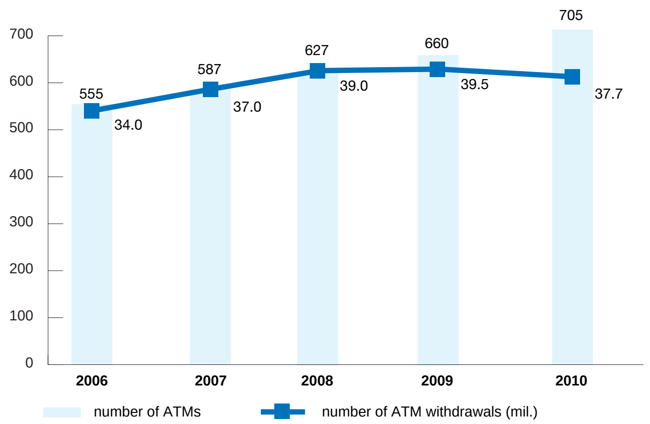
## Slovenská sporiteľňa has 291 branches; 40 branches were modernized in 2010

With 291 branches and 705 automated teller machines (ATMs), Slovenská sporiteľňa has the most extensive bank distribution network in Slovakia. The Bank expanded its network in 2010, with the addition of 19 new branches. Six branches were relocated to new premises and forty branches were modernized.

## The number of ATMs increased

Slovenská sporiteľňa increased the number of its ATMs by almost 7%, to 705. This represented 29% of all ATMs in Slovakia, a share that maintained the Bank‘s leading position. Slovenská sporiteľňa also ranked first for the number and average amount of transactions per ATM. In 2010, the Bank‘s customers carried out more than 53,500 transactions per ATM. The average value of transactions per ATM reached € 5.5 million. In total, 37.7 million transactions were made in the amount of € 3.9 billion. The average amount of an ATM withdrawal was approximately € 103.

Growing number of ATMs



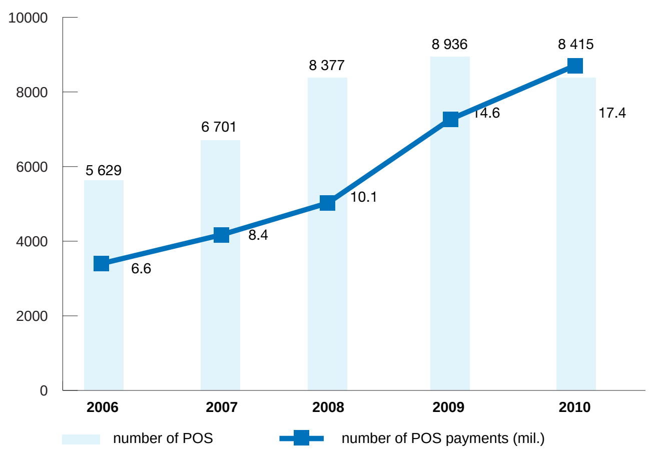

## Internetbanking as a modern sales channel

Internetbanking of Slovenská sporiteľňa significantly widened portfolio of offered products and services offered through internet. New section “Vybavte si on-line“ (get online) allows clients to approach it from the comfort of their homes. Apart from regular services of payments. Clients can apply for loan, overdraft, payment card, set up term deposit, account or saving. Popularity of this channel is proved by 2010 sales figures, Internetbanking sells as much as another region.

## Slovenská sporiteľňa operates a quarter of all POS terminals in the market

Slovenská sporiteľňa has a network of 8,415 point-of-sale terminals, accounting for 23% of the total number of POS terminals in Slovakia. More than 17.4 million transactions were carried out through POS terminals in 2010, representing an increase of 18.7% compared with 2009. The amount of POS payments exceeded € 512.2 million, an increase of 14.4% year-on-year. The average amount of a transaction was approximately € 29.

Growing number of POS payments (by 18.7% in




## Card market position of Slovenská sporiteľňa also strengthened

Slovenská sporiteľňa maintained its significant position in the Slovak card market. The total number of payment cards issued by the Bank stood at 1,334,079 at the year-end. Customers carried out 68 million card transactions, representing an increase of 5.8% compared with 2009. The amount of transactions also increased, to € 4.5 billion, which was 3.7% more than in 2009.

## Sales were promoted by the Sporotel contact centre

Within the Bank‘s distribution network, a special position is held by the Sporotel contact centre, which is an add-on provider of personal support for users of electronic banking services, POS terminals, ATMs and payment cards. Sporotel‘s operators greatly contributed to the accomplishment of the Bank‘s business objectives by bringing products and services to the attention of customers, whether during calls from customers or in bulk e-mail massages sent to customers. The contact centre‘s efficiency was improved through new technologies. Despite having fewer operators than in 2009, the centre recorded a 10% rise in interactions with customers.

# CORPORATE BANKING

- Working in close cooperation with the EBRD, the Bank supported green energy-saving projects
- By granting quick guarantees in cooperation with the SZRB, the Bank gave small and medium-sized enterprises easy access to financing
- A record amount of loans was provided for infrastructure projects

**In 2010, Slovenská sporiteľňa continued to develop and strengthen relationships with corporate clients and provided them assistance in handling the difficult situation on the market.**

## The Bank supported the projects of SMEs in cooperation with the EBRD

The segment of small and medium-sized enterprises (SMEs) was serviced through the Bank's nine regional centres and another nine corporate centres located in smaller cities.

By 31 December 2010, small and medium-sized enterprises had received loans in the amount of € 786 million. The amount of deposits on the accounts of SME clients stood at € 379 million. The number of SME clients using the Bank's products and services reached 4,647 at the year-end.

The Bank's most successful activities included cooperation with the European Bank for Reconstruction and Development (EBRD) to support financing for energy-efficiency projects in the housing and industrial sectors and for renewable energy projects. Another significant activity in 2010 was the quick guarantee programme for corporate clients implemented in cooperation with the Slovak Guarantee and Development Bank (SZRB), whose tasks include ensuring easy access to financing for small and medium-sized enterprises.

## Lending to large corporate clients exceeded € 1 billion despite the cautiousness of corporations

In 2010, Slovenská sporiteľňa maintained its amount of lending (committed and non-committed credit lines) to large corporate clients at more than € 1 billion.

Credit line borrowing among corporate clients was lower in 2010 than in 2009, owing to the effects of corporate crisis management and the slow pace of economic recovery (which meant firms were striving to keep costs down to a reasonable level). During the year, the banking market experienced a revival and the appetite of large corporate clients for financing increased. Hence, they received cheaper loans for operation financing and investment than in 2009.

Slovenská sporiteľňa continued to provide new credit lines to large corporate clients that did not pose unacceptable risks for the Bank. All the large corporate clients of Slovenská sporiteľňa discharged their credit liabilities during the year and none of them became insolvent. New loans were provided mostly with short maturities for the coverage of operating costs. Demand for investment loans and structured loans did not increase until the second half of the year. The majority of the financed projects were related to photovoltaic power plants.

## The Bank also maintained its position in project and real estate financing

Slovenská sporiteľňa confirmed its significant position in the area of project and trade financing. Most loans were provided for infrastructure financing through public-private projects (PPP) and for power engineering projects, including renewable energy projects. Bank also significantly supported financing of trade and export.

In real estate financing, Slovenská sporiteľňa recorded a fall in the volume of its loan portfolio, for the first time since 2002. This was due to the smaller number and amount of new transactions. Customers drew loans mostly under loan agreements made in 2008 and 2009. Despite this, Slovenská sporiteľňa maintained its market position as number two in this area. In 2010, Slovenská sporiteľňa focused mainly on financing the implementation of commercial projects, for example shopping centres in the larger towns of Slovakia.

# FINANCIAL MARKETS

- Slovenská sporiteľňa was the first bank to issue subordinated bonds in 2010
- Trading on the Bratislava Stock Exchange declined, but Slovenská sporiteľňa maintained its position as the most active bank

## Interbank market turnover in 2010

According to data released by the NBS, interbank transactions in 2010 reached a total turnover of € 328.9 billion. They were dominated by deposit operations, which accounted for 85% of the total turnover. Swap transactions represented 14% of the turnover. Other operations, i.e. REPO, FRA and IRS, accounted for only 1% of the total interbank market turnover.

## Slovenská sporiteľňa - the most active stock market player

In 2010, the Bratislava Stock Exchange (BSSE) recorded a further fall in its turnover, by 42% compared with 2009. With the number of transactions reaching 7,769, the BSSE's cumulative turnover amounted to only €13.6 billion. Again in 2010, the amount of shares traded on the stock market was dwarfed by the amount of bonds bought and sold. At the same time, the turnover of share transactions climbed by 90%, to € 460.5 million (made up of 6,187 transactions), which represented 3.3% of the total turnover. The remaining part of the turnover (€13.1 billion) was generated by bond transactions. In 2010, Slovenská sporiteľňa was the most active stock market player, with a turnover of € 3.9 billion and a share of 28.3% of the total volume of BSSE transactions.

## Slovenska sporiteľňa was the first bank to issue subordinated bonds

Slovenská sporiteľňa focused on issuing its own mortgage bonds, senior bonds, and subordinated bonds for retail and institutional customers. The total volume of bond issues amounted to € 146 million. Slovenská sporiteľňa also had a significant share in syndicated government bond issues (€1.5 billion). Slovenská sporiteľňa was the first bank in the Slovak market to issue subordinated bonds.

# HUMAN RESOURCES

In 2010, the activities of Slovenská sporiteľňa in the area of human resources were again aimed at increasing the effectiveness of organizational processes through the optimization of the existing organization structure and staff numbers. These measures created conditions for reducing the number of employees by a further 8%, compared with 2009. The optimization process was driven by the launch of centralized retail loan approval and administration in Banská Bystrica and the subsequent optimization of staff numbers in the branch network, mainly in the area of auxiliary administration. Through the managed process of holiday-taking, the Bank managed to save € 990,000 in 2010. For the first time after four years, the age structure of employees changed in 2010, owing to a marked increase in the number of employees aged 20 to 30 years. Voluntary staff turnover remained below the level of 2009.

In the area of training and career development, the targeted coaching programme for sales advisors continued in 2010. Within the scope of prevention of unusual business transactions and internal/external fraud, the Bank developed a specialized prevention programme for managers (Responsibility – Foresight) and retrained the entire management of its retail network.

In 2010, Slovenská sporiteľňa became the first Slovak bank whose staff had successfully passed the Slovak Banking Association's tests on financial intermediation and consulting in accordance with the EU directive on consumer rights. The compulsory certificate (so-called ‚financial licence') was taken by all 1,545 of the branch network salesmen and the pass rate was as high as 99.5%.

# Risk management

Slovenská sporiteľňa carefully monitors potential risks related to its business activities. The most significant of these risks are credit risk, market risk, liquidity risk and operational risk. The Bank pays them due attention, and in this regard it has produced a risk management strategy.

Given the economic recession in 2009 and the first half of 2010, risk management faced specific challenges. A stress test performed on the Bank in second half of 2010 produced satisfactory results and confirmed that the Bank has a stable capital position.

## Organization of Risk management

With effect from 1 September 2010, risk management is organized through the following units:

- **Strategic Risk Management**
- **Retail Credit Risk Management**
- **Corporate Credit Risk Management**
- **Restructuring and Recovery**
- **Financial Crime and Compliance**
- **Balance Sheet Management.**

## Credit risk

Slovenská sporiteľňa has been reporting capital adequacy using the internal ratings-based (IRB) approach to credit risk since July 2008, as the first bank in Slovakia to do so.

The cornerstone of the loan process in Slovenská sporiteľňa is based on risk assessment using credit rating systems and the assignment of a rating grade. The final rating is a key factor for a loan decision, loan amount and price. The Bank‘s rating system for private clients was improved in April 2010, giving it an increased predictive ability.

In 2010, the volume of the credit portfolio recorded a slight increase of 0.4%, from € 6,050 million to € 6,075 million. The rise was low mainly because the credit portfolio for corporate clients declined by 17.1%, from € 2,340 million to € 1,939 million. That the overall portfolio rose slightly was due to sales of retail loans, especially loans secured by real estate (their share in the overall portfolio rose to 46%, from 40% in December 2009). The share of retail loans in the overall portfolio increased to 68% (from 60% in December 2009), which is in line with the Bank‘s strategy.

The Bank‘s non-performing loans (NPLs) increased by € 42.3 million in 2010, in contrast to the rise of € 152.5 million recorded in 2009 as a consequence of the recession. The total coverage of NPLs climbed from 74.1% in 2009 to 84.7% in 2010. In terms of their coverage in 2010, non-performing retail loans surpassed 90% (compared to 82.2% in 2009) and non-performing corporate loans surpassed 70% (63.9% in 2009). The increase in NPL coverage was caused mainly by the improving developments in NPL portfolio and by a more conservative approach to provisioning.

The Bank‘s credit portfolio includes bad loans past due by up to three years, and since its ability to effectively sell these non-performing loans (NPLs) is restricted by Slovak tax law, the share of NPLs in the overall portfolio represents the three-year cumulative default rate.

## Market risk

Under the current organizational structure of Erste Group Bank, interbank trading operations in Slovenská sporiteľňa are confined to the money market desk and the rest of these operations have been centralized at the holding‘s level. For the purpose of managing market risks in the trading book and reporting them in regard to capital adequacy, Slovenská sporiteľňa uses an internal model based on a value-at-risk (VAR) methodology and calculated by an historical simulation method (approved by the NBS in 2005). Risk management is further supplemented by a sensitivity analysis and by stress testing carried out on a monthly basis. The VAR model is subjected to daily back-testing. In order to restrict the maximum acceptable risk, a comprehensive system of limits has been adopted.

## Liquidity risk

Liquidity risk with respect to structural liquidity is managed by the ALCO Committee. Responsibility for the operational management and analysis of the Bank‘s liquidity situation lies with the Operating Liquidity Committee.



The actual management of liquidity risk is the responsibility of the Strategic Risk Management Division. The management of structural liquidity is overseen by the Balance Sheet Management Division, and the task of ensuring the daily liquidity and required minimum reserves lies with the Treasury Division.

Liquidity risk is quantified in accordance with the National Bank of Slovakia‘s Decree on the liquidity of banks. Meanwhile, the Bank‘s own system for measuring and predicting financing requirements provides high-quality information for liquidity management.

The ratio of the Bank‘s fixed and illiquid assets to own funds and reserves (in accordance with regulatory requirements) remained well below 1.0 throughout 2010. The liquid asset ratio (the ratio of liquid assets to volatile liabilities, which must be more than 1.00) was 1.23 as at the end of 2010.

The Bank‘s liquidity is secured by a high share of government securities in its balance sheet total. The investment strategy in 2010 was focused on bonds accepted by the ECB, mainly Slovak Government bonds.

In order to ensure its liquidity in unforeseeable situations, the Bank has a liquidity reserve comprising bonds accepted by the ECB in repo operations. The stipulated minimum amount of the liquidity reserve is one billion euro and this level was met throughout the year.

Concentration limits are also important in the monitoring of liquidity risk, since they are used to monitor whether the Bank‘s borrowings from customers do not to an excessively risky extent originate from a single customer or a small group of customers. The Bank complied with these limits during the whole year.

In order to improve the quality of liquidity risk measurement, a Survival Period Analysis was developed and implemented in 2010. This is based on the modelling of various stress scenarios that involve analysing the time horizon of the Bank‘s survival in terms of liquidity.

In 2010, the Bank met all statutory and internal liquidity limits and its overall liquidity situation over the course of the year was sound.

## Interest rate risk

Interest rate risk in the banking book is quantified using a model that contains detailed information on all of the Bank‘s interest rate positions. Analysis results for the sensitivity of interest income and the Bank‘s market value to interest rate changes, quantified by deterministic and stochastic models, are broken down by currency and submitted to the ALCO committee on a monthly basis. The Bank‘s resulting risk positions are, on the basis of the ALCO committee‘s decision, subsequently managed by means of bond investments and hedge transactions

## Operational risk

Since July 2009, Slovenská sporiteľňa has been using the advanced measurement approach (AMA) for operational risk in accordance with the Basel II rules.

Since 2004, Slovenská sporiteľňa has had in place a fully functional system for collecting internal data on operational risk losses. This database currently contains more than 7, 000 data points used in calculations and modelling.

Another way in which the Bank identifies operational risk is through regular risk mapping based on the methodology of the Risk Management Association. The Bank is also a member of the ORX consortium – an external database of operational risk events which has more than 50 member banks and contains more than 200,000 events.

The results from all of the risk identification methods (internal and external data, risk mapping, new product checks, etc.) are ultimately used in scenario analyses. The scenarios are quantified and used directly in capital requirement calculations. They are designed in cooperation with experts in risk management and in business. The Bank has thus created, and is periodically updating, a complete package of scenarios that supplement its risk profiling in areas where the internal data is insufficient.

Slovenská sporiteľňa is also part of a group-wide insurance programme that ensures comprehensive coverage of losses resulting from operational risk.

## Fraud risk

In order to minimize the risk of losses arising from fraud, the Bank has taken several measures, as follows:

- **implementation of an internal regulation that clearly defines the types of fraud;**
- **implementation of an escalation process in the case of suspicion about the use of a system instrument;**
- **implementation of preventive measures as part of the induction training of new employees, as well as regular annual e-learning courses;**
- **realization of specific training courses focusing on areas where the potential fraud risk is higher;**
- **implementation of regular assessment of the system for anonymous reporting of suspicious activities;**
- **implementation of prevention and control mechanism in lending process with the aim of reducing fraud risk.**

## Risk of money laundering

Under Act no. 297/2008 on the Prevention of Money Laundering and Terrorist Financing and on amendments to certain laws, the Bank adheres to its updated „Programme of Internal Activities", which includes all statutory requirements for protecting the Bank against money laundering and terrorist financing. In order to reduce the risk arising from money laundering, the Bank has taken and is taking the following measures:

- **categorization of customers according to money laundering risk;**
- **implementation of appropriate due diligence on a designated group of customers;**
- **identification of the beneficial owner according to money laundering risk;**
- **identification of politically exposed persons and the application of due diligence in accordance with the Act;**
- **checking of customers and beneficial owners against lists of persons subject to sanctions;**
- **production of analyses of types of unusual transaction;**
- **incorporating the results of analyses of unusual transactions into the monitoring system;**
- **provision of training in anti-money laundering (AML) to new employees;**
- **provision of annual e-learning training in anti-money laundering (AML) to all current employees;**
- **provision of specialized AML training to specific departments.**

The Supervisory Board of Slovenská sporiteľňa at least twice a year discusses reports on the issue of anti-money laundering.

## Internal Capital Adequacy Assessment Process - ICAAP

Internal capital adequacy considering current and future activities and risk exposures of the bank is regularly assessed within ICAAP process, whose concept has been approved by Erste Holding and is valid for all of Erste Group. Apart from standard known risks of the first pillar (credit risk, market risk of the business book and the operational risk) bank has added market risk of the bank book to this process. ICAAP calculates economic capital for each of the risk type (confidence interval is 99.9% and period of one year is considered) which is consequently compared to available internal capital. Other risk types (e.g. liquidity risk or strategic risk) are assessed qualitatively. ICAAP assessments are done on a quarterly basis and results are forwarded to Board of Directors. Additionally ICAAP is supplemented with stress testing, which is performed at least once a year. ICAAP is a fairly compilicated process by its nature, therefore, Slovenská sporiteľňa with cooperation with Erste Holding, efforts to gradually implement more exact methods of economic capital determination. Aims of ICAAP process are primarily integration of various risk types into a single complex process, monitoring and adjusting of capital levels according to changes in risk profile and interlinking of risk exposure and internal capital.

# Supervisory Board report

The Supervisory Board of Slovenská sporiteľňa performed its activities in compliance with statutory provisions, carried out its tasks arising under the Bank‘s Articles of Association and the Statute of the Supervisory Board, and took decisions on matters falling within its competence, as defined in the Bank‘s Competence Rules.

The Supervisory Board convened four times in 2010. The Board of Directors kept the Supervisory Board regularly informed about the Bank‘s business activities, the implementation of the business plan, and the management of the Bank‘s assets. Matters discussed at Supervisory Board meetings included, among other things, the consolidated financial statements, the proposal for profit distribution, and reports on the Bank‘s participations. Given the economic situation, the Supervisory Board paid particular attention to, and carried out detailed monitoring of, the Bank‘s risk management situation on the basis of regular quarterly reports submitted by the Board of Directors. The Supervisory Board was regularly briefed about the implementation of the Bank‘s most significant projects and other matters related to its development; it was informed about the activities of the Bank‘s Internal Audit department and approved the IA operational plan for the next period. The Supervisory appointed Jozef Síkela and Jiří Huml to the Board of Directors as replacements for Board chairman Jan Rollo and Board member Frank–Michael Beitz, whose tenures ended on 31 May 2010. Mr. Síkela was elected as the new Chairman of the Board of Directors, on the basis of his experience and qualifications. In December 2010, the Supervisory Board re-elected Štefan Máj and Peter Krutil as members of the Board of Directors, with their existing tenures due to end on 1 January 2011.

The Supervisory Board has established three committees (Audit, Credit, and Personnel committees). In 2010, the Audit Committee dealt with reports concerning internal control, held discussions with the Bank‘s external auditor regarding the conclusions from the audit of its financial results, and addressed the external auditors recommendations contained in the Letter to Management. The Committee was kept informed about the Bank‘s activities in the fields of compliance, fraud and anti-money-laundering.

The Credit and Personnel committees took decisions on an ad hoc basis, in accordance with the Bank‘s Competence Rules.

The Supervisory Board discussed the audit of the consolidated and individual balance sheet of Slovenská sporiteľňa (and the related profit and loss statement) as at 31 December 2010. The audit was carried out by Ernst & Young Slovensko, s.r.o. in accordance with International Financial Reporting Standards as adopted by the European Union. The auditor confirmed that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010.

Considering these facts, the Supervisory Board recommended the General Meeting to approve the Bank‘s financial statements for 2010 and the distribution of the Bank‘s profits.



# Summary corporate governance report

The management of Slovenská sporiteľňa acknowledges the importance of the Code of Corporate Governance, applies legally binding standards, and adopts appropriate measures in accordance with the OECD‘s Principles of Corporate Governance.

A key element of the corporate culture in the parent company Erste Group Bank is the Austrian Code of Corporate Governance. Erste Group Bank takes measures aimed at implementing the code‘s principles in full and ensuring transparency for all shareholder groups.

The Bank adheres to the Corporate Governance Code of Erste Group Bank, its sole shareholder, which can be found online at www.erstebank.at (hereinafter referred to as „the Corporate Governance Code”). The Bank‘s governance methods are consistent with those of Erste Group Bank, as published at www.erstebank.at. In 2010, the Bank did not report any deviations from the Corporate Governance Code.

The Bank at the same time complies with the Code of Corporate Governance issued by the Bratislava Stock Exchange (BSSE), which is published on the BSSE‘s website at www.bcpb.sk. In 2010, the Bank did not report any deviations from the BSSE‘s Code.

The Bank‘s employees are kept informed about its results and objectives at periodic meetings, through internal communication channels and, in the case of managers, at thematic managerial meetings. In the autumn months of 2010, the Board of Directors organized „road shows” for employees in all regions in order to communicate the Bank‘s strategy, objectives and results. The corporate culture in Erste Group allows all staff to share in the profits of the Group.

## Internal control system

Slovenská sporiteľňa has in place clearly defined principles of an internal control system. Effective internal control is the basis of sound risk management; it safeguards the Bank‘s assets, helps to reduce or prevent the potential occurrence of serious errors or operational risk events, and makes it more likely that any such occurrence will be detected in time.

The internal control system has the following objectives:

- **preventing and detecting errors and the inefficient or wasteful utilization of resources;**
- **preventing and detecting abuses and fraud;**
- **improving the effectiveness and efficiency of banking operations;**
- **improving the integrity, accuracy, timeliness and reliability of information;**
- **raising the quality of record-keeping;**
- **overseeing of complying with laws, regulations and internal policies.**

The Bank‘s Board of Directors is responsible for ensuring that an appropriate and efficient internal control system is implemented and that it is regularly monitored, evaluated and updated.

Managers at all levels are responsible for implementing a practical, appropriate and effective ICS in their departments. They are accountable for the execution of internal controls and may not delegate their accountability for internal controls.

The Bank‘s employees are accountable for their work and are to abide by ICS principles. They perform their duties in accordance with applicable laws and the Bank‘s internal guidelines, as well as in compliance with competence principles for approval and authorization. Internal controls constitute an integral part of their work and responsibilities.

The Internal Audit Department is an independent component of the ICS, which reports directly to the Bank‘s Supervisory Board. Internal Audit is fully independent from all activities performed by the Bank and this independence is reflected in all stages of its activities, particularly during the identification and analysis of risks, the planning and preparation of audits (including the selection of review and evaluation methods), the preparation and submission of audit reports, and the evaluation and monitoring of measures adopted on the basis of audit findings.

Internal Audit impartially and objectively performs analyses and evaluations and issues standpoints, information and recommendations, in order to enhance the streamlining of processes, the monitoring and evaluation of the adequacy and efficiency of the Bank‘s internal control system, and so on. IA also audits outsourced activities as required by local legislation. The internal auditing of shared services is performed at the respective entity on a contractual basis.

# The Company‘s organization

## General Meeting

As the Bank‘s supreme body, the General Meeting has competence, inter alia, to amend the Articles of Association, to decide on share capital increases or reductions, to elect or recall members of the Supervisory Board and other bodies stipulated in the Articles of Association (except for members of the Supervisory Board elected or recalled by the employees), to approve the ordinary and extraordinary individual financial statements, to decide on the distribution of profits (or settlement of losses) and bonuses, to decide on the winding up of the Bank or a change in its legal form, to have the Bank‘s shares removed from trading on the stock exchange, and to decide that the Bank will cease to be a public joint stock company.

The Bank complies with statutory provisions concerning the protection of shareholder rights, particularly as regards timely provision of all relevant information about the Bank and the convening and holding of its General Meeting.

In 2010, one Ordinary General Meeting was held and one resolution of the sole shareholder was passed. The General Meeting approved the individual and consolidated financial statements, the distribution of profit, and the 2009 Annual Report. It also approved the appointment of Ernst & Young Slovensko, spol. s r.o. as the auditor of the Bank‘s financial statements for 2010.
Under a decision of the sole shareholder taken in September 2010, Martin Škopek was appointed to replace Martin Rohmann as a member of the Supervisory Board. Mr. Škopek was subsequently elected as Chairman of the Supervisory Board.

A full description of the activities and powers of the General Meeting, the rights of shareholders, and the procedure for exercising these rights is laid down in the Bank‘s Articles of Association, the full text of which is available at the Bank‘s registered office and on its website.

## Supervisory Board of Slovenská sporiteľňa

The Supervisory Board is the Bank‘s supreme supervisory body and has five members. Two thirds of its members are elected by the General Meeting, and one third by employees. Each member is appointed for a five year tenure, and their membership may not be substituted. The Supervisory Board oversees how the Board of Directors exercises its powers and how the Bank carries on its business activities. It convenes usually on a quarterly basis and held four meetings in 2010. In exercising its competences, the Supervisory Board mainly checks the Bank‘s compliance with generally binding legal regulations, with the Articles of Association and with resolutions of the General Meeting; it examines the Bank‘s financial statements and proposal for profit distribution (or settlement of losses), reviews the regular status reports on the Bank‘s business activities and assets, submits opinions, recommendations and proposals for the decision of the General Meeting and Board of Directors, and assesses information submitted by the Board of Directors regarding the Bank‘s principal business objectives. The Supervisory Board approves in advance the establishment of any legal entities by the Bank and the appointment of the head of the Internal Audit department; it elects members of the Board of Directors, including the chairman, and performs other acts, too. The Supervisory Board may establish committees and set the scope of their activities. These committees, operating in accordance with the Bank‘s rules of corporate governance, currently include the following:

### Audit Committee of the Supervisory Board

The Audit Committee oversees the financial reporting process, the efficiency of the internal control system (including IT security), compliance with statutory requirements, risk management efficiency, and internal audit activities, and it analyses recommendations made by external and internal auditors. In the process of selecting an external auditor for the Bank, the Audit Committee makes a recommendation to the General Meeting to approve the proposal of the Board of Directors. In accordance with applicable legal regulations, the committee includes an independent member with professional experience in accounting and audit. The Audit Committee convenes on a quarterly basis.

### Credit Committee of the Supervisory Board

The Credit Committee, in accordance with the Bank‘s Competence Rules, approves credit facilities (new facilities, changes to existing facilities‘ conditions, restructuring and work-out) for corporate clients, local authorities, and retail clients. It does not approve loans or guarantees for persons in a special relationship to the Bank, which are approved at the level of the Board of Directors.

### Personnel Committee of the Supervisory Board

The Personnel Committee deals with personnel issues relating to members of the Board of Directors (except for their election, recall or remuneration). Its decision-making is governed by principles laid down by the Supervisory Board and the Bank‘s internal regulations.

## Board of Directors of Slovenská sporiteľňa

The Board of Directors, in its capacity as the statutory body, manages the Bank‘s activities and acts in its name. It decides on all matters not subordinated to the General Meeting or Supervisory Board by generally binding legal provisions or the Bank‘s Articles of Association. The Board of Directors has five members, under a decision of the Supervisory Board. In accordance with the Bank‘s Articles of Association, the Chairman of the Board of Directors also serves as the Chief Executive Officer, the Deputy Chairman of the Board also as the First Deputy CEO, and each member of the Board also as a Deputy CEO. The members and Chairman of the Board of Directors are elected by the Supervisory Board and each has a tenure of five years.

In 2010, the Board of Directors held 41 regular meetings. Under the Bank‘s Articles of Association, the Board of Directors is to convene at least once a month. Last year‘s BoD meetings included discussion of the Bank‘s financial results and they also paid particular attention to risk management, credit portfolio analyses, and the monitoring of customer behaviour in regard to protecting the funds of shareholders and customers. The Board of Directors maintained an established trend of optimizing the Bank‘s product portfolio and costs. In connection with the establishment of a Central Back Office, the Bank decided to streamline the Bank‘s organizational structure throughout the retail network.

The current members of the Board of Directors are:

**Jozef Síkela,** Chairman of the Board and CEO (since 1 June 2010) – responsible for risk management, human resources, communication and sponsoring, marketing, market analyses, and legal services.

**Štefan Máj**, Deputy Chairman of the Board and First Deputy CEO – responsible for accounting, controlling, property management, balance sheet management, and participations.

**Jiří Huml,** member of the Board and Deputy CEO (since 1 June 2010) – responsible for retail banking management, product management, and the Retail Central Back Office.

**Peter Krutil,** member of the Board and Deputy CEO – responsible for corporate banking management and capital markets.

**Martin Pilecký,** member of the Board of Directors and deputy CEO – responsible for information technologies, the Bank‘s organization, and payments and settlement.

The following persons also served on the Board of Directors in 2010:
**Jan Rollo** – until 31 May 2010

**Frank–Michael Beitz** – until 31 May 2010

The Board of Directors may establish advisory committees with delegated tasks and competences.

### Assets and Liabilities Committee (ALCO)

The ALCO evaluates and approves the management and control process for the Bank‘s financial flows and asset and liability structure, so as to achieve an optimal balance between the Bank's profitability and its exposure to market risks. The committee evaluates the Bank's current position in terms of liquidity, market risks, capital adequacy and the implementation of the planned balance sheet structure, and it sets strategy for the securities portfolio. The committee's remit covers also the Bank's liquidity risk management. In this regard, the separate Operating Liquidity Committee (OLC) was established for the purpose of analysing and evaluating the Bank's liquidity position and, where necessary, submitting proposals to the ALCO concerning the Bank's liquidity management.

Members of the committee: all members of the Board of Directors and heads of the Balance Sheet Management Division, Treasury Division, Accounting and Controlling Division, and Strategic Risk Management Division.

### Credit Committee

The Credit Committee, in accordance with the Bank's Competence Rules and Lending Policy, approves credit facilities (new facilities, changes to existing facilities' conditions, restructuring and work-out) for corporate clients, local authorities, and retail clients. It does not approve loans or guarantees for persons in a special relationship to the Bank, which are approved at the level of the Board of Directors.

Members of the committee: the BoD member responsible for risk management, the BoD member who is the Chief Financial Officer, the BoD member responsible for corporate banking, and the head of the Corporate Credit Risk Management Division.

### Product Pricing Committee (PPC)

The PPC sets the prices at which the Bank and its subsidiaries sell products to customers. It approves the Bank's product-pricing strategy (interest and fees), receives information on structural developments in the Bank's products and subsidiaries' products, and on market position.

Members of the committee: the BoD member responsible for retail banking, the BoD member responsible for risk management, the BoD Member who is the Chief Financial Officer, the BoD member responsible for corporate banking, and the heads of the Product Management Division and Balance Sheet Management Division.

### Bank IT Committee

The IT Committee is responsible for the cost-effectiveness of information systems development and change management in the Bank. It sets the timetable for implementing changes, and the content and number of changes, in accordance with the Bank's priorities and available funds. The committee deals with any disputes arising in IS change management.

Members of the committee: heads of the Organization Division, Retail Sales Management Division, Product Management Division, Payments and Settlement Division, Corporate Credit Risk Management Division, Retail Credit Risk Management Division and Accounting and Controlling Division; the heads of the ORG/IT Controlling Department, Demand Management and Business Applications Department Division, and Test Management Department, and the manager responsible for IS security.

### Business Committee

The Business Committee analyses the business results and adopts measures to implement the business plan.
Members of the committee: all members of the Board of Directors, heads of commercial units, and the Bank's chief economist.

### Cost Committee

The Cost Committee oversees cost management. It makes recommendations to the Board of Directors on how to keep costs under control, sets priorities in line with the business strategy, develops a cost-saving strategy and monitors its implementation with the aim of supporting business activities, The committee oversees the supervisors' responsibility for budget allocation on a department by department basis, and the keeping of expenditure at or below the level stipulated in the business plan.

Members of the committee: the Chairman of the Board of Directors, the BoD member who is the Chief Financial Officer, the BoD member responsible for IT and banking operations, and the heads of the Organization Division, Accounting and Controlling Division, Property Management Division, Human Resources Division, and Payments and Settlement Division.

### Operational Risk and Compliance Committee (ORCO)

The ORCO defines strategies and processes for operational risk management, sets the degree of acceptability and level of tolerance for operational risk, and decides on measures to reduce or mitigate such risk. It lays down procedures for managing and reducing compliance risk, the strategy for reducing or mitigating money laundering risk, and measures for reducing or mitigating financial crime.

Members of the committee: the BoD member responsible for risk management, the BoD member who is the Chief Financial Officer and the BoD member responsible for IT and banking operations; the heads of the Organization Division, Strategic Risk Management Division, Human Resources Division and Payments and Settlement Division; the head of the Market and Operational Risk Department, and the Compliance Officer.



### Crisis Committee

The task of the Crisis Committee is to make a situation assessment in the event of a threatening crisis and to direct the Bank's procedures in a crisis. It takes decisions and assigns responsibilities during a crisis, regularly monitors and evaluates the situation, coordinates communication activities and oversees the Bank's procedures aimed at stabilizing and calming the situation.

Members of the committee: all members of the Board of Directors; the heads of the Treasury Division, Payments and Settlement Division, Retail Sales Management Division, Organization Division, Legal Services Division, Strategic Risk Management Division and Communication and Sponsoring Division.

## Share capital

The Bank has share capital of € 212,000,000 divided into 212,000 registered book-entry shares each with a par value of € 1,000.

Shares constituting the share capital of the Bank may be issued only as registered book-entry shares; changes to their form or type are forbidden by law. The company is a private joint stock company.

Securities issued by the Bank are transferable without restriction.

The Bank's share capital is wholly (100%) owned by EGB Ceps Holding GmbH, with its registered office at Graben 21, 1010 Vienna, Austria, which is a wholly (100%) owned subsidiary of EGB Ceps Beteiligungen GmbH, with its registered office at Graben 21, 1010 Vienna, Austria, which is a wholly (100%) owned subsidiary of Erste Group Bank AG, with its registered office at Graben 21, 1010 Vienna, Austria. As at the preparation date of this Annual Report, the Bank had not issued any employee shares.

A decision to increase or reduce the Bank's share capital may be taken only by the General Meeting. Regarding material agreements to which the Bank is a contracting party, the Bank is not aware of any that enter into force, are amended or cease to be valid as a result of a change in the control of the Bank related to a takeover bid.

The Bank's relations with members of its bodies and its employees in regard to the ending of their tenure or termination of employment are governed by the Labour Code.

Slovenská sporiteľňa does not acquire any own shares, interim shares, or participating interests or shares, nor does it acquire any interim shares or participating interests in its parent accounting entity pursuant to Section 22 of the Accounting Act. Slovenská sporiteľňa does not have any organizational unit based in a foreign country and does not record any expenditure on research and development.

## Disclosure and transparency

The Bank strictly observes and complies with legal regulations and corporate governance principles, and periodically provides the parent company's shareholders and investors with all relevant information on its business activities, financial and operating results, and other material events. The general public and customers are kept informed about the Bank's financial results and strategic progress through press conferences and press releases. All information is prepared and disclosed in accordance with standards of accounting and disclosure of financial and non-financial information.

The Bank performs its activities through its organizational units, comprising the head office, branch network, and any other units established under the Bank's internal regulations. The responsibility for producing, implementing, coordinating, monitoring and reviewing the Bank's business objectives lies with the Board of Directors.

In accordance with generally binding legal regulations, the Bank's competences and responsibilities are divided into:
a) the management of risks and bank activities;
b) the conduct of lending and investment business;
c) monitoring of the risks to which the Bank is exposed when conducting banking activities with persons in a special relationship to the Bank.

Risk management is strictly separated from banking activities, and likewise the lending business is separated from the investment business. The Bank maintains separate monitoring of the risks to which it is exposed when conducting banking activities with persons in a special relationship to the Bank.

The Bank places emphasis on anti-money laundering measures, and has established an independent Compliance unit reporting directly to the member of the Board of Directors responsible for risk management. The unit's tasks also include checking the Bank's internal regulations for compliance with legal regulations of regulatory bodies, and identifying and dealing with fraudulent acts.

Slovenská sporiteľňa has a Global Compliance Code governing the basic principles of compliance with ethical standards in the Bank. The Code was produced in response to the EU requirement for harmonization of legal provisions, and it brings the internal standards of Slovenská sporiteľňa into line with the internal standards of Erste Group Bank. It also reflects the requirement for a higher level of corporate culture, especially in the field of securities trading – in which we consistently apply measures under the the EU's Markets in Financial Instrument's Directive (MiFID) aimed at increasing the protection of consumers when using investment instruments. For Slovenská sporiteľňa, the Code represents a binding body of rules and serves as a source of information for employees. It is also a practical guide to the application of statutory provisions concerning day-to-day contact with information that could alter the behaviour of market entities. It is, furthermore, a point of reference for preventing or solving conflicts of interest between the Bank, employees, management and customers.

## Corporate social responsibility

Slovenská sporiteľňa maintains a leading position in the area of corporate social responsibility. Last year, the Bank provided assistance to flood-affected people and localities and continued its long-running support for communities through projects focused on education, culture and the development of youth sport.

### For customers

Slovenská sporiteľňa helped its customers when their need was greatest. At a time of devastating floods, the Bank reduced customers' loan repayments, waived their fees for the early payout of insurance benefits, and allowed them to take out a new loan at no charge. The Bank also offered flood-affected people loans with no processing fee. Customers who had fixed-term deposits and passbooks with Slovenská sporiteľňa were allowed to withdraw their savings before the agreed maturity at no charge in order to meet flood damage costs. Slovenská sporiteľňa thus played its part in helping people get through this difficult period.

### For employees

Slovenská sporiteľňa has an established reputation as a reliable and attractive employer. All employees enjoy a year-round offer of benefits in healthcare, sport, rest and recreation, and personal growth. Each year, employees also have the opportunity to obtain funds for their own out-of-work activities or for activities of their family members. Under the programme „Euro k euru" (Euro for euro), an employee can make a financial contribution to their project and the Slovenská sporiteľňa Foundation will donate twice that amount to the same project, up to a maximum donation of €1,000 (in which case, the employee contributes € 500).

On International Children's Day in 2010, Slovenská sporiteľňa organized an afternoon event for the children of staff working at the Bank's headquarters. Apart from having great fun, the kids were able to see where their parents worked. Also in 2010, Slovenská sporiteľňa supported employees who were affected by the floods by providing them with financial assistance.

### For the public

The floods that hit Slovakia in 2010 were the most destructive of recent years. In response to the first reports of the flood damage, Nadácia Slovenskej sporiteľne (the Slovenská sporiteľňa Foundation) immediately decided to donate € 300,000 to the clear-up operation. The money was distributed to 74 municipalities through the Slovak Association of Towns and Villages, as well as through the People in Peril Association, which channelled € 50,000 to the families worst affected by the floods (as identified through its on-site mapping of the damage). Slovenská sporiteľňa also supported initiative of Slovak Bank Association and allocated further resources for people hit by floods.

In 2010, Slovenská sporiteľňa financed the construction of eight multifunctional sports courts at schools. These will serve not only the pupils, but during after-school hours also other residents of the respective towns. The courts will be maintained at Slovenská sporiteľňa's expense for one year, after which the schools will be able to rent them out and thus finance their future operation..

By supporting the project „Radničkine trhy" (Town Hall Markets), Slovenska sporiteľňa is seeking to ease the access of disabled people into the work process and therefore to increase their sense of equality in society. The project groups together sheltered workshops from across Slovakia, giving them the opportunity to sell their products at markets in public spaces. Slovenská sporiteľňa linked this project with the organization of the „Christmas Markets" by giving disabled vendors access to its premises for two days during the pre-Christmas period.

Other activities of the Slovenská sporiteľňa Foundation include support for raising literacy standards of secondary school pupils and for a national standard in financial literacy. The project „Poznaj svoje peniaze" (Know your money) included the participation of more than 6,000 students from 140 schools.

As part of its support for sports in 2010, the Bank provided € 20,000 to non-professional youth football clubs. It also sponsored regional marathons under the logo „We are running with you".

In the area of culture, Slovenská sporiteľňa supports regional theatres and also specific theatrical companies. It has for many years cooperated with theatres in Nitra, Martin and Prešov and with the Radošina Naive Theatre. In doing so, it is helping to promote culture and to build national and cultural values not just in the capital city, but also in the regions.

The Slovenská sporiteľňa Foundation supports the theatre Divadlo z Pasáže (Theatre from the Passage), which is the only one in Slovakia that works with mentally handicapped people. It is a community theatre focusing on people who genuinely need help.

### For the environment

In 2010, the Slovenská sporiteľňa Foundation supported two projects aimed at the regeneration of green and cultural areas both in the environs of the capital city and in smaller towns in Slovakia. The project „Naša Bratislava" (Our Bratislava) was carried out in several stages. Employees of Slovenská sporiteľňa were directly involved in one of the first stages by helping to renovate a children's playground in Bratislava. The international project „72 hours without compromise" was organized in Slovakia for the first time last year. Led by a group of young people, the project managed to attract 4,500 participants who gave up their time voluntarily to cooperate in social, ecological and community projects. Slovenská sporiteľňa sponsored the pilot-running of this project and plans to continue supporting it in the future, too.



# Presumed development in 2011

- **Strengthening of the market unit's position in the retail segment; increasing number of borrowers, and expansion of the branch network, ATM network, and POS terminals**
- **Improvement of the position in corporate banking**
- **Continuing focus on risk and a responsible lending policy**
- **Stabilization of profitability growth and key indicators**
- **Continuing streamlining of processes and optimization of costs**
- **Implementation of the NIS (New information system)**

# Consolidated Financial Statements

**prepared in Accordance with International Financial Reporting Standards as adopted by the European Union for the Year Ended 31 December 2010**

**and Independent Auditors' Report**

# Independent Auditors' Report to the Shareholder of Slovenská sporiteľňa, a.s.

ERNST & YOUNG

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**Independent Auditors' Report**

To the Shareholder of Slovenská sporiteľňa, a. s.:

We have audited the accompanying consolidated financial statements of Slovenská sporiteľňa, a. s. and consolidated companies ('the Group'), which comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 whether the consolidated financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

8 February 2011
Bratislava, Slovak Republic

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský
SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

## Consolidated Income Statement

### For the Year Ended 31 December 2010

| ths. EUR | Note | 2010 | 2009 |
|---|---|---|---|
| Interest income | 6 | 535 943 | 535 284 |
| Interest expense | 6 | (92 959) | (131 431) |
| **Net interest income** | **6** | **442 984** | **403 853** |
| Provisions for losses on loans, advances and off-balance sheet credit risks | 8 | (129 751) | (160 439) |
| **Net interest income after provisions** | | **313 233** | **243 414** |
| Fee and commission income | 7 | 128 924 | 124 305 |
| Fee and commission expense | 7 | (14 168) | (14 477) |
| **Net fee and commission income** | **7** | **114 756** | **109 828** |
| Net trading result | 9 | 8 672 | 12 800 |
| General administrative expenses | 10 | (230 974) | (257 650) |
| Other operating result | 11 | (17 551) | (57 030) |
| **Profit for the year before income taxes** | | **188 136** | **51 362** |
| Income tax expense | 12 | (38 014) | (20 857) |
| **Net profit for the year after income taxes** | | **150 122** | **30 505** |
| Net profit attributable to: | | | |
| Equity holders of the parent | | 149 999 | 30 147 |
| Non Controlling Interest | | 123 | 358 |
| **Total** | | **150 122** | **30 505** |
| **Basic and diluted earnings per EUR 1 000 share (EUR)** | **33** | **708** | **144** |

The notes on pages 46 to 112 are an integral part of these financial statements

These financial statements were approved and authorised for issue by the Board of Directors of the Bank on 8 February 2011.

Ing. Jozef Síkela

Chairman of the Board of Directors and
Chief Executive Officer

Ing. Štefan Máj

Deputy Chairman of the Board of Directors and
First Deputy of the Chief Executive Officer

# Consolidated Comprehensive Income Statement
## For the Year Ended 31 December 2010

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Net profit for the year after income taxes** | **150 122** | **30 505** |
| Available for sale reserves | (2 796) | 17 579 |
| Cash flow hedge reserves | (459) | (357) |
| Actuarial gains on defined benefit pension plans | 273 | 157 |
| Income tax relating to components of other comprehensive income | 618 | (3 272) |
| **Other comprehensive (expense)/income for the year after income taxes** | **(2 364)** | **14 107** |
| Total comprehensive income for the year | 147 758 | 44 612 |
| **Attributable to:** | | |
| **Equity holders of the parent** | **147 612** | **44 254** |
| **Non Controlling Interest** | **146** | **358** |

The notes on pages 46 to 112 are an integral part of these financial statements.

# Consolidated Balance Sheet
## As at 31 December 2010

| ths. EUR | Note | 2010 | 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances at the central bank | 13 | 335 356 | 322 937 |
| Loans and advances to financial institutions | 14 | 1 253 486 | 1 197 756 |
| Loans and advances to customers | 15 | 6 074 859 | 6 050 148 |
| Provisions for losses on loans and advances | 16 | (394 240) | (314 743) |
| Financial assets at fair value through profit or loss | 17 | 115 180 | 127 758 |
| Securities available for sale | 18 | 902 632 | 1 137 643 |
| Securities held to maturity | 19 | 2 285 263 | 2 420 060 |
| Investments in associates | 20 | 28 582 | 28 325 |
| Intangible assets | 21 | 63 325 | 79 762 |
| Property and equipment | 22 | 209 683 | 224 860 |
| Assets held for rental income | 22 | 4 809 | 6 481 |
| Non-current assets held for sale | 23 | 37 913 | 31 793 |
| Current income tax asset | 24 | 281 | 24 088 |
| Deferred income tax asset | 24 | 70 799 | 55 340 |
| Other assets | 25 | 39 941 | 93 267 |
| **Total assets** | | **11 027 869** | **11 485 475** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Amounts owed to financial institutions | 26 | 1 164 963 | 2 074 679 |
| Amounts owed to customers | 27 | 8 158 459 | 7 801 796 |
| Debt securities in issue | 28 | 395 199 | 475 260 |
| Provisions | 29 | 23 622 | 22 893 |
| Financial liabilities at fair value through profit or loss | 43b | 51 708 | 57 255 |
| Other liabilities | 30 | 97 948 | 91 407 |
| Current income tax liability | 24 | 11 364 | 316 |
| Deferred income tax liability | 24 | 191 | 87 |
| Subordinated debt | 31 | 195 105 | 180 260 |
| **Total liabilities** | | **10 098 559** | **10 703 953** |
| Total equity, thereof | 32 | 929 310 | 781 522 |
| - Equity attributable to equity holders of the parent | | 926 734 | 779 120 |
| - Non Controlling Interest | | 2 576 | 2 402 |
| **Total liabilities and equity** | | **11 027 869** | **11 485 475** |

The notes on pages 46 to 112 are an integral part of these financial statements.

## Consolidated Statement of Changes in equity
### As at 31 December 2010

| ths. EUR | Share capital | Legal reserve fund | Other Funds | Retained earnings | Hedging reserves | Reva-luation reserves | Total | Non Con-trolling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the parent | | | | | | | | |
| **As at 31 December 2008** | **211 585** | **79 795** | **39 326** | **483 793** | **770** | **(15 414)** | **799 855** | **2 017** | **801 872** |
| Net profit for the year | - | - | - | 30 147 | - | - | 30 147 | 358 | 30 505 |
| Other comprehensive income | - | - | - | 157 | (289) | 14 239 | 14 107 | - | 14 107 |
| Dividends paid | - | - | - | (65 193) | - | - | (65 193) | - | (65 193) |
| Other funds contributed by shareholders | 415 | - | - | - | - | - | 415 | 29 | 444 |
| Other changes | - | - | - | (211) | - | - | (211) | (2) | (213) |
| **As at 31 December 2009** | **212 000** | **79 795** | **39 326** | **448 693** | **481** | **(1 175)** | **779 120** | **2 402** | **781 522** |
| Net profit for the year | - | - | - | 149 999 | - | - | 149 999 | 123 | 150 122 |
| Other comprehensive income | - | - | - | 273 | (395) | (2 265) | (2 387) | 23 | (2 364) |
| Other changes | - | - | - | 1 | | - | 1 | 29 | 30 |
| **As at 31 December 2010** | **212 000** | **79 795** | **39 326** | **598 966** | **85** | **(3 440)** | **926 734** | **2 576** | **929 310** |

The notes on pages 46 to 112 are an integral part of these financial statements.



## Consolidated Statement of Cash Flows
### For the Year Ended 31 December 2010

| ths. EUR | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income taxes | | 188 136 | 51 362 |
| Adjustments for: | | | |
| Provisions for losses on loans, advances, off-balance sheet and write-offs | 16 | 116 424 | 149 817 |
| Provisions | | 3 615 | 5 888 |
| Impairment of tangible and intangible assets | 21, 22 | 2 952 | 62 |
| Depreciation and amortisation | 21, 22 | 46 261 | 52 201 |
| Gain on disposal of fixed assets | | (462) | (78) |
| Net loss from financial activities | | 17 028 | 22 871 |
| Net (gain) from investing activities | | (93 391) | (68 045) |
| Recycling of available for sale reserve | | (488) | 7 929 |
| **Cash flows from operations before changes in operating assets and liabilities** | | **280 075** | **222 007** |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposits with the central bank | | (41 164) | 827 640 |
| Loans and advances to financial institutions | | (61 659) | (1 029 586) |
| Loans and advances to customers | | (64 069) | (396 032) |
| Financial assets at fair value through profit or loss and securities available for sale | | 244 793 | (267 830) |
| Other assets | | 22 878 | 12 591 |
| Increase/(decrease) in operating liabilities: | | | |
| Amounts owed to financial institutions | | (909 716) | (193 203) |
| Amounts owed to customers | | 356 663 | (761 293) |
| Provisions | | (2 613) | (8 519) |
| Other liabilities | | (5 547) | (15 008) |
| Derivative financial instruments | | 7 315 | (48 061) |
| **Net cash flows provided by/(used in) operating activities before income tax** | | **(173 045)** | **(1 657 294)** |
| Income taxes paid | | (17 898) | (105 509) |
| **Net cash flows provided by/(used in) operating activities** | | **(190 943)** | **(1 762 803)** |
| **Cash flows from investing activities** | | | |
| Purchase of securities held to maturity | | (500 301) | (1 214 872) |
| Proceeds from securities held to maturity | | 645 997 | 209 691 |
| Interest received from securities held to maturity | | 79 276 | 61 285 |
| Dividends received from associates | | 3 100 | 2 981 |
| Purchase of share in associates | | (668) | (442) |
| Proceeds from sale of subsidiaries and associates | | 964 | 7 070 |
| Purchase of intangible assets, property and equipment | | (24 032) | (41 679) |
| Proceeds from sale of intangible assets, property and equipment | | 35 334 | 3 796 |
| **Net cash flows provided by/(used in) investing activities** | | **239 670** | **(972 170)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | - | (65 193) |
| Drawing of subordinated debt | | 14 500 | - |
| Interest paid on subordinated debt | | (3 443) | (5 500) |
| Issue of the bonds | | 131 132 | 137 426 |
| Repayment of the bonds | | (212 620) | (132 684) |
| Interest paid to the holders of the bonds | | (12 587) | (20 609) |
| Other financing activities | | - | 415 |
| **Net cash flows provided by/(used in) financing activities** | | **(83 018)** | **(86 145)** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (383) | 311 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(34 674)** | **(2 820 807)** |
| **Cash and cash equivalents at the beginning of the year** | **34** | **264 451** | **3 085 257** |
| **Cash and cash equivalents at the end of the year** | **34** | **229 777** | **264 451** |

The notes on pages 46 to 112 are an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

## Prepared in Accordance with International Financial Reporting Standards as adopted by the European Union Year Ended 31 December 2010

## 1. INTRODUCTION

Slovenská sporiteľňa, a. s. (hereafter 'the Bank') has its registered office at Tomášikova 48, Bratislava, the Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Registry on 1 April 1994. The identification number of the Bank is 00 151 653 and its tax identification number is 2020411536. The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial, and private customers, principally in the Slovak Republic. The Bank and its subsidiaries (see note 5) represent the Group of Slovenská sporiteľňa, a.s. (hereafter 'the Group').

Personal changes were made in the Board of Directors on 1 June 2010. Ing. Jan Rollo and Mag. Frank Michael Beitz do not continue in their functions with the Bank. Ing. Jozef Síkela has been appointed new Chief Executive Officer and Chairman of the Board of Directors and a new member of the Board of Directors Ing. Jiří Huml has been also appointed. Competencies were reallocated between Board members. Members of the Board of Directors of the Bank as of 31 December 2010 are Ing. Jozef Síkela (Chairman), Ing. Štefan Máj (Deputy Chairman), Ing. Peter Krutil (Member), Ing. Martin Pilecký (Member) and Ing. Jiří Huml (Member).

The Chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The Deputy Chairman of the Board of Directors is the First Deputy of the Chief Executive Officer. Other members of the Board of Directors are simultaneously Deputies of the Chief Executive Officer.

The members of the Supervisory Board as of 31 December 2010 were as follows: Martin Škopek (Chairman) from 14 September 2010, Wolfgang Schopf (Deputy Chairman), and Dr. Franz Hochstrasser, Herbert Juranek and JUDr. Beatrica Melichárová as members. In 2010 Supervisory Board´s members were also Mr. Bernhard Spalt till 24 March 2010 and Mr. Martin Rohmann from March 25, 2010 till 13 September 2010.

The CEE banking subsidiaries of Erste Group Bank AG (Slovenská sporiteľňa, Česká sporitelna, Erste Bank Hungary, BCR, Erste Bank Croatia, Erste Bank Serbia) were in 2009 placed under EGB Ceps Holding GmbH, a 100% indirect subsidiary of Erste Group Bank. Reorganisation did not affect Erste Group Bank's Consolidated Financial Statements, as its (indirect) stake in its CEE banking subsidiaries is equal to its direct stake before the reorganization.

As of 31 December 2010 and 2009, the only shareholder of the Bank was EGB Ceps Holding GmbH, with registered office Graben 21, 1010 Vienna, Austria. The Consolidated financial statements of Erste Group Bank will be available after their completion at Firmenbuchgericht Wien, Marxergasse 1a, 1030 Vienna, Austria Court.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

The Group applied all Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the European Union ('EU') that are relevant to the Group's operations.

### a) Standards and interpretations relevant to Group's operations, effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

**– IFRS 2 Share-based Payment (Revised)**

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

**– IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective.
IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners.
The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.
The change in accounting policy was applied prospectively and had no impact on earnings per share.

**– IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

**– IFRIC 17 Distribution of Non-cash Assets to Owners**

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

**– Improvements to IFRSs**

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

**Issued in May 2008**

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

**Issued in April 2009**

**IFRS 2 Share-based Payment**
Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2. Effective for periods beginning on or after 1 July 2009.

**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

**IFRS 8 Operating Segments**
clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 45.

**IAS 1 Presentation of Financial Statements**
Current/non-current classification of convertible instruments: The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. Effective for annual periods beginning on or after 1 January 2010.

**IAS 7 Statement of Cash Flows**
States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

**IAS 17 Leases - Classification of land and buildings**
The specific guidance on classifying land as a lease has been removed so that only the general guidance remains. Effective for annual periods beginning on or after 1 January 2010.

**IAS 36 Impairment of Assets**
The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

**IAS 38 Intangible Assets: Consequential amendments arising from IFRS 3:**
If an intangible acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided the individual assets have similar useful lives.

**IAS 38 Intangible Assets: Measuring fair value**
The valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.

**IAS 39 Financial Instruments: Recognition and Measurement - Assessment of loan prepayment penalties as embedded derivatives**
A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. Effective for annual periods beginning on or after 1 January 2010.

**IAS 39 Financial Instruments: Recognition and Measurement - Scope exemption for business combination contract**
The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. Effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.

**IAS 39 Financial Instruments: Recognition and Measurement - Cash flow hedge accounting**
Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss. Effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.

**IFRIC 9 Reassessment of Embedded Derivatives Scope of IFRIC 9 and IFRS 3**
IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation or a joint venture. The amendment is effective prospectively for annual periods beginning on or after 1 July 2009.

**IFRIC 16 Hedges of a Net Investment in a Foreign Operation**
Amendment of the restriction on the entity that can hold hedging instruments: Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met. See Section 1 for further details. The amendment is effective for annual periods beginning on or after 1 July 2009.
Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- **IFRIC 12 Service Concession Arrangements adopted by the EU on 25 March 2009 (effective for accounting periods beginning on or after 30 March 2009);**
- **IFRIC 15 Agreements for the Construction of Real Estate adopted by the EU on 22 July 2009 (effective for accounting periods beginning on or after 1 January 2010);**
- **IFRIC 18 Transfers of Assets from Customers adopted by the EU on 27 November 2009 (effective for accounting periods beginning on or after 1 November 2009);**
- **IFRS 1 (revised) First-time Adoption of IFRS adopted by the EU on 25 November 2009 (effective for accounting periods beginning on or after 1 January 2010);**

### b) Standards and interpretations issued but not yet effective

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

- **IAS 24 Related Party Disclosures (Amendment)**

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- **IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)**

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group at initial application.

- **IFRIC 14 Prepayments of a minimum funding requirement (Amendment)**

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

At present. IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2010.

- **IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- **Disclosures — Transfers of Financial Assets (Amendments to IFRS 7)**

The IASB has amended the required disclosures relating to transfers of financial assets. The objective of the amendments is to help users of financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position.

- **Improvements to IFRSs (issued in May 2010)**

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- **IFRS 3 Business Combinations**
- **IFRS 7 Financial Instruments: Disclosures**
- **IAS 1 Presentation of Financial Statements**
- **IAS 27 Consolidated and Separate Financial Statements**
- **IFRIC 13 Customer Loyalty Programmes**

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group 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. Based on the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of Compliance

Pursuant to Article 17a of Act no. 431/2002 Coll, on Accounting, effective from 1 January 2006 banks are required to prepare their separate and consolidated financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of

International Accounting Standards (IFRS). As a result, separate financial statements prepared in accordance with IFRS have effectively replaced financial statements prepared under Slovak Accounting Standards.

The financial statements of the Group for the previous period (31 December 2009) were signed and authorised for issue on 9 February 2010.

The consolidated financial statements comprising the accounts of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). Except for certain standards issued but not yet effective (see note 2b) and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. IFRS as adopted by the EU does not currently differ from IFRS and its effective standards and interpretations as issued by the International Accounting Standards Board (IASB). The Group has determined that the standards not endorsed by the EU would not impact the consolidated financial statements had such standards been endorsed by the EU at the balance sheet date.

The Group prepared Separate Financial Statements for year ended 31 December 2010 on 8 February 2011.

## (b) Basis of Preparation

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

These consolidated financial statements were prepared using the going concern assumption that the Group will continue in operation for the foreseeable future.

The Bank holds controlling interests in subsidiaries and has a significant influence in associates as described in Note 5 and 20. The subsidiaries are fully consolidated, associates are included using the equity method of accounting.

Since 1 January 2009, the Slovak Republic entered the Euro zone and the Slovak crown (SKK) was replaced by the new currency Euro (EUR). The change in functional currency was implemented prospectively as of 1 January 2009 and all assets, liabilities and equity of the Group were converted into EUR based on the official conversion rate EUR 1 = SKK 30.1260. Corresponding financial information was translated by the official conversion rate of 30.1260 SKK/EUR.

The unit of measurement is thousand of EUR (EUR thousand), unless stated otherwise. The amounts in parentheses represent negative values.

## (c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its controlled companies as at 31 December 2010.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group balances and transactions, including unrealised intra-group profits, are eliminated on consolidation. Where necessary, accounting policies for subsidiaries and associates have been changed to ensure consistency with the policies adopted by the Group.
Non Controlling Interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non Controlling Interest consists of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the Non Controlling Interest in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Subsidiary Undertakings

A subsidiary is an entity, in which the Bank holds, directly or indirectly, more than 50% of such subsidiary's share capital or in which the Bank can exercise more than 50% of the voting rights, or where the Bank can appoint or dismiss the majority of the Board of Directors or Supervisory Board members, or have other means of governing the financial and operating policies of an entity so as to obtain benefits from its activities. Where an entity either began or ceased to be controlled during the year, the results are included only from the date such control commenced or up to the date control ceased.

### Associated Undertakings

An associate is an entity in which the Bank normally holds, directly or indirectly, more than 20% but less than 50% over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, without having control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the Income Statement.
Impairment losses are recognized in the Income Statement under 'Other operating result' when the recoverable amount of the Group's investment in an associate is determined to be less than its carrying amount, or the value is otherwise impaired.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## (d) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities of the subsidiary, or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Associated Undertakings' above.

## (e) Cash and Cash Equivalents

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

## (f) Loans and Advances, and Provisions for Losses on Loans and Advances

Loans and advances are measured initially at their fair value plus transaction costs, subsequently carried at amortised cost using the effective interest rate, less any provisions for impairment. The effective interest rate represents the rate that exactly discounts estimated future cash flows through the expected life of the financial asset to that asset's carrying amount. Origination fees and directly attributable costs related to loans and advances are amortised over the contractual life of the loan. All loans and advances are initially recognised when cash is advanced to borrowers.

Provisions for loan impairment are recognised for the estimated irrecoverable amounts of Loans and Advances when there is objective evidence that they are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated Impairment provisions are created through the Income Statement in 'Provisions for losses on loans, advances and off-balance sheet credit risk'. If the reason for provisioning no longer exists or the provision is not appropriate, the redundant provisions are released through the Income Statement in 'Provisions for losses on loans, advances and off-balance sheet credit risks'.

Write-offs are generally recorded against provisions when all reasonable restructuring or collection activities have taken place and further recovery is considered to be ineffective taking into account loans outstanding, expenses on collection, and forecasted result. Recoveries of loans and advances previously written-off are reflected into income.

For financial assets carried at amortised cost (such as Amounts due from banks. Loans and advances to customers as well as Held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

### Individual assessment of impairment

Loans and advances to institutions, sovereign and corporate classes, are generally considered by the Group as being individually significant (generally clients with exposures exceeding EUR 1.3 million or turnover of more than EUR 1 million) and are analysed on an individual basis.

Loans and advances with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments, as well as proceeds from collateral. Impairment amount is determined by the difference between the loan's gross carrying amount and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

#### Portfolio assessment of impairment

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit rating system.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### (g) Debt and Equity Securities

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of securities and pursuant to the Group's security investment strategy. The Group has developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to the 'Financial assets at fair value through profit or loss' portfolio, the 'Available for sale' portfolio, and the 'Held to maturity' portfolio. The main difference between the portfolios relates to the measurement of securities in fair value and amortised costs, and the reporting of unrealised gains or losses.

All 'regular way' purchases and sales of securities are recognised using settlement date accounting.

#### Financial Assets at Fair Value through Profit or Loss (´FVTPL´)

A financial asset at fair value through profit or loss is a financial asset classified as either held for trading or designated by the entity upon initial recognition.

A financial asset is classified as held for trading if:

- **it has been acquired principally for the purpose of selling in the near future; or**
- **it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or**
- **it is a derivative that is not designated and effective as a hedging instrument.**

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- **such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or**
- **the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or**
- **it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.**

Assets in this portfolio are initially recognised at fair value and are subsequently re-measured to fair value. Interest income is calculated and recognised in the 'Net interest income'. Changes in the fair values of securities held for trading are recognised in the Income Statement as 'Net trading result'. Changes in the fair values of other financial assets designated as at FVTPL are recognised in 'Other operating result'.

#### Available for Sale Securities ('AFS securities')

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for - sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

AFS securities are initially recognised at fair value and are subsequently re-measured to fair value. Interest is recognised using the effective interest rate in the 'Net interest income'. Unrealised changes in the fair values of AFS securities are recognised as adjustments to equity revaluation reserves, with the exception of the impairment losses.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity revaluation reserve is included in income statement for the period as 'Other operating result'.

For available-for-sale financial investments, the Group assess at each balance sheet date whether there is objective evidence that an investment is impaired.



In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

In case of equity investments classified as available-for-sale, objective evidence of impairment also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss is removed from 'Available for sale reserve' in the equity and is reclassified and shown as impairment loss in 'Other operating result'. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.
The investments in equity instruments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are accounted for using the cost method and are subject to impairment test.

#### Securities Held to Maturity ('HTM securities')

Securities held to maturity are financial assets with fixed maturity that the Group has the positive intent and ability to hold to maturity. HTM securities are initially recognised at fair value. HTM securities are subsequently reported at amortised cost using the effective interest method, less any provision for impairment.

A financial asset held to maturity is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When the impairment of assets is identified, the Group recognises provisions through the Income Statement.

Changes in the fair value of HTM securities are not recognised in the financial statements, but are disclosed in Note 44.

#### Fair value of financial instruments

The fair value is the amount for which a financial instrument could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction.

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

- **the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;**
- **the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;**
- **the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.**

### (h) Financial Guarantee Contract Liabilities

Financial guarantee contract liabilities are measured initially at fair value and are subsequently measured at the higher of:

- **the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions. Contingent Liabilities and Contingent Assets; and**
- **the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.**

### (i) Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset (financial liability) and of allocating interest income (interest expense) over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset (financial liability), or, where appropriate, a shorter period.

### (j) Recognition and Derecognition of Financial Assets and Financial Liabilities

All financial assets and liabilities except for Issued debt securities and derivative financial instruments are initially recognised on the settlement date, i.e., the date when an asset is delivered to or by the Group. Issued debt securities and derivative financial instruments are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument.

This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

### (k) Sale and Repurchase Agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain at the fair value or amortised cost within the relevant portion on the assets and the consideration received is recorded in ‘Amounts owed to financial institutions’ or ‘Amounts owed to customers’. Debt or equity securities purchased under a commitment to resell at a pre-determined price are recorded in ‘Loans and advances to financial institutions’ or ‘Loans and advances to customers’. Interest is accrued using the effective interest rate.

### (l) Intangible Assets

Intangible assets are stated at costs less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful life years through ‘General administrative expenses’ as follows:

| Type of intangible assets | Amortization period 2010 and 2009 |
|---|---|
| Core banking system and related applications | 8 years |
| Other software | 4 years |

The estimated useful lives and amortization method are reviewed at the end of each reporting period, with the effect of any changes in the estimate accounted for on a prospective basis. Impairment losses are recorded in ‘Other operating result’ in the Income statement.

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

### (m) Property and Equipment

Property and equipment is stated at historical cost less accumulated depreciation using a straight-line basis depreciation over estimated useful lives as follows:

| Type of property and equipment | Depreciation period 2010 and 2009 |
|---|---|
| Buildings and structures | 30 years |
| Electronic machines and equipment | 4 – 6 years |
| Hardware | 4 years |
| Vehicles | 4 years |
| Fixture and fittings | 6 – 12 years |
| Leasehold improvements | Shorter of lease period or life of asset |

Land and assets under construction are not depreciated.

### (n) Assets Held for Rental Income

Assets held for rental income are property, i.e, land or building, and movable assets held to earn rental revenue. Assets held for rental income are stated at historical cost less impairment provisions and accumulated depreciation using straight-line basis depreciation over estimated useful lives. The carrying amount of assets held for rental income, its depreciation, and rental revenues are disclosed in Note 22. The useful life of buildings classified as assets held for rental income is 30 years.

### (o) Impairment of Property and Equipment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is determined as the higher of estimated fair value less cost to sell and value in use. The largest components of the Group’s assets are periodically tested for impairment, and impairments are provisioned through the Income Statement ‘Other operating result’. Repairs are charged to the Income Statement in ‘General administrative expenses’ under ‘Other administrative expenses’ in the year in which the expenditures are incurred.

### (p) Non-current assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The Group’s management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Non-current assets classified as held for sale are measured at the lower of the assets’ previous carrying amount and fair value less costs to sell.

Any gain or loss from sale and impairment losses and their reversals are included in ‘Other operating result’.

### (q) Provisions

Provisions are recognised when the Group has a current legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

### (r) Long-term Employee Benefit Provisions

The Group operates unfunded defined long-term benefit programs comprising lump-sum post-employment and working anniversary.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the jubilee benefit obligation are charged to the Income Statement in the current year. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in equity in the period in which they occur.

See Note 29 (d) for key assumptions used in actuarial valuations.

### (s) Dividends to Shareholder

Dividends to shareholders are deducted from equity in the period in which they are declared by the General Assembly.

## (t) Taxation

Income tax on the Group's current year results consists of both current income tax and deferred tax.

Income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Currently enacted or substantially enacted tax rates are used to determine deferred income tax. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that the Group will be able to realise the deferred tax assets in the future. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered, or realization of the tax benefit is otherwise impaired.

Deferred income tax is charged or credited to the Income Statement, except when such deferred income tax relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends received by the Group are subject to income tax only if such dividends were paid from profit generated prior to 1 January 2004.

## (u) Derivative Financial Instruments

Derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency options (both put and call options) and other finance derivative instruments. The Group uses various types of derivative instruments in both its trading and hedging activities.

Financial derivative instruments entered into for trading purposes are stated at fair value. Unrealised gains and losses are reported as 'Financial assets at fair value through profit or loss' and 'Financial liabilities at fair value through profit or loss' on the balance sheet. Fair values of derivatives are based on quoted market prices or pricing models which take into account the current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with gains and losses reported in the Income Statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in 'Net trading result'.

Hedging derivatives are defined as derivatives that comply with the Group's risk management strategy. The hedging relationship is formally documented at the inception of the hedging relationship and the hedge is effective at inception and throughout the period. Changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within the range of 80% to 125%.

The Group designates hedging derivatives as: either. (a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Positive fair value of hedging instruments and positive revaluation of hedged items is presented in 'Other assets'. Similarly, negative fair value of hedging instruments and negative revaluation of hedged items is presented in 'Other liabilities'.
Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of a hedged item arising from the hedged risk is amortised to the Income Statement over the period to maturity.



#### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity adjustment. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recorded to the Income Statement in the periods in which the hedged item will affect the Income Statement (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative fair value adjustments reported in equity at that time remains in equity and is recognised in the Income Statement when the forecast transaction is ultimately recognised in the Income statement. When a forecast transaction is no longer expected to occur, the cumulative fair value adjustments reported in equity is immediately recorded to the Income Statement.
See also Note 43.

## (v) Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in local currency at official exchange rates as announced by the NBS on the date of transaction. Financial assets and liabilities denominated in foreign currencies are translated into local currency at the prevailing NBS exchange rate on the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the Income Statement in 'Net trading result'.

## (w) Interest Income and Interest Expense

Interest income and expense are recognised in the Income Statement when earned or incurred, on an accrual basis using the effective interest rates.

## (x) Fees and Commissions

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

#### Fee income earned from services that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

#### Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

## (y) Leases

#### Group as the Lessee

Finance leases of property and equipment under which the Group assumes substantially all the risks and rewards incidental to ownership are recognised in the balance sheet by recording an asset and liability equal to the present value of all future lease payments. Leasehold improvements on leased assets are depreciated in accordance with the estimated useful life of the asset, or the lease term if shorter. Lease liabilities are reduced by repayments of principal, whilst the finance charge component of the lease payment is charged directly to the Income Statement.

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

#### Group as the Lessor

Amounts due from lessees under finance leases are recorded as 'Loans and advances to customers' at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

## (z) Earnings per Share

Earnings per share has been calculated by dividing the net profit or loss applicable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, and has been calculated for shares with nominal value of EUR 1 000 based on their share on rights to receive dividends.

## (aa) Assets under Administration

Assets under administration are not recognised as assets or liabilities on the balance sheet, but are accounted for as off-balance sheet items since the Group does not bear risks and rewards of ownership associated with such items. See also Note 47.

### (bb) Regulatory Requirements

The Group is subject to the regulatory requirements of the central bank. These regulations include those pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, asset concentration, credit risk connected to clients of the Group, liquidity, interest rate, and foreign currency position.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Significant areas of judgment include the following:

**– Fair value of financial instruments**

The recent financial crisis and resulting impact on financial markets and the economic environment have resulted in material adjustments to valuation of the Group's assets. The management of the Group has considered all relevant factors in making prudent and reasonable valuation estimates in the circumstances. Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Financial assets at fair value through profit and loss and securities available for sale include credit linked investments and managed funds totalling EUR 37.5 million as of 31 December 2010 (2009: EUR 26.8 million). The estimated fair values of all of the abovementioned financial assets have been affected by decreased market liquidity and widening credit spreads in the financial markets mainly in 2008.

**– Impairment of available for sale investments**

The Group reviews its debt securities classified as available-for-sale investments at each balance sheet date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

**– Impairment of loans and advances**

As described in Note 14, 15 and 16 the Group creates provision for impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are negatively impacted. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These provisions are based on the Group's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to loan default, as well as subjective judgments of the Group's management about estimated future cash-flows.

**– Provisions**

The amounts recognized as provisions are based on the management's judgments and represent the best estimate of expenditures required to settle a liability of uncertain timing or amount resulting from an obligation. See Note 29 for more detailed disclosures of provisions.

**– Income taxes**

Income tax rules and regulations have undergone significant changes in recent years and there are little historical precedent or interpretative rulings on a number of complex issues affecting the banking industry. Also, tax authorities have broad powers in interpreting the application of the tax laws and regulations in the course of its examination of taxpayers. Accordingly there is a high level of inherent uncertainty about the ultimate outcome of examinations by the tax authorities. Judgment was also made with respect to future recoverability of deferred tax assets.

## 5. COMPANIES INCLUDED IN CONSOLIDATION

**The consolidated financial statements include the following subsidiaries and associates:**

| Name of the company | Registered office | Principal activity | Group interest 2010 | Group voting rights 2010 |
|---|---|---|---|---|
| **Subsidiaries – fully consolidated** | | | | |
| Realitná spoločnosť Slovenskej sporiteľne, a.s. | Námestie SNP 18 811 06 Bratislava, Slovak Republic | Real estate agency | 100.00% | 100.00% |
| Leasing Slovenskej sporiteľne, a.s. | Tomášikova 48 832 69 Bratislava, Slovak Republic | Financial and operational leasing | 96.66% | 96.66% |
| Factoring Slovenskej sporiteľne, a.s. | Tomášikova 48 832 67 Bratislava, Slovak Republic | Factoring | 100.00% | 100.00% |
| Derop B.V. | Naritaweg 165 1043 BW Amsterdam, The Netherlands | Incorporation, management and financing of companies | 85.00% | 85.00% |
| Laned, a.s. (100% subsidiary of Derop B.V.) | Tomášikova 48 832 71 Bratislava, Slovak Republic | SPE- Real estate agency | 85.00% | 85.00% |
| Informations-Technologie Austria – SK, s. r. o. | Tomášikova 48 832 71 Bratislava, Slovak Republic | IT services and IT systems maintenance | 51.00% | 51.00% |
| Procurement Services SK, s.r.o. | Tomášikova 48, 832 75 Bratislava Slovak Republic | Procurement | 51.00% | 51.00% |
| **Associates – accounted under equity method** | | | | |
| Prvá stavebná sporiteľňa, a.s. ("PSS") | Bajkalská 30 829 48 Bratislava, Slovak Republic | Banking | 9.98% | 35.00% |
| Slovak Banking Credit Bureau, s.r.o. | Malý trh 2/A 811 08 Bratislava, Slovak Republic | Retail credit register | 33.33% | 33.33% |
| Erste Corporate Finance, a.s. | Evropská 2690/17 160 00 Prague 6, Czech Republic | Financial and legal advisory | 25.00% | 25.00% |
| s IT Solutions SK, spol. s r.o. | Prievozská 14 821 09 Bratislava, Slovak Republic | Software company | 23.50% | 23.50% |
| Czech and Slovak Property Fund B.V. | Fred. Roeskestraat 123, Amsterdam, The Netherlands | Real estate fund | 10.00% | 10.00% |

These consolidated financial statements for the last three months of the year 2010 include a new subsidiary Procurement Services SK with 51% share of the ownership and voting rights.

These consolidated financial statements include for the first two months of 2009 also Asset Management Slovenskej sporiteľne, správ. spol., a.s. that was sold to Erste Asset Management GmbH and for the last two months of 2009 include a new subsidiary Informations-Technologie Austria – SK, s. r. o. with 51% share of the ownership and voting rights.

Although the Bank's share and voting rights in the Czech and Slovak Property Fund represents only 10.00%, the Company is classified as an associate based on the Bank's equity share of its earnings amounting to 33.33%.

The Bank held a 9.98% shareholding in PSS at 31 December 2010 and 31 December 2009. The Bank, based on the contract with Erste Group Bank, represents shareholder interests of the parent company in PSS (25.02%). In 2004, following NBS approval, the Bank's representative replaced a representative of Erste Group Bank on the Supervisory board of PSS. As a result of the above mentioned, the Bank established significant influence over PSS from 2004.

## 6. NET INTEREST INCOME

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Interest income from: | | |
| Loans and advances to financial institutions | 23 972 | 26 580 |
| Loans and advances to customers | 390 708 | 382 368 |
| Financial assets at fair value through profit and loss | 1 450 | 2 150 |
| Securities available for sale | 29 904 | 48 698 |
| Held to maturity securities | 90 175 | 74 062 |
| Other interest income and similar income | (266) | 1 426 |
| **Total interest and similar income** | **535 943** | **535 284** |
| Interest expense for: | | |
| Amounts owed to financial institutions | (13 749) | (9 464) |
| Amounts owed to customers | (62 182) | (99 096) |
| Debts securities in issue | (13 240) | (17 781) |
| Subordinated debt | (3 788) | (5 090) |
| **Total interest and similar expenses** | **(92 959)** | **(131 431)** |
| **Net interest income** | **442 984** | **403 853** |

In 2010, interest income includes a total of EUR 8.4 million (2009: EUR 7.3 million) relating to impaired financial assets.

## 7. NET FEE AND COMMISSION INCOME

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Fee and commission income from: | | |
| Payment transfers | 83 872 | 81 866 |
| Lending business | 30 408 | 27 722 |
| Securities | 7 048 | 8 350 |
| Other fees | 7 596 | 6 367 |
| Total fee and commission income | **128 924** | **124 305** |
| Fee and commission expense for: | | |
| Payment transfers | (10 615) | (9 052) |
| Lending business | (2 471) | (4 417) |
| Securities | (719) | (604) |
| Other fees | (363) | (404) |
| **Total fee and commission expense** | **(14 168)** | **(14 477)** |
| **Net fee and commission income** | **114 756** | **109 828** |

Security fees relate to fees earned or paid by the Group on trust and fiduciary activities.

## 8. PROVISIONS FOR LOSSES ON LOANS. ADVANCES AND OFF BALANCE SHEET CREDIT RISKS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Provisioning charges for: | | |
| Specific risk provisions | (151 850) | (68 899) |
| Portfolio risk provisions | (84 676) | (119 616) |
| Total provisioning charges | **(236 526)** | **(188 515)** |
| Release of provisions | | |
| Specific risk provisions | 55 313 | 26 338 |
| Portfolio risk provisions | 56 412 | 5 075 |
| Total release of provisions | **111 725** | **31 413** |
| **Net provisions for losses on loans and advances (Note 16)** | **(124 801)** | **(157 102)** |
| Direct write offs / Recoveries of loans written off | (469) | (1 316) |
| Net creation of provisions for off-balance risks | (4 481) | (2 021) |
| **Net provisions** | **(129 751)** | **(160 439)** |

## 9. NET TRADING RESULT

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Foreign exchange and currency derivatives | 7 273 | 7 678 |
| Interest derivatives | (805) | 3 413 |
| Trading securities gains | 2 058 | 1 711 |
| Other gains/(losses) | 146 | (2) |
| **Total** | **8 672** | **12 800** |

## 10. GENERAL ADMINISTRATIVE EXPENSES

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Personnel expenses** | | |
| Wages and salaries | (69 966) | (71 721) |
| Social security expenses | (22 634) | (24 037) |
| Long term employee benefits | (995) | (472) |
| Other personnel expenses | (546) | (3 339) |
| **Total personnel expenses** | **(94 141)** | **(99 569)** |
| **Other administrative expenses** | | |
| Data processing expenses | (34 777) | (48 249) |
| Building maintenance and rent | (18 794) | (20 532) |
| Costs of group operations | (15 570) | (18 668) |
| Advertising and marketing | (12 298) | (11 381) |
| Legal fees and consultation | (3 309) | (1 999) |
| Expenses for personal leasing | (108) | - |
| Other administrative expenses | (5 716) | (5 051) |
| **Total other administrative expenses** | **(90 572)** | **(105 880)** |
| **Depreciation** | | |
| Amortisation of intangible assets | (25 331) | (28 101) |
| Depreciation | (20 930) | (24 100) |
| **Total depreciation, amortisation** | **(46 261)** | **(52 201)** |
| **Total** | **(230 974)** | **(257 650)** |

The average number of employees in the Group was 4 100 in 2010 and 4 614 in 2009, thereof five members of the Board of Directors in both years.

**Other administrative expenses include the cost of audit services and other advisory services provided by the audit company:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Audit of statutory financial statements | 328 | 409 |
| Audit of group reporting | 328 | 409 |
| Other related services provided to the Group | 191 | 250 |
| **Total** | **847** | **1 068** |

## 11. OTHER OPERATING RESULT

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Revaluation of securities at fair value, net | (173) | 1 022 |
| Result on securities available-for-sale | 1 688 | (11 552) |
| Net gain from disposal of subsidiaries and associate | 695 | 2 969 |
| Income/Loss on investments in associates | 2 945 | (9 727) |
| Contribution to deposit protection fund | (13 096) | (13 390) |
| Other operating result, other | (9 610) | (26 352) |
| **Total other operating result** | **(17 551)** | **(57 030)** |

Loss on available-for-sale securities contains recycling of the revaluation reserve in amount of EUR 3.3 million related to sale and EUR 8.2 million related to impairment of these positions in 2009.

Net gain from disposal of subsidiaries and associates comprises of EUR 2.9 million profit on the sale of the Asset management Slovenskej Sporiteľne, a.s, to Erste Asset Management GmbH for cash consideration of EUR 7 million in February 2009. There was no similar significant transaction occurring in 2010.

**Income / (loss) from investments in associates:**

| Company | 2010 | 2009 |
|---|---|---|
| Prvá stavebná sporiteľňa, a.s. (PSS) | 3 347 | 2 918 |
| Erste Corporate Finance, a.s. | 137 | (177) |
| IT Solutions SK, spol. s r. o. | 113 | - |
| Czech and Slovak Property Fund B.V. | (668) | (12 541) |
| Other | 16 | 73 |
| **Total** | **2 945** | **(9 727)** |

The Group is legally obliged to make a contribution to the deposit protection fund of Slovakia calculated based on its customer deposit liabilities.

Year 2009 was influenced by the loss on a significant legal case amounting to EUR 14.3 million, with a net effect on 'Other operating result' of EUR 7 million (Note 29). Impairment provisions for inventory (apartment buildings) in amount of EUR 6.3 million and in EUR 4.5 million in 2010 and 2009 respectively, are also included in this position.

## 12. INCOME TAX EXPENSE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Current tax expense | (52 742) | (49 218) |
| Deferred tax income (Note 24) | 14 728 | 28 361 |
| **Total** | **(38 014)** | **(20 857)** |

**The actual tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Slovak Republic as follows:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | ths. EUR | % | ths. EUR | % |
| **Profit before tax** | **188 136** | | **51 362** | |
| | | | | |
| **Theoretical tax at income tax rate of 19%** | **35 746** | **19.0** | **9 759** | **19.0** |
| | | | | |
| Tax effect of expenses that are not deductible in determining taxable profit: | | | | |
| - Allocation of provisions | 3 861 | 2.1 | 15 185 | 29.6 |
| - Other | 3 027 | 1.6 | 6 656 | 13.0 |
| **Total tax effect of expenses that are not deductible in determining taxable profit** | **6 888** | **3.7** | **21 841** | **42.5** |
| | | | | |
| Tax effect of revenues that are deductible in determining taxable profit: | | | | |
| - Release of provisions | (2 226) | (1.2) | (7 434) | (14.5) |
| - Income from dividends | (557) | (0.3) | (433) | (0.8) |
| - Other | (2 625) | (1.4) | (3 643) | (7.1) |
| **Tax effect of revenues that are deductible in determining taxable profit** | **(5 408)** | **(2.9)** | **(11 511)** | **(22.4)** |
| Additional tax (income)/expense on interest income from securities | | | | |
| Tax loss current year non-valued | 21 | 0.0 | 375 | 0.7 |
| | 767 | 0.4 | 393 | 0.8 |
| **Tax expense and effective tax rate for the year** | **38 014** | **19.8** | **20 857** | **39.8** |

## 13. CASH AND BALANCES AT THE CENTRAL BANK

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Cash balances | 225 307 | 254 052 |
| Minimum reserve deposit with NBS | 110 049 | 68 885 |
| **Total** | **335 356** | **322 937** |

The minimum reserve deposit represents a mandatory deposit (bearing 1% interest as of 31 December 2010; 2009: 1.5%) calculated in accordance with regulations issued by the central bank (2% of certain Group's liabilities) with restricted withdrawal.

During the one month period that included the year end date, the Bank maintained, as required, an average reserve balance at the NBS of approximately EUR 196.2 million (31.12.2009: EUR 127.9 million).

## 14. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Loans and advances on demand (nostro accounts) | 4 470 | 10 399 |
| Placements with financial institutions | 1 249 016 | 1 187 357 |
| **Loans and advances to Financial institutions, gross** | **1 253 486** | **1 197 756** |
| Provisions for impairment (Note 16) | - | (1 150) |
| **Total** | **1 253 486** | **1 196 606** |

Repurchase agreements with Erste Group in the amount of EUR 655.6 million (2009: EUR 725.6 million) are collateralized by securities issued by financial institutions in the market value of EUR 814 million (2009: EUR 865.5 million). The nominal value was EUR 865 million and EUR 896.5 million in 2010 and 2009, respectively.

The recorded amounts represent the maximum exposure to credit risk.

## 15. LOANS AND ADVANCES TO CUSTOMERS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Corporate clients | 2 099 887 | 2 553 766 |
| Syndicated loans | 376 696 | 464 937 |
| Overdrafts | 343 367 | 449 892 |
| Direct provided loans | 1 276 371 | 1 470 763 |
| Finance leasing | 67 705 | 122 369 |
| Factoring | 35 748 | 45 805 |
| Retail clients | 3 907 898 | 3 440 026 |
| Mortgage loans | 2 846 515 | 2 431 390 |
| Consumer loans | 904 650 | 812 381 |
| Social loans | 14 018 | 21 232 |
| Overdrafts | 137 345 | 165 529 |
| Finance leasing | 5 370 | 9 493 |
| Public sector | 67 074 | 56 356 |
| **Loans and advances to Customers, gross** | **6 074 859** | **6 050 148** |
| Loan loss provision (Note 16) | (394 240) | (313 539) |
| **Total** | **5 680 619** | **5 736 555** |

As at 31 December 2010 the 15 largest customers accounted for 9.0% of the gross loan portfolio were in the amount of EUR 550 million (2009: 12.0%. EUR 687 million).

### Mandate loans

As of 31 December 2010, the Group cooperated with six external outsourcing companies. Under mandate contracts the management and administration of certain non-performing receivables is outsourced. The Group maintains the risks and rewards associated with the underlying exposures and shares part of recoveries with the external service providers. Total outsourced gross loans amounted to EUR 63.6 million as of 31 December 2010 (2009: EUR 99 million).

### Write off and sale of receivables

In 2010, the Group sold a total of EUR 44.3 million of loan receivables (2009: EUR 43.8 million) for a consideration of EUR 11.7 million (2009: EUR 9.8 million), and used corresponding provisions of EUR 38.2 million (2009: EUR 33.5 million).

The Group has also written off loans with a carrying amount of EUR 14.1 million that were almost fully provided (2009: EUR 13.2 million).

### Finance leases

Loans and advances to customers also include net investments in finance leases. The principal assets held under lease arrangements include cars and other technical equipment.

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Gross investment in finance leases** | **80 821** | **147 833** |
| Thereof: | | |
| - Less than 1 year | 41 932 | 61 499 |
| - From 1 year to 5 years | 33 297 | 75 209 |
| - Over 5 years | 5 592 | 11 125 |
| **Unearned income** | **7 746** | **15 971** |
| **Net investment in finance leases** | **73 075** | **131 862** |
| Thereof: | | |
| - Less than 1 year | 38 701 | 54 836 |
| - From 1 year to 5 years | 30 454 | 68 684 |
| - Over 5 years | 3 920 | 8 342 |

## 16. PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

| ths. EUR | 2010 | | |
|---|---|---|---|
| | Loans and advances to financial institutions | Loans and advances to customers | Total |
| As at 1 January | 1 500 | 313 243 | 314 743 |
| Net allocation of provisions (excluding effect of unwind) | (1 500) | 126 301 | 124 801 |
| Use of provisions due to sale and write-off of receivables and other adjustments | - | (43 239) | (43 239) |
| Unwinding of discount on provisions | - | (2 065) | (2 065) |
| **As at 31 December** | **-** | **394 240** | **394 240** |

| ths. EUR | 2009 | | |
|---|---|---|---|
| | Loans and advances to financial institutions | Loans and advances to customers | Total |
| As at 1 January | - | 222 176 | 222 176 |
| Net allocation / (release) of provisions (excluding effect of unwind) | 1 150 | 155 952 | 157 102 |
| Use of provisions due to sale and write-off of receivables and other adjustments | - | (57 249) | (57 249) |
| Unwinding of discount on provisions | - | (7 286) | (7 286) |
| **As at 31 December** | **1 150** | **313 593** | **314 743** |

Use of provisions results mainly from write off and the sale of impaired receivables, see Note 15.

Unwinding represents the decrease in the impairment provisions, resulting from the unwinding of the cash flow discounting due to passage of time.



## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Trading assets** | | |
| Debt securities and other fixed income securities – listed | 19 880 | - |
| Financial derivatives with positive fair value (Note 43b) | 51 489 | 53 511 |
| Interest Rate Agreements | 43 390 | 43 376 |
| Exchange Rate Agreements | 5 975 | 8 403 |
| Other | 2 124 | 1 732 |
| | 71 369 | 53 511 |
| **Assets classified at fair value at acquisition** | | |
| Credit investments | 7 935 | 7 855 |
| Debt securities and participation certificates | 35 876 | 66 392 |
| | 43 811 | 74 247 |
| **Total** | **115 180** | **127 758** |

The amounts represent the maximum exposure to credit risk.

Financial assets are designated at fair value portfolio based on the intention to manage these on the fair value basis.

With effect from 4 February 2008, the Group has adopted a new business model of financial markets trading in cooperation with Erste Group Bank. Erste Group Bank has started to conduct all trading operations on a central trading book in order to better manage market risks from the group trading activities (i.e., transactions with retail, corporate and other institutional clients) with the exception of the equity risk trading and transactions for the Group's liquidity management purposes.

Trading gains (i.e, from Erste Group Bank's market positions) are distributed according to approved rules based on the financial results back to the Group's local banks and reported in the 'Net trading result'. The basic principle underlying these rules involves Erste Group Bank absorbing potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. Included in the new business model of financial markets trading is a reallocation of the trading costs for individual participating Erste Group Bank subsidiaries based on the Group's Cost Income Ratio.

### Credit Linked Investments

The 'Fair Value through Profit and Loss' portfolio includes credit investments in the amount of EUR 7.9 million as at 31 December 2010 (2009: EUR 7.8 million). As of 31 December 2010, these investments comprise credit linked notes (2009: credit linked notes).

As of 31 December 2010 and 2009, fair values of credit linked investments held by the Group were determined with reference to third party quotations. Where available, these quotations were tested by reference to the quoted market prices.

The Group believes that the prices of asset backed securities used as of 31 December 2010 and 2009 are prudent and reasonable and represent the best possible estimate of the fair value of these financial instruments.

| Type of instrument | Rating range | Carrying amount 2010 | Carrying amount 2009 | Notional amount 2010 | Notional amount 2009 |
|---|---|---|---|---|---|
| Collateralized debt obligations | C | 10 | 3 | 935 | 690 |
| Credit linked notes | A | 7 925 | 7 852 | 8 000 | 8 000 |
| **Total** | | **7 935** | **7 855** | **8 935** | **8 689** |

**Debt securities and participation certificates:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| State institutions in Slovak Republic | 6 599 | 8 831 |
| Financial institutions in the Slovak Republic | 10 299 | 12 127 |
| Foreign state institutions | 9 695 | 29 705 |
| Foreign financial institutions | 1 720 | 8 392 |
| Other entities in the Slovak Republic | 1 169 | 1 135 |
| Other foreign entities | 6 394 | 6 202 |
| **Total** | **35 876** | **66 392** |

## 18. SECURITIES AVAILABLE FOR SALE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Debt securities and other fixed income securities – listed | 880 021 | 1 106 764 |
| Managed Funds | 16 337 | 22 512 |
| **Debt and other fixed income securities** | 896 358 | 1 129 276 |
| Equity securities – shares | 6 274 | 8 367 |
| Listed | 3 826 | 4 121 |
| Unlisted | 2 448 | 4 246 |
| **Net amount** | **902 632** | **1 137 643** |

Managed funds are investments in funds managed by third party fund managers who invests an administrated amount into different asset classes (fixed income assets, asset backed securities, funds, etc.) in accordance with prearranged regulations. In its portfolio, the Group has managed funds invested through the purchase of bonds and managed funds invested through the purchase of the participating interest.

The maximum exposure to credit risk is represented by carrying amounts.

As at 31 December 2010, the securities included in the available for sale portfolio placed as collateral for collateralized lending trades include state bonds with a nominal value amounting to EUR 298 million (2009: EUR 0 million). Corporate bonds in the amount of EUR 2.6 million (2009: EUR 2.6 million) are fully guaranteed by the State in the same volume.

**Debt securities and other fixed income securities at fair value by type of issuer comprise:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| State institutions in Slovak Republic | 658 065 | 898 186 |
| Financial institutions in the Slovak Republic | 43 265 | 39 643 |
| Foreign state institutions | 50 583 | 45 988 |
| Foreign financial institutions | 119 325 | 124 752 |
| Other entities in the Slovak Republic | 25 120 | 20 707 |
| **Other foreign entities** | **896 358** | **1 129 276** |

### Fair value hedge

The Group has in its portfolio as at 31 December 2010 fixed rate EUR denominated bonds with face value of EUR 91 million (2009: EUR 50 million). As the purchase of the bonds increased the exposure to interest rate risk in the period from five to ten years, the Group entered into an interest rate swap in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates. Notional and fair value of the aforementioned hedging derivative is reported in note 43b.

During the period, hedges were effective in hedging the fair value exposure to interest rate movements. For the year ended 31 December 2010, the Group recognised a net loss of EUR 2.2 million (2009: loss of EUR 0.73 million), representing the loss on the hedging instruments. The total gain on hedged item attributable to the hedged risk amounted to a gain of EUR 2.48 million (2009: gain of EUR 0.474 million).

## 19. SECURITIES HELD TO MATURITY

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Debt securities and other fixed income securities - listed | 2 285 263 | 2 420 060 |
| **Total** | **2 285 263** | **2 420 060** |

The amounts represent the maximum exposure to credit risk.

**Debt securities and other fixed income securities at carrying value by type of issuer comprise:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| State institutions in the Slovak Republic | 2 099 259 | 2 222 692 |
| Financial institutions in the Slovak Republic | 27 122 | 43 962 |
| Foreign state institutions | 57 572 | 55 384 |
| Foreign financial institutions | 48 562 | 46 812 |
| Other entities in the Slovak Republic | 23 589 | 23 586 |
| Other foreign entities | 29 159 | 27 624 |
| **Total** | **2 285 263** | **2 420 060** |

As at 31 December 2010, the securities included in the held to maturity portfolio placed as collateral for collateralized lending trades include state bonds with a nominal value amounting to EUR 1 952 million (2009: EUR 1 533 million). Additionally, corporate bonds in the amount of EUR 28 million (2009: EUR 27 million) are placed as collateral.

## 20. INVESTMENTS IN ASSOCIATES

| Name of the company | Registered office | Principal activity | Bank interest 2010 | Bank voting rights 2010 |
|---|---|---|---|---|
| Prvá stavebná sporiteľňa, a.s. | Bajkalská 30<br>829 48 Bratislava,<br>Slovak Republic | Banking | 9.98% | 35.00% |
| Slovak Banking Credit Bureau, s.r.o. | Malý trh 2/A<br>811 08 Bratislava,<br>Slovak Republic | Retail credit register | 33.33% | 33.33% |
| Erste Corporate Finance, a.s. | Evropská 2690/17<br>160 00 Prague 6,<br>Czech Republic | Financial and legal advisory | 25.00% | 25.00% |
| s IT Solutions SK, spol. s r.o. | Prievozská 14<br>821 09 Bratislava,<br>Slovak Republic | Software company | 23.50% | 23.50% |
| Czech and Slovak Property Fund B.V. | Fred. Roeskestraat 123,<br>Amsterdam,<br>The Netherlands | Real estate fund | 10.00% | 10.00% |

**2010**

| ths. EUR | Interest held (%) | Voting power held (%) | Net book value | Total assets | Total equity | Total Income | Total expense |
|---|---|---|---|---|---|---|---|
| Prvá stavebná sporiteľňa, a.s. | 9.98% | 35.00% | 25 625 | 2 070 081 | 254 554 | 132 045 | 93 363 |
| Slovak Banking Credit Bureau, s.r.o. | 33.33% | 33.33% | 38 | 117 | 114 | 888 | 861 |
| Erste Corporate Finance, a.s. | 25.00% | 25.00% | 510 | 2 506 | 2 147 | 1 524 | 1 955 |
| s IT Solutions SK, spol. s r.o. | 23.50% | 23.50% | 2 409 | 55 908 | 47 983 | 8 297 | 11 634 |
| Czech and Slovak Property Fund B.V. | 10.00% | 10.00% | - | 315 211 | (3 984) | 37 108 | 42 820 |
| **Total** | | | **28 582** | **2 443 823** | **300 814** | **179 862** | **150 633** |

**2009**

| ths. EUR | Interest held (%) | Voting power held (%) | Net book value | Total assets | Total equity | Total Income | Total expense |
|---|---|---|---|---|---|---|---|
| 3on private equity, a.s. | 35.29% | 35.29% | 269 | 835 | 760 | 742 | 583 |
| Prvá stavebná sporiteľňa, a.s. | 9.98% | 35.00% | 25 239 | 1 999 750 | 252 900 | 138 005 | 110 075 |
| Slovak Banking Credit Bureau, s.r.o. | 33.33% | 33.33% | 35 | 114 | 106 | 806 | 775 |
| Erste Corporate Finance, a.s. | 25.00% | 25.00% | 373 | 1 765 | 1 492 | 2 418 | 3 164 |
| s IT Solutions SK, spol, s r.o. | 23.50% | 23.50% | 2 409 | 48 221 | 4 632 | 30 629 | 30 005 |
| Czech and Slovak Property Fund, B.V. | 10.00% | 10.00% | - | 311 210 | 603 | 17 462 | 39 434 |
| **Total** | | | **28 325** | **2 361 895** | **260 492** | **190 062** | **184 036** |

During 2010, the Group received dividends from associates in the amount of EUR 3.1 million (2009: EUR 2.9 million).

In 2010 and 2009, on the basis of significant deterioration in the fair values of the real estate investments in the Czech and Slovak Property Fund, B.V., the Group valued its investment in carrying value of EUR 0.

## 21. INTANGIBLE ASSETS

| ths. EUR | Software | Other intangible assets | Assets not yet put in service | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **1 January 2010** | **180 696** | **8 465** | **42 540** | **231 701** |
| Additions | 40 | 2 | 10 096 | 10 138 |
| Disposals | (243) | (5 598) | - | (5 841) |
| Transfers | 3 467 | 196 | (3 663) | - |
| **31 December 2010** | **183 960** | **3 065** | **48 973** | **235 998** |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| **1 January 2010** | **(144 144)** | **(7 795)** | **-** | **(151 939)** |
| Amortisation | (25 052) | (279) | - | (25 331) |
| Disposals | 63 | 5 773 | - | 5 836 |
| Provision for impairment | (1 239) | - | - | (1 239) |
| **31 December 2010** | **(170 372)** | **(2 301)** | **-** | **(172 673)** |
| **Net book value** | | | | |
| **31 December 2009** | **36 551** | **671** | **42 540** | **79 762** |
| **31 December 2010** | **13 587** | **765** | **48 973** | **63 325** |

Assets not yet put in service include the cost of a bank system development project in the amount of EUR 40.2 million as at 31 December 2010 (2009 : EUR 34 million). The total cost of the system is estimated at EUR 117 million and its putting into use is expected in 2011.

The Group capitalizes borrowing costs related to these assets, based on the outstanding financed value and 5 year moving average bank refinancing rate. Capitalized borrowing costs amount to EUR 4 755 thousand in 2010 (2009: EUR 3 479 thousand).

The original cost of fully amortized intangible assets that are still in use by the Group amounts to EUR 128.2 million (2009: EUR 93.2 million).

| ths. EUR | Software | Other intangible assets | Assets not yet put in service | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **1 January 2009** | **169 486** | **8 209** | **56 629** | **234 324** |
| Additions | 25 | - | 30 216 | 30 241 |
| Disposals | (458) | (39) | (32 369) | (32 866) |
| Transfers | 11 643 | 295 | (11 936) | 2 |
| **31 December 2009** | **180 696** | **8 465** | **42 540** | **231 701** |
| **Accumulated amortisation and impairment** | | | | |
| **1 January 2009** | **(116 568)** | **(7 557)** | **-** | **(124 125)** |
| Amortisation | (27 814) | (287) | - | (28 101) |
| Disposals | 238 | 49 | - | 287 |
| **Transfers** | **-** | **-** | **-** | **-** |
| **31 December 2009** | **(144 144)** | **(7 795)** | **-** | **(151 939)** |
| **Net book value** | | | | |
| **31 December 2008** | **52 917** | **653** | **56 629** | **110 199** |
| **31 December 2009** | **36 551** | **671** | **42 540** | **79 762** |

## 22. PROPERTY, EQUIPMENT AND ASSETS HELD FOR RENTAL INCOME

| ths. EUR | Land and buildings | Equipment fixtu-res and fittings | Motor vehicles | Assets not yet put in service | Total property and equipment | In-vestment property | Other movable properties held for ren-tal income |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **1 January 2010** | **239 212** | **178 573** | **8 438** | **2 924** | **429 147** | **6 697** | **4 385** |
| Additions | 163 | 1 569 | 962 | 12 705 | 15 399 | - | 616 |
| Disposals | (1 183) | (33 300) | (1 393) | (14) | (35 890) | - | (1 970) |
| Transfers | (12 666) | 7 121 | 250 | (11 977) | (17 272) | 38 | (86) |
| **31 December 2010** | **225 526** | **153 963** | **8 258** | **3 638** | **391 385** | **6 735** | **2 944** |
| | | | | | | | |
| **Accumulated depreciation and impairment** | | | | | | | |
| **1 January 2010** | **(48 759)** | **(151 829)** | **(3 699)** | **-** | **(204 287)** | **(2 738)** | **(1 863)** |
| Depreciation | (9 370) | (10 933) | (627) | - | (20 930) | (206) | (622) |
| Disposals | 435 | 32 775 | 1 482 | 14 | 34 706 | - | 809 |
| Provisions for impairment | (349) | - | - | - | (349) | (221) | 23 |
| Transfers | 9 222 | - | (61) | - | 9 161 | (115) | 62 |
| **31 December 2010** | **(48 821)** | **(129 988)** | **(2 907)** | **14** | **(181 702)** | **(3 280)** | **(1 590)** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **31 December 2009** | **190 453** | **26 743** | **4 739** | **2 924** | **224 860** | **3 959** | **2 522** |
| **31 December 2010** | **176 705** | **23 975** | **5 350** | **3 652** | **209 683** | **3 455** | **1 354** |

The original cost of property and equipment that is fully depreciated but still in use by the Group amounts to EUR 103.6 million (2009: EUR 121.8 million).

The Group has assessed the impairment of assets (buildings) that were unused or rented to other parties. Based on the estimated recoverable amounts the Group recorded total of EUR 221 thousand of impairment provisions into 'Other operating result' as of 31 December 2010 (2009: release of EUR 347 thousand). Provisions for impairment amount to EUR 539 thousand as of 31 December 2010 (2009: EUR 317 thousand).

Transfers also represent reclassification to Non-Current assets held for sale.



| ths. EUR | Land and buildings | Equipment fixtu-res and fittings | Motor vehicles | Assets not yet put in service | Total property and equipment | In-vestment property | Other movable properties held for ren-tal income |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **1 January 2009** | **224 496** | **185 587** | **6 539** | **20 580** | **437 202** | **11 994** | **3 884** |
| Additions | 151 | 910 | 125 | 11 012 | 12 198 | - | 1 443 |
| Disposals | (1 868) | (15 859) | (1 852) | (23) | (19 602) | (595) | (959) |
| Transfers | 16 433 | 7 935 | 3 627 | (28 645) | (650) | (4 656) | (25) |
| **31 December 2009** | **239 212** | **178 573** | **8 439** | **2 924** | **429 148** | **6 743** | **4 343** |
| | | | | | | | |
| **Accumulated depreciation and impairment** | | | | | | | |
| **1 January 2009** | **(40 530)** | **(153 953)** | **(3 286)** | **-** | **(197 754)** | **(3 585)** | **(1 195)** |
| Depreciation | (9 186) | (12 675) | (1 319) | - | (23 179) | (257) | (664) |
| Disposals | 151 | 15 703 | 1 101 | - | 16 955 | 87 | 396 |
| Provisions for impairment | - | - | - | - | - | - | (364) |
| Transfers | 806 | (904) | (195) | - | (293) | 971 | 13 |
| **31 December 2009** | **(48 759)** | **(151 829)** | **(3 699)** | **-** | **(204 271)** | **(2 784)** | **(1 814)** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **31 December 2008** | **183 966** | **31 634** | **3 253** | **20 580** | **239 433** | **8 409** | **2 689** |
| **31 December 2009** | **190 453** | **26 744** | **4 740** | **2 924** | **224 877** | **3 959** | **2 529** |

### Operating leases

The Group enters into operating leasing arrangements for motor vehicles, technology, and premises used for banking operations as lessee.

**The following table summarizes future minimum lease payments under non-cancellable operating leases:**

| Outstanding commitments from operating leases | 2010 | 2009 |
|---|---|---|
| Payable in period: | | |
| - Less than 1 year | 240 | 1 769 |
| - From 1 year to 5 years | 984 | 486 |
| - Over 5 years | 299 | - |
| Operating leasing payments recognised as expense in the period | 1 329 | 1 246 |

### Investment property

The Group owns buildings rented to other parties with a total net book value of EUR 3.5 million (net of impairment. EUR 539 thousand) as at 31 December 2010 (2009: EUR 4 million net of impairment of EUR 317 thousand) and movable properties held for rental income at net book value of EUR 1.3 million as at 31 December 2010 (2009: EUR 2.5 million).The total rental income earned by the Group amounted to EUR 561 thousand (2009: EUR 833 thousand) and is presented as 'Interest income'. The depreciation of assets held for rental income is presented under 'Interest income' and amounted to EUR 827 thousand (2009: EUR 664 thousand).

The estimated fair value of investment property as at 31 December 2010 was EUR 4.1 million (2009: EUR 4 million). The Group uses its own model for determining the fair value of investment property, which is based on discounting future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location.

### Insurance coverage

The Group's insurance covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism, and other damages).

## 23. NON-CURRENT ASSETS HELD FOR SALE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **As at 1 January** | **31 793** | **29 376** |
| | | |
| Additions: | | |
| Acquisitions | 3 | 704 |
| Reclassification from Property and Equipment | 8 212 | 31 852 |
| Revaluation | - | 69 |
| **Total additions** | **8 215** | **32 625** |
| | | |
| Disposals: | | |
| Sales | (952) | (1 364) |
| Reclassification to Property and Equipment | - | (28 906) |
| Provision for impairment | (1 143) | 62 |
| **Total disposals** | **(2 095)** | **(30 208)** |
| | | |
| **As at 31 December** | **37 913** | **31 793** |

The Group intends to dispose of selected items of property within 12 months after classification to portfolio of Non-Current Assets Held for Sale. The Group is actively searching for a buyer.

The Group has used judgments in the valuation of particular components of fixed assets to reflect recoverable amount. This is related to own land and buildings, property held for sale, and software.

## 24. INCOME TAX ASSETS AND LIABILITIES

**The structure of the tax position as at 31 December 2010 and 31 December 2009 was as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Deferred income tax assets | 70 799 | 55 340 |
| Current Income tax assets | 281 | 24 088 |
| **Total income tax assets** | **71 080** | **79 428** |
| Deferred income tax liability | 191 | 87 |
| Current income tax liability | 11 364 | 316 |
| **Total income tax liabilities** | **11 555** | **403** |

| Deferred tax booked | directly to equity | | to Income statement | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ths. EUR | Securities available for sale | Cash flow hedges | Provisions for losses on loans and advances | Securities | Intangible assets | Property and equipment | Provisions | Associates and other investments | Tax loss carried forward | Other | Total |
| **31 December 2008** | **3 517** | **(82)** | **23 042** | **597** | **1 666** | **(4 879)** | **1 095** | **1 261** | **398** | **3 502** | **30 118** |
| Charge/(credit) to equity for the year | (432) | (25) | - | - | - | - | - | - | - | - | (457) |
| Charge/(credit) to Income statement for the year | - | - | 29 996 | (611) | (1 086) | (391) | 389 | 1 070 | (485) | (475) | 28 407 |
| Recycled from equity to Income statement | (2 908) | 93 | - | - | - | - | - | - | - | - | (2 815) |
| **31 December 2009** | **177** | **(14)** | **53 038** | **(13)** | **580** | **(5 271)** | **1 484** | **2 331** | **(87)** | **3 028** | **55 253** |
| Charge/(credit) to equity for the year | 1 275 | (95) | - | - | - | - | - | - | - | - | 1 180 |
| Charge/(credit) to Income statement for the year | - | - | 14 199 | 309 | (965) | 588 | 1 377 | (1 467) | 281 | 405 | 14 727 |
| Recycled from equity to Income statement | (645) | 93 | - | - | - | - | - | - | - | - | (552) |
| **31 December 2010** | **807** | **(16)** | **67 237** | **296** | **(385)** | **(4 683)** | **2 861** | **864** | **194** | **3 433** | **70 608** |

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy.

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

## 25. OTHER ASSETS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Customers, advances, reinvoiced amounts and prepayments | 9 370 | 41 235 |
| Payment cards and cheques | 4 529 | 5 222 |
| Accounting hedging | 11 606 | 6 955 |
| Accruals | - | 176 |
| Material and inventories | 1 146 | 34 036 |
| Other | 13 290 | 5 643 |
| **Total** | **39 941** | **93 267** |

In 2009. Customers, advances, reinvoiced amounts and prepayments comprised mainly a receivable from s IT solutions SK related to the sold software amounting to EUR 33 million.

## 26. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Amounts owed on demand | 40 615 | 100 844 |
| Repo trades with debt securities | 808 232 | 1 293 569 |
| Term deposits and clearing | 316 116 | 680 266 |
| **Total** | **1 164 963** | **2 074 679** |

The liabilities at 31 December 2010 in the amount of EUR 808 million (2009: EUR 1 294 million) from repo trade are collateralised by State bonds and treasury bills in the amount of EUR 780 million (2009: EUR 1 267 million) and by corporate bonds in the amount of EUR 28 million (2009: EUR 27 million).

## 27. AMOUNTS OWED TO CUSTOMERS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Amounts owed on demand | 3 195 777 | 3 056 013 |
| Savings deposits | 537 442 | 480 800 |
| Term deposits | 4 425 240 | 4 264 983 |
| **Total** | **8 158 459** | **7 801 796** |

Savings deposits are deposits with a defined period of notice, term deposits have a defined maturity date. Savings deposits usually remain in place for a long-term period.

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Savings deposits | 537 442 | 480 800 |
| Term deposits and amounts owed on demand: | | |
| Corporate clients | 1 486 349 | 1 504 841 |
| Retail clients | 5 600 014 | 5 533 622 |
| Public sector | 405 747 | 151 760 |
| Other | 128 907 | 130 773 |
| **Total** | **8 158 459** | **7 801 796** |

As at 31 December 2010 and 31 December 2009, no amounts owed to clients were collateralised by securities.

As at 31 December 2010 amounts owed to customers includes special guaranteed deposits in the amount of EUR 142 million (2009: EUR 164 million). These contracts include embedded currency, commodity and equity derivatives in the amount of EUR 5.9 million (2009: EUR 6.2 million) which were separated and disclosed under 'Financial assets at fair value through profit or loss' and 'Financial liabilities at fair value through profit or loss'.

## 28. DEBT SECURITIES IN ISSUE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Bonds in issue | 382 262 | 451 464 |
| Bonds in issue - Guaranteed deposit | 12 937 | 23 795 |
| Short term debt securities | - | 1 |
| **Total** | **395 199** | **475 260** |

**Bonds in issue are presented in the following table:**

| | Date of issue | Maturity date | Actual interest rate | Nominal value 2010 ths. EUR | Nominal value 2009 |
|---|---|---|---|---|---|
| Mortgage bonds | August 2003 | August 2010 | 4.65% | - | ths. EUR |
| Mortgage bonds | August 2004 | August 2010 | 4.40% | - | 16 597 |
| Mortgage bonds | March 2006 | March 2016 | 6M BRIBOR +0.09% | 16 597 | 16 597 |
| Other bonds | June 2006 | June 2010 | 3M BRIBOR + 0.15% | - | 16 597 |
| Other bonds | November 2006 | November 2010 | 6M BRIBOR +0.15% | - | 19 916 |
| Other bonds | June 2007 | June 2010 | 6M BRIBOR+0.04% | - | 62 537 |
| Other bonds | June 2007 | June 2011 | FIX -4.48% | 13 278 | 13 278 |
| Mortgage bonds | July 2007 | July 2027 | 4.95% | 16 597 | 16 597 |
| Mortgage bonds | September 2007 | September 2012 | 6M BRIBOR+0.02% | 19 916 | 19 916 |
| Other bonds | March 2008 | March 2013 | 3M BRIBOR + 0.32% | 2 324 | 2 324 |
| Mortgage bonds | April 2008 | April 2012 | 6M BRIBOR +0.10% | 6 639 | 6 639 |
| Mortgage bonds | April 2008 | April 2021 | 5.00% | 16 597 | 16 597 |
| Other bonds | May 2008 | May 2012 | 4.52% | 3 651 | 3 651 |
| Mortgage bonds | July 2008 | July 2010 | 5.30% | - | 44 812 |
| Mortgage bonds | July 2008 | July 2011 | 6M BRIBOR+0.20% | 14 273 | 14 273 |
| Mortgage bonds | September 2008 | September 2010 | 5.00% | - | 5 089 |
| Mortgage bonds | September 2008 | September 2010 | 5.00% | - | 9 726 |
| Mortgage bonds | October 2008 | October 2010 | 5.00% | - | 8 215 |
| Mortgage bonds | October 2008 | April 2011 | 6M BRIBOR+0.40% | 8 166 | 8 299 |
| Mortgage bonds | February 2009 | February 2011 | 2.70% | 3 640 | 3 650 |
| Other bonds | March 2009 | March 2011 | 3M EURIBOR+0.80% | 2 000 | 2 000 |
| Other bonds | April 2009 | April 2011 | 2.70% | 9 755 | 9 931 |
| Other bonds | May 2009 | May 2013 | 3M EURIBOR | 4 900 | 4 950 |
| Other bonds | May 2009 | May 2012 | 3.25% | 14 632 | 14 840 |
| Mortgage bonds | July 2009 | January 2013 | 3.50% | 9 781 | 9 970 |
| Mortgage bonds | August 2009 | August 2011 | 3M EURIBOR+1.15% | 10 000 | 10 000 |
| Mortgage bonds | August 2009 | August 2013 | 3.60% | 9 740 | 9 945 |
| Mortgage bonds | August 2009 | August 2013 | 3.60% | 9 741 | 9 913 |
| Mortgage bonds | October 2010 | October 2013 | 3.03% | 12 099 | 12 258 |
| Mortgage bonds | November 2009 | November 2011 | 3M EURIBOR+0.64 | 25 000 | 25 000 |
| Mortgage bonds | December 2009 | December 2013 | 3.50% | 14 867 | 15 000 |
| Mortgage bonds | December 2009 | December 2013 | 3.50% | 5 000 | 5 000 |
| Mortgage bonds | January 2010 | January 2014 | 3.50% | 5 994 | - |
| Mortgage bonds | February 2010 | February 2015 | 3.62% | 2 095 | - |
| Mortgage bonds | March 2010 | March 2014 | 3.30% | 10 697 | - |
| Mortgage bonds | March 2010 | March 2015 | 6M EURIBOR+0.95% | 20 000 | - |
| Mortgage bonds | April 2010 | April 2015 | 3.50% | 9 759 | - |
| Mortgage bonds | May 2010 | May 2014 | 2.80% | 7 749 | - |
| Mortgage bonds | July 2010 | July 2015 | 3.10% | 15 000 | - |
| Mortgage bonds | July 2010 | July 2015 | 6M EURIBOR+1.00% | 10 000 | - |
| Mortgage bonds | August 2010 | August 2015 | 3.09% | 17 000 | - |
| Mortgage bonds | September 2010 | September 2014 | 2.80% | 9 975 | - |
| Mortgage bonds | October 2010 | October 2014 | 2.35% | 9 960 | - |
| Mortgage bonds | November 2010 | November 2015 | 2.65% | 9 998 | - |
| Other bonds | December 2010 | December 2015 | 2.76% | 2 905 | - |
| **Total nominal value** | | | | **380 325** | **450 714** |
| Accrued interest | | | | 3 576 | 4 322 |
| **Net debt securities in issue** | | | | **383 901** | **455 036** |
| less bonds held by the Group | | | | (1 639) | (3 572) |
| **Total** | | | | **382 262** | **451 464** |

All bonds shown above are listed and traded on the Bratislava Stock Exchange ('BSE').

As at 31 December 2010, debt securities in issue include embedded commodity derivatives and shares in the amount of EUR 363 thousand (2009: EUR 657 thousand) which were separated and are disclosed under "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss".

The Group set up a fair value hedge in July 2007 to hedge issued mortgage bonds in the amount of EUR 16.6 million (former SKK 500 million) with a fixed rate. To protect against interest rate risk, the Group entered into an interest rate swap.

The notional and fair value of the aforementioned hedging derivative is reported in Note 43b.

During the period, the hedge was effective in the hedging of fair value exposure to interest rate movements. For the year ended 31 December 2010, the Group recognized a net gain of EUR 726 thousand (2009: loss of EUR 221 thousand), representing the gain on the hedging instruments. The total loss on hedged items attributable to hedged risk amounted to loss EUR 774 thousand (2009: gain of EUR 238 thousand).

## 29. PROVISIONS

| ths. EUR | 2009 | Additions | Use | Reversals | 2010 |
|---|---|---|---|---|---|
| Provision for off-balance sheet items | 6 530 | 5 436 | - | (957) | 11 009 |
| Interest bearing deposit products | 906 | 299 | (906) | - | 299 |
| Legal cases | 9 265 | 3 713 | (1 522) | (2 426) | 9 030 |
| Employee benefit provisions | 2 758 | 1 156 | (195) | (435) | 3 284 |
| Supplementary pension fund | 3 434 | - | - | (3 434) | - |
| **Total** | **22 893** | **10 604** | **(2 623)** | **(7 252)** | **23 622** |

### (a) Provision for off-balance sheet and other risks

The provisions for credit risk of off-balance sheet items have been created to cover estimated losses present in the balances of unused loan commitments, guarantees, and letters of credits accounted for off-balance sheet.

### (b) Provisions for interest-bearing products

Provision has been made for prize-saving books for the amount of the estimated probable awards attributed to the holders.

### (c) Provision for legal cases

The Group conducted a review of legal proceedings outstanding against it as at 31 December 2010. These matters have arisen from normal banking activities. According to the updated status of these matters in terms of the risk of losses and the amounts claimed, the Group has increased provision for these legal cases by EUR 1.3 million for existing cases. The Group settled certain cases and used the related provision of EUR 1.5 million.

The net release (see also Note 11) in the provisions for legal cases of EUR 0.2 million is reported under 'Other operating result' in the Income Statement (2009: EUR 5.1 million).

### (d) Long – term employee benefits provisions

The Group has a defined benefit program, under which employees are entitled to a lump-sum payment upon taking retirement or a working jubilee. As at 31 December 2010 there were 4 022 employees at the Group covered by this program (2009: 4 614 employees).

During the year ending 31 December 2010, the actuarial calculation based on the projected unit credit method was performed resulting in the final employee benefit obligation in the amount of EUR 3 284 thousand (2009: EUR 2 758 thousand).

**The amounts recognised in the balance sheet and Income Statement as at 31 December 2010 are as follows:**

| ths. EUR | Pension provisions | Jubilee provisions | Total long-term provisions |
|---|---|---|---|
| **Long-term employee provisions at 31 December 2008** | **1 560** | **1 198** | **2 758** |
| Service costs | 111 | 188 | 299 |
| Interest costs | 73 | 58 | 131 |
| Payments | (154) | (162) | (316) |
| Actuarial losses | (157) | 43 | (114) |
| **Long-term employee provisions at 31 December 2009** | **1 433** | **1 325** | **2 758** |
| Service costs | 90 | 949 | 1 039 |
| Interest costs | 60 | 57 | 117 |
| Payments | (27) | (168) | (195) |
| Actuarial (gains) | (273) | (162) | (435) |
| **Long-term employee provisions at 31 December 2010** | **1 283** | **2 001** | **3 284** |

### Key assumptions used in actuarial valuation:

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

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Real annual discount rate | 3.13% | 4.27% |
| Annual future real rate of salary increases | 0.00% | 0.00% |
| Annual employee turnover | 0.00% - 13.08% | 0.00% - 8.14% |
| Retirement age | 62 rokov | 62 rokov |

## 30. OTHER LIABILITIES

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Other short-term payables to customers related to money transfer | 27 034 | 28 982 |
| Accruals for general administrative expenses | 36 628 | 27 635 |
| Various creditors | 22 556 | 26 141 |
| Accounting hedging | 11 730 | 8 649 |
| **Total** | **97 948** | **91 407** |

**Summary of the social fund liability included in ‘Other liabilities’ - various creditors is as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| As at 1 January | 383 | 469 |
| Additions | 3 011 | 1 700 |
| Drawings | (2 213) | (1 785) |
| **As at 31 December** | **1 181** | **383** |

## 31. SUBORDINATED DEBT

With the ultimate objective to strengthen the Group’s own funds, the Group entered into subordinated loan contracts with its parent company Erste Group Bank on 21 December 2006 and 26 August 2008. Based on the first contract, the Group drew EUR 100 million subordinated loan in February 2007 with a repayment date of 21 December 2016, with floating interest rate based on selected 3M or 6M EURIBOR. Based on the second contract, the Group drew EUR 80 million subordinated loan in August 2008 with a maturity five years and floating interest rate 3M EURIBOR.

In June 2010 the Group issued its first subordinated bond in the amount of EUR 5 million with a maturity of five years and a fixed rate 3.8% p.a.

In August 2010 the Group issued second subordinated bond in the amount of EUR 10 million with a maturity ten years. The bond includes an embedded derivative which was separated and disclosed under “Financial liabilities at fair value through profit or loss”. The Fair value of the derivative as of December 31. 2010 is close to zero. The minimum yield is 43% of nominal amount payable at maturity date; the maximum yield is 59% of nominal amount.

Subordinated debt ranks behind other liabilities in the case of financial difficulties of the Group.

## 32. EQUITY

### Share capital

**Authorised, called-up and fully paid share capital consists of the following:**

| Nominal value | Number of shares | 2010 ths. EUR | Number of shares | 2009 ths. EUR |
|---|---|---|---|---|
| EUR 1,000 each | 212 000 | 212 000 | 212 000 | 212 000 |
| **Total** | | **212 000** | | **212 000** |

Voting rights and rights to receive dividends are attributed to each class of share pro rata to their share of the share capital of the Group.

**The distribution of profit is shown in the following table:**

| Dividends per share | Attributable from the profit for the year 2010* | 2009 |
|---|---|---|
| Profit of the year | 150 122 | 30 505 |
| Transfer to retained earnings | 95 322 | 30 505 |
| Dividends paid to shareholder from profit for the year | 54 800 | 0 |
| Number of shares EUR 1 000 each | 212 000 | 212 000 |
| **Amount of dividends per EUR 1 000 share (EUR)** | **258** | **0** |

* Based on the proposed profit distribution.

### Legal reserve fund

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

### Other funds

Other funds as at 31 December 2010 included only the Statutory fund amounting to EUR 39.3 million (2009: EUR 39.3 million).

The Statutory fund was created from distributable profits to strengthen the Bank’s capital base. The Statutory fund may be terminated and transferred back to distributable profits if the Bank’s share capital or legal reserve fund is increased. Such termination and transfer requires the approval of the Supervisory Board and the General Assembly.

### Hedging reserves

Hedging reserves represent the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. Hedging reserves are disclosed net of the deferred tax effect.

### Revaluation reserves

Revaluation reserves represent the unrealised revaluation of Securities available for sale. Revaluation reserves are disclosed net of deferred tax effect.

Other funds, hedging reserves, and revaluation reserves are not available for distribution to shareholders

## 33. EARNINGS PER SHARE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Net profit applicable to ordinary shares | 150 122 | 30 505 |
| Number of shares EUR 1 000 each | 212 000 | 212 000 |
| **Basic and diluted profit per EUR 1 000 share (EUR)** | **708** | **144** |

## 34. SUPPLEMENTARY DATA TO STATEMENTS OF CASH FLOWS

**Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Cash on hand (Note 13) | 225 307 | 254 052 |
| Accounts with other financial institutions repayable on demand (Note 14) | 4 470 | 10 399 |
| **Total cash and cash equivalents** | **229 777** | **264 451** |

| Operational cash flows from interests | 2010 | 2009 |
|---|---|---|
| Interest paid | (58 779) | (124 144) |
| Interest received | 451 245 | 485 470 |

## 35. FINANCIAL RISK MANAGEMENT

The Group's primary risk management objective is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively.

The most important categories of risk, that the Group faces, include:

- **Credit risk is the risk of loss arising from default by a creditor or counterparty.**
- **Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e, prices, interest rates, foreign exchange rates, volatilities, etc.**
- **Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events; it includes legal risk, but does not include strategic and reputation risk.**
- **Liquidity risk is defined as the inability to meet Group's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding.**
- **Fraud risk is the risk of financial or reputation losses originating from the intent to defraud the Group or its entities by falsifying information or by misrepresentation by employees, existing or potential customers, or any third parties.**
- **Compliance risk is the risk of breaching regulatory rules and related litigation risk (with regulars or clients), financial risk (fines, compensation of damage), reputation risk and the risk of breaking of corporate culture.**
- **Reputation risk is the risk of losses arising from failure to meet stakeholders' reasonable expectations of the Group's performance and behaviour.**
- **Strategic and business risks are the risks to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.**

The ultimate risk management body is the Board of Directors. It delegates some of its authority for particular risk management areas to respective committees (ALCO, ORCO and CRC). Currently, the Chairman of the Board of Directors and CEO also serves as Chief Risk Officer (CRO).

Asset & Liability Committee (ALCO) has ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

As for corporate credit risk, the ultimate decision making body is the Credit Committee of Supervisory Board, which consists of the members of the Supervisory Board. The Credit Committee of Board of Directors (CRC) is next in line with direct authority over the credit risk area.

Operational Risk and Compliance Committee (ORCO) is the authorized body to make decisions on operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for operational risk, compliance, financial crime, and anti-money laundering issues.

ALCO, ORCO, and CRC are composed of members of the board and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee (OLC) governs the execution of liquidity management. OLC reports directly to ALCO. It analyzes the liquidity situation of the Group on a regular basis and proposes measures to be taken. OLC consists of members of Trading. BSM and Strategic Risk Management units.

Risk Advisory Committee (RAC) is composed of senior risk managers and specialists from risk management areas. It analyzes overall credit risk development on a monthly basis and proposes measures and follow-ups to be taken.

Watch List Committee (WLC) analyzes actual and expected credit risk development of watch list clients (closely monitored clients are typically assigned to worse rating grades). It proposes immediate steps of the Group, including decrease of client's exposure, increase of collateral, rescheduling, etc. The members of WLC are senior managers, responsible risk managers from Corporate Credit Risk Management and representatives of business lines.

Structure of risk management organization consists of six crucial units:

- **Strategic Risk Management (SRM) – is responsible for operational risk, liquidity risk, complete trading book market risk, banking book market risk of investment portfolios and overall banking book VAR measurement, and credit risk control, provisioning, and credit risk statistical and rating models.**
- **Corporate Credit Risk Management Division - carries out all activities concerning operative credit risk of corporate clients and financial Institutions.**
- **Retail Credit Risk Management Division – is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process and portfolio management for the retail segment.**
- **Restructuring & Workout – is responsible for the effectiveness of collection process, reduction of non-performing loans and collateral management.**
- **Financial Crime & Compliance – is responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program) and for fraud risk management (prevention, detection, investigation, deterrence, and recovery of financial fraud). The Compliance Officer has a direct reporting line to the CRO.**
- **Balance Sheet Management - focuses on risk management of balance sheet as a whole, specifically focusing on management of interest income risk and market value of equity risk.**

The risk management function is completely independent from commercial business lines. Overall, risk management has the following roles:

- **setting strategies and policies for risk management**
- **building a risk-aware culture within the Group**
- **design and oversight internal risk policies, processes, and structures for business units**
- **designing and reviewing processes of risk management**
- **risk reporting**
- **risk identification, calculation, and measurement, and setting of risk premiums**
- **implementation, calibrating and periodical reviewing of models for risk measurement**
- **protect against losses from financial crime activities and compliance violations**

## 36. CREDIT RISK

Credit risk is the risk that a loss will be incurred if the Group's counterparty to a transaction does not fulfil its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the Group. It arises from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk also includes sovereign, country, concentration, settlement, and dilution risk.

The Group reports capital adequacy using the "internal-ratings based" (IRB) approach to credit risk since July 2008 as the first Group in Slovakia. The approval by the Financial Market Authority of Austria and National Bank of Slovakia indicated that the Group's credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation as well as into internal controls and reporting and that they play the essential role.

The cornerstone of the loan process in the Group is based on risk assessment using rating systems and the assignment of a rating grade. The final rating is a key factor for a loan decision, loan amount, and price. The rating systems are developed, implemented and regularly validated in cooperation within Erste Group Bank using common Group standards and tools. The rating systems are used since the year 2006 and the Group collects all data necessary for accurate and efficient risk control and management. The rating systems and their validation are properly documented.

Strategic Risk Management ('SRM'), more specifically its Credit Risk Control department, is the independent risk control unit in the Basel II sense. SRM is not involved in operative credit decision-making. However, it is responsible for the design of rating systems, the testing and monitoring of the accuracy and selectivity of internal rating grades, and the production and analysis of summary reports from the Group's rating systems. SRM is also responsible for the design and implementation of models for the calculation of risk parameters (Probability of default - PD. Loss-given default - LGD. Credit conversion factor - CCF etc.), standard risk costs, and portfolio provisions. It is also responsible for the design and implementation of models for the calculation of risk-weighted assets according to Basel II and model for economic capital.

The Corporate Credit Risk Management Division formulates credit policy and internal provisions on credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). It furthermore monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits and maintains deal and limit documentation for corporate clients. This Division is also involved in the credit approval process or taking direct credit decisions.

The Retail Credit Risk Management Division formulates credit policy and internal provisions on the credit approval process for retail clients. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). It furthermore monitors the development of the credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limit documentation and performs early collection.

Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring and the restructuring of receivables in overdue and specific provisions. It is also responsible for collateral management.

Regular audits of business units and the Group's credit processes are undertaken by Internal Audit.

### Maximum exposure to credit risk

Maximum exposure to the credit risk of financial assets is represented by their net carrying amount (carrying amount in the case of derivatives measured at fair value).

Maximum exposure to credit risk for off balance sheet commitments (e.g, undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Group has to pay if the commitment is called on.

Information regarding exposure to credit risk arising from financial assets other than loans and off balance sheet commitments is detailed in individual notes.

### Exposure to credit risk from loans, advances to customers, financial guarantees granted and undrawn loan commitments.

**The following table presents the maximum exposure to credit risk of loans, advances to customers, financial guarantees granted and undrawn loan commitments:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Gross amount** | **7 118 445** | **7 128 447** |
| On-balance sheet total (Note 15) | 6 074 859 | 6 050 148 |
| Off-balance sheet total (Note 43) | 1 043 586 | 1 078 299 |
| **Gross amount** | **7 118 445** | **7 128 447** |
| Retail | 4 458 520 | 4 056 864 |
| Corporate and other classes | 2 659 925 | 3 071 583 |
| **Provision for impairment** | **(405 249)** | **(320 123)** |
| Retail | (266 218) | (215 392) |
| Corporate and other classes | (139 031) | (104 731) |
| **Net amount** | **6 713 196** | **6 808 324** |
| Retail | 4 192 302 | 3 841 472 |
| Corporate and other classes | 2 520 893 | 2 966 852 |

Note: Retail loans include small loans to entrepreneurs.

**Provisions for impairment are structured as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Provisions for losses on loans and advances (Note 16) | 394 240 | 314 743 |
| Provisions for off-balance sheet items (Note 29) | 11 009 | 6 530 |
| **Total provision for impairment** | **405 249** | **321 273** |

Information on the credit quality of loans advances to customers, financial guarantees granted and undrawn loan commitments, classified as retail asset class by the Group are as follows:

**Retail asset class**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Total exposure** | | |
| Investment grade (1-5) | 3 760 199 | 3 306 286 |
| Subinvestment grade (6) | 224 435 | 248 815 |
| Subinvestment grade (7) | 49 066 | 84 139 |
| Subinvestment grade (8) | 136 983 | 152 100 |
| Rating R: Defaulted | 287 837 | 265 523 |
| **Gross amount** | **4 458 520** | **4 056 864** |
| Provisions for impairment | (266 218) | (215 392) |
| **Net amount** | **4 192 302** | **3 841 472** |
| Ageing of loans rated 1 – 8 is as follows: | | |
| 0 days | 3 993 946 | 3 584 309 |
| 1 – 30 days | 134 481 | 158 540 |
| 31 – 60 days | 25 809 | 29 145 |
| 61 – 90 days | 16 017 | 18 677 |
| 91 – days+* | 429 | 670 |

* Overdue amount is non material, i.e, less than EUR 50 per client (materiality limit introduced in Q4/09).
Note: The increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Group considers the financial position and performance of the counterparty, qualitative factors, as well as general economic trends in the particular industry and country. Categories of 1 to 8 represent individually non-impaired loans.
In case of private individuals the Group is using product definition of non-performing loans, i.e, if one loan of the client is more than 90 days overdue all clients' accounts within the same product must be reported in the non-performing category. In case of other segments loans with rating R are reported as non-performing.

### Individually impaired loans and irrevocable commitments

Impaired loans and irrevocable commitments are those for which the Group determines that it is probable it will be unable to collect all principal and interest due according to the contractual terms of these financial instruments. These are graded 'R' in the Group's internal risk rating system.

### Past due but not individually impaired loans

Loans, where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate.

### Neither past due nor individually impaired loans

Loans where contractual interest or principal payments are not past due and the Group does not expect impairment.



Information regarding the credit quality of loans, advances to customers, financial guarantees granted and undrawn loan commitments (classified as corporate, institutional or sovereign asset class) are as follows:

**Corporate and other asset classes**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Total exposure** | | |
| Investment grade (1-5) | 1 894 227 | 2 193 219 |
| Subinvestment grade (6) | 279 610 | 333 333 |
| Subinvestment grade (7) | 112 571 | 268 165 |
| Subinvestment grade (8) | 193 283 | 115 226 |
| Rating R: Defaulted | 180 235 | 161 640 |
| **Gross amount** | **2 659 925** | **3 071 583** |
| Provision for impairment | (139 031) | (104 731) |
| **Net amount** | **2 520 893** | **2 966 852** |
| | | |
| **Individually impaired** | | |
| **Gross amount** | **180 235** | **161 640** |
| Provision for impairment | (91 799) | (71 365) |
| **Net amount** | **88 435** | **90 276** |
| **Past due (excluding individually impaired)** | | |
| Investment grade (1-5) | 2 788 | 9 472 |
| Subinvestment grade (6) | 11 696 | 5 023 |
| Subinvestment grade (7) | 1 881 | 4 995 |
| Subinvestment grade (8) | 10 643 | 17 231 |
| Rating R: Defaulted | - | - |
| **Gross amount** | **27 008** | **36 721** |
| Provision for impairment | (1 314) | (1 112) |
| **Net amount** | **25 694** | **35 609** |
| | | |
| Past due but not impaired comprises: | | |
| 1-30 days | 10 923 | 18 470 |
| 31-60 days | 13 218 | 10 768 |
| 61-90 days | 2 866 | 7 483 |
| 90 days+ | - | - |
| **Neither past due nor individually impaired** | | |
| Investment grade (1-5) | 1 891 438 | 2 183 747 |
| Subinvestment grade (6) | 267 914 | 328 310 |
| Subinvestment grade (7) | 110 690 | 263 169 |
| Subinvestment grade (8) | 182 640 | 97 995 |
| Rating R: Defaulted | - | - |
| **Gross amount** | **2 452 682** | **2 873 221** |
| Provision for impairment | (45 918) | (32 254) |
| **Net amount** | **2 406 764** | **2 840 967** |

Note: The Increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Group considers financial position and performance of counterparty, qualitative factors as well as general economic trends in particular industry and country.
Exposures rated as 1 – 8 according to the Group's internal rating are not considered to be individually impaired.

## Default events

Part of the Group's reporting is the monitoring of default events behind defaulted individually significant loans. The Group defines five default events:

- **E1 – unlikeliness to pay**
- **E2 – 90 days overdue**
- **E3 – distressed restructuring of exposure**
- **E4 – Exposure write-off**
- **E5 – Bankruptcy**

When a default event is recognized in the system, the rating of the client is automatically changed to default.

## Collaterals

The Group holds collateral against loans and advances to customers in the form of real estates, securities, bank guaranties and other credit enhancements. Estimates of fair value are based on the value of collateral assessed at the time of borrowing that is regularly updated. Collateral is not generally held over loans and advances to banks, except when securities are held as a part of reverse repurchase activities (see Note 14). Collaterals against investment securities are described in Note 18 and 19.

Estimated fair values of collaterals and other credit enhancements held against loans, advances to customers, financial guarantees granted and undrawn loan commitments is shown below:

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Real estates | 5 755 643 | 5 035 066 |
| Securities | 148 443 | 163 178 |
| Bank guaranties | 240 033 | 332 699 |
| Other | 274 417 | 195 080 |
| **Total** | **6 418 536** | **5 726 023** |

## Renegotiated loans

The carrying amount of financial assets that would otherwise be past due or impaired and whose terms have been renegotiated during 2010:

| | Number of client | | ths. EUR | |
|---|---|---|---|---|
| ths. EUR | 2010 | 2009 | 2010 | 2009 |
| Renegotiated loans | 28 | 36 | 67 007 | 55 309 |



## Concentration risk

**A summary of concentrations of financial assets (including derivatives), loan commitments and guarantees as of 31 December 2010 and 2009 based on the debtors' industry are presented below:**

| 31 December 2010 | Loans and advances to customers | | Loans and advances to financial institutions | | Investment securities | |
|---|---|---|---|---|---|---|
| ths. EUR | Gross | Net | Gross | Net | Gross | Net |
| Activities of households as employers | 4 085 898 | 3 876 885 | - | | 417 | 417 |
| Public administration and defence | 103 768 | 103 760 | - | - | 2 901 654 | 2 901 654 |
| Financial and insurance activities | 27 353 | 27 016 | 1 253 486 | 1 253 486 | 308 695 | 300 852 |
| Real estate activities | 741 071 | 718 354 | - | - | - | |
| Manufacturing | 702 874 | 664 094 | - | - | 29 482 | 29 482 |
| Wholesale and retail trade | 458 160 | 402 027 | - | - | - | |
| Construction | 278 250 | 257 642 | - | - | 582 | 582 |
| Transportation and storage | 196 786 | 183 336 | - | - | 55 222 | 55 222 |
| Electricity, gas, steam and air conditioning supply | 208 578 | 206 460 | - | - | - | - |
| Accommodation and food service activities | 118 952 | 93 503 | - | - | - | - |
| Agriculture, forestry and fishing | 44 278 | 40 146 | - | - | - | - |
| Professional, scientific and technical activities | 42 264 | 37 783 | - | - | - | - |
| Human health and social work activities | 42 001 | 41 086 | - | - | - | - |
| Administrative and support service activities | 22 230 | 20 056 | - | - | - | - |
| Arts, entertainment and recreation | 17 340 | 16 386 | - | - | - | - |
| Information and communication | 7 673 | 6 754 | - | - | - | - |
| Other service activities | 7 228 | 6 159 | - | - | - | - |
| Water supply, sewerage, waste management | 3 029 | 2 497 | - | - | - | - |
| Mining and quarrying | 2 538 | 2 455 | - | - | - | - |
| Education | 2 221 | 1 981 | - | - | - | - |
| Others | 5 953 | 4 818 | - | - | 14 866 | 14 866 |
| **Total** | **7 118 445** | **6 713 196** | **1 253 486** | **1 253 486** | **3 310 918** | **3 303 075** |

| 31 December 2010 ths. EUR | Loans and advances to customers | | Loans and advances to financial institutions | | Investment securities | |
|---|---|---|---|---|---|---|
| | Gross | Net | Gross | Net | Gross | Net |
| Activities of households as employers | 3 658 467 | 3 488 741 | - | - | 779 | 779 |
| Public administration and defence | 104 342 | 104 316 | - | - | 3 269 213 | 3 269 213 |
| Financial and insurance activities | 71 758 | 70 593 | 1 197 756 | 1 196 606 | 340 011 | 333 963 |
| Manufacturing | 53 880 | 49 672 | - | - | - | - |
| Real estate activities | 8 563 | 8 453 | - | - | - | - |
| Wholesale and retail trade | 823 602 | 797 532 | - | - | 17 150 | 17 150 |
| Construction | 222 139 | 221 762 | - | - | - | - |
| Transportation and storage | 5 953 | 5 418 | - | - | - | - |
| Electricity, gas, steam and air conditioning supply | 377 966 | 362 697 | - | - | 572 | 572 |
| Accommodation and food service activities | 543 486 | 486 465 | - | - | - | - |
| Professional, scientific and technical activities | 280 044 | 268 558 | - | - | 53 713 | 53 713 |
| Agriculture, forestry and fishing | 122 665 | 108 073 | - | - | - | - |
| Human health and social work activities | 14 239 | 13 122 | - | - | - | - |
| Administrative and support service activities | 682 465 | 673 611 | - | - | - | - |
| Information and communication | 60 759 | 55 923 | - | - | - | - |
| Arts, entertainment and recreation | 26 255 | 23 716 | - | - | - | - |
| Mining and quarrying | 1 848 | 1 683 | - | - | - | - |
| Other service activities | 45 031 | 44 066 | - | - | - | - |
| Water supply, sewerage, waste management | 12 785 | 12 434 | - | - | - | - |
| Education | 7 264 | 6 884 | - | - | - | - |
| Others | 4 937 | 4 605 | - | - | 10 071 | 10 071 |
| **Total** | **7 128 447** | **6 808 324** | **1 197 756** | **1 196 606** | **3 691 509** | **3 685 461** |

**A summary of concentrations of loans and advances to customers, loan commitments, and guarantees classified by asset classes (as of 31 December 2010 and 2009) are presented below:**

| ths. EUR | 2010 | | 2009 | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| Retail | 4 458 520 | 4 192 302 | 4 056 864 | 3 841 472 |
| Corporate | 2 549 022 | 2 409 992 | 2 956 813 | 2 852 417 |
| Institution | 60 902 | 60 902 | 7 146 | 6 811 |
| Sovereigns | 50 000 | 50 000 | 107 624 | 107 624 |
| **Carrying amount** | **7 118 445** | **6 713 196** | **7 128 447** | **6 808 324** |



**As of 31 December 2010 and 2009 the following loans and off balance sheet exposures are related to property business activities (based on the purpose of the loan). These loans were provided mainly to finance the acquisition, operation or construction of properties:**

| ths. EUR | 2010 | | 2009 | |
|---|---|---|---|---|
| | Maximum exposure | On-balance | Maximum exposure | On-balance |
| Residential developments | 106 096 | 57 943 | 182 239 | 114 745 |
| Office schemes | 238 514 | 178 544 | 218 261 | 168 992 |
| Hotels, Pensions | 121 300 | 107 765 | 157 521 | 124 899 |
| Retail premises | 164 767 | 115 204 | 140 009 | 120 001 |
| Mixed schemes | 103 951 | 82 551 | 120 725 | 97 801 |
| Lands | 73 743 | 55 739 | 104 169 | 62 770 |
| Rental flats | 29 369 | 21 975 | 30 375 | 24 412 |
| Leisures | 996 | 736 | 13 908 | 3 833 |
| Logistics | 6 385 | 4 100 | 5 948 | 3 612 |
| **Total** | **845 120** | **624 558** | **973 155** | **721 065** |

**The following table presents a summary of the Group's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government, and similar exposures:**

| ths. EUR | 2010 | | 2009 | |
|---|---|---|---|---|
| | Amount ths. EUR | Portion of total assets% | Amount ths. EUR | Portion of total assets% |
| Cash and balances at the central bank | 110 049 | 1.00% | 68 885 | 0.60% |
| Loans and advances to financial institutions | - | 0.00% | - | 0.00% |
| Loans and advances to customers | 230 908 | 2.09% | 255 659 | 2.23% |
| Securities portfolios | 2 810 449 | 25.48% | 3 156 366 | 27.48% |
| **Total** | **3 151 406** | **28.58%** | **3 480 910** | **30.31%** |

**The Group holds a large volume of state debt securities. A breakdown of state debt securities is shown below per portfolio and type of security:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | **6 599** | **8 831** |
| Treasury bills | - | - |
| State bonds denominated in EUR | 6 599 | 8 831 |
| **Securities available for sale** | **661 121** | **901 259** |
| Treasury bills | 39 760 | 298 983 |
| State bonds denominated in EUR | - | - |
| Slovak government Eurobonds | 618 305 | 599 202 |
| Companies controlled by the Slovak government | 3 056 | 3 074 |
| **Securities held to maturity** | **2 122 849** | **2 246 276** |
| Treasury bills | - | 119 900 |
| State bonds denominated in EUR | 2 099 260 | 2 102 791 |
| Companies controlled by the Slovak government | 23 589 | 23 585 |
| **Trading Book Securities** | **19 880** | **-** |
| Treasury bills | 19 880 | - |
| **State bonds denominated in EUR** | **2 810 449** | **3 156 366** |

The rating of the Slovak Republic according to the international rating agency Standard & Poor's is A + as at December 15. 2010 and January 14. 2010.

## 37. MARKET RISK

Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- **risk identification – identify all risks inherent in the trading operations and in new products (new products check), and ensure these are subject to adequate procedures and controls before being introduced or undertaken.**
- **risk measurement – calculation of risk exposure using sensitivities and value-at-risk.**
- **limits management – development of a comprehensive limit system and limit allocation. Limit setting is a way to restrict the maximum risk exposure.**
- **risk monitoring and reporting.**

The main tool to measure market risk exposure in the Group is Value-at-Risk (VaR) which is complemented by back testing and a stress testing programme.

The Group separates its exposure to market risk between the Trading Book and Banking Book.

### Market Risk - Trading Book

The trading book represents the Group's positions in financial instruments – cash, derivative or securities - held either with trading intent (i.e, for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements), or in order to hedge other instruments of the trading book.
For the purpose of market risk measurement of the trading book. VaR with complementary stress testing and extreme value theory measurements is used.

The VaR risk measurement estimates the maximum potential loss in pre-taxation profit over a given holding period for a specified confidence level. VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities, changes in interest rates, foreign exchange rates, and other market factors. Risks can be measured consistently across all markets and products of the trading book, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR. Value-at-Risk is not an indication of actual future performance of investments which may increase or decrease in value. An important part of the VaR model is Back Testing that compares the ex-post computed VaR with the profit and loss actually achieved over the holding period, and thus ascertains whether the actual loss of overdrafts is in accordance with the selected confidence level.

Value-at-risk is subject to some model assumptions (normality of distribution, historical simulation, etc.). Stress testing partially tackles these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VaR, sensitivity, and stop-loss limits.

A new Erste Bank holding structure is effective as of February 2008. As a part of this strategic decision only the money market desk remains within the responsibility of the Group from interbank trading. In addition, no new derivatives are allowed on the desk and the eligible products are limited to deposits, treasury bills. FX swaps and repurchase agreements.



**As of 31 December 2010, the maximum one day expected loss from exposures of the trading book that may result from changes in interest rates, exchange rates and other market factors, are as follows:**

| ths. EUR<br>Desk | Interest | Currency | Price | Volatility | Total | Limit |
|---|---|---|---|---|---|---|
| | | | 2010 | | | |
| Foreign Exchange | 0.0 | 0.8 | 0.0 | 0.0 | **0.8** | 50 |
| Money Market | 51.1 | 0.0 | 0.0 | 0.0 | **51.1** | 450 |
| Fixed Income | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0 |
| **Total** | **51.1** | **0.8** | **0.0** | **0.0** | **50.8** | **500** |

| ths. EUR<br>Desk | Interest | Currency | Price | Volatility | Total | Limit |
|---|---|---|---|---|---|---|
| | | | 2009 | | | |
| Foreign Exchange | 0.0 | 0.2 | 0.0 | 0.0 | **0.2** | 100 |
| Money Market | 18.1 | 0.0 | 0.0 | 0.0 | **18.1** | 620 |
| Fixed Income | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | 0 |
| **Total** | **18.1** | **0.2** | **0.0** | **0.0** | **18.1** | **660** |

The limit represents the Group's internally defined maximum one day loss that is used as a benchmark for managing the market risk of the trading book.

### Market Risk - Banking Book

Banking book market risk management consists of optimizing the Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. The decisions are based on the balance sheet development, the economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position.

Overall responsibility over the banking book market risk is delegated to ALCO. It reviews risk exposures and potential effects of asset/liability strategy on them and makes sure that they are in line with intended risk profile.

The main steps to market risk analyzing and managing:

- **The assumptions set-up: for products, for scenarios and for strategies.**

**The analysis:**

- **of Market Value of Equity risk (MVoE) - risk of change of market value of the portfolio in the case of change of interest rates curve (see note 39).**
- **of Net Interest Income Risk (NII risk) - forecast of net interest income in future periods (which includes the base case scenario) and change of net interest income in the case of defined development of yield curve (deterministic scenarios) (see note 39) and forecast of net interest income in the case of stochastic rate changes (which includes the worst case scenario) (stochastic scenarios).**

**The tools to manage the market risk exposure of the banking book:**

- **Investments into financial instruments**
- **Hedging (in broader sense hedging means an economic activity that mitigates risk, but does not necessarily qualify for IFRS hedge accounting; in more narrow sense hedging is the hedge accounting according to IFRS requirements).**

The results of standard analysis (stable balance sheet positions, stable margins, various market parameters shocks) are included in the ALCO report and presented at the ALCO meeting on a monthly basis. Based on the requests and market situation, non-standard analysis is presented at ALCO meetings on an irregular basis.

The recent changes in market conditions resulted in high market price volatility, decreased market liquidity for some securities, significant changes in interest rates, widening credit spreads and changes of ratings by rating agencies on many issuers. In response to this situation, the Group's management increased its monitoring of events and the impact and potential impact on the Group's portfolios and financial position. Methods used included monitoring of global, regional and local economic news, research on counterparties and markets, and scenario analysis.

### Market risk of investment portfolios

Investment portfolios of the banking book (including derivatives) are subject to strict rules of market risk management which are set up by SRM and approved by ALCO committee.

SRM daily executes portfolio revaluation, risk measurement and monitoring. The primary measure is value-at-risk with the same parameters as for the trading book (i.e. two-year historical simulation, 99% confidence interval, one day holding period). Additionally, other measures are used, mainly interest rate sensitivity. Positions are also subject to periodic (at least monthly) stress testing.

In order to limit the risk, a comprehensive system of limits is set up, primarily based on VaR and stop-loss limits. Limits are structured according to individual subportfolios, while separate limits are defined for derivative trades. Monitoring is performed by SRM on a daily basis.

Risk reporting is done daily for relevant managers and monthly for ALCO.

# 38. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. This risk is primarily eliminated by the daily closing of open FX positions against Erste Group Bank. The Group is permitted to hold strategic FX positions, however, these are strictly limited by VaR and stop-loss limits. Monitoring is performed on a daily basis by SRM.

**Following table summarizes FX position of the Group:**

| ths. EUR | EURO | US Dollar | Czech Crown | Other | Slovak Crown | Total |
|---|---|---|---|---|---|---|
| Cash and balances at the central bank | 318 422 | 3 734 | 6 533 | 6 667 | - | 335 356 |
| Loans and advances to financial institutions | 1 210 521 | 38 937 | 220 | 3 808 | - | 1 253 486 |
| Loans and advances to customers | 6 018 615 | 9 703 | 40 242 | 6 299 | - | 6 074 859 |
| Provisions for losses on loans and advances | (391 946) | (133) | (2 106) | (55) | - | (394 240) |
| Financial assets at fair value through profit or loss | 115 170 | 10 | - | - | - | 115 180 |
| Securities available for sale | 887 511 | 3 826 | 11 278 | 17 | - | 902 632 |
| Securities held to maturity | 2 249 148 | 7 538 | 28 577 | - | - | 2 285 263 |
| **Total financial assets** | **10 407 441** | **63 615** | **84 744** | **16 736** | **-** | **10 572 536** |
| Amounts owed to financial institutions | 1 091 490 | 1 512 | 61 667 | 10 294 | - | 1 164 963 |
| Amounts owed to customers | 8 053 335 | 62 181 | 26 424 | 16 519 | - | 8 158 459 |
| Debt securities in issue | 395 199 | - | - | - | - | 395 199 |
| Financial liabilities at fair value through profit or loss | 51 708 | - | - | - | - | 51 708 |
| Subordinated debt | 195 105 | - | - | - | - | 195 105 |
| **Total financial liabilities** | **9 786 837** | **63 693** | **88 091** | **26 813** | **-** | **9 965 434** |
| **Total net FX position of financial assets and liabilities at 31 December 2010** | **620 604** | **(78)** | **(3 347)** | **(10 077)** | **-** | **607 102** |
| Total financial assets at 31 December 2009 | 10 800 425 | 23 812 | 89 473 | 27 849 | - | 10 941 559 |
| Total financial liabilities at 31 December 2009 | 10 438 992 | 66 612 | 56 545 | 27 101 | - | 10 589 250 |
| **Total net FX position of financial assets and liabilities at 31 December 2009** | **361 433** | **(42 800)** | **32 928** | **748** | **-** | **352 309** |

**The following table details the Group's sensitivity to percentage movement of exchange rates. These changes represent the management's assessment of reasonably possible changes in foreign exchange rates:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Currency | Appreciation / (Depreciation) of EUR | Impact on net income (ths. EUR) | Appreciation / (Depreciation) of EUR | Impact on net income (ths. EUR) |
| USD | 6.45% | 5 | (1.24%) | (529) |
| CZK | 4.23% | 142 | 9.31% | (3 067) |

Movement changes in foreign exchange rates would not have an impact on equity (other than the impact on net income) as at 31 December 2010 and 31 December 2009.



# 39. INTEREST RATE RISK

## Interest rate risk indicators

Interest rate risk is the risk that net interest income ("NII") from financial instruments will fluctuate due to changes in market interest rates. The Group manages its interest rate risk through monitoring interest rate behaviour and the re-pricing dates of the Group's assets and liabilities, and developing models showing the potential impact that changes in interest rates may have on the Group's net interest income and market value of the Group's assets and liabilities. Interest rate risk limits are approved by ALCO. The one year forecasted net interest income in the case of a 200 basis points (bp) parallel change of interest rates should not exceed 15% of the forecasted NII according to the base market scenario (stable yield curve). The change of the market value of the portfolio of the Group`s interest earning assets and liabilities in the case of a 200 bp parallel changes of interest rates should not exceed 20% of the capital of the Group.

As at 31 December 2010, the 200 bp change in interest rates would affect net interest income (comparison with 2009 year) as follows:

| Net interest income | 2010 | 2009 |
|---|---|---|
| + 200 bp | (1 419) | 8 818 |
| - 200 bp | (13 869) | (16 701) |

Change in yield curve by + 200 bp would affect the market value of interest bearing assets and liabilities totalling to EUR (59.9) million, of which the revaluation directly in equity EUR (42.8) million as at 31 December 2010 (2009: EUR (33.8) million, directly in equity (45.9) million).

The limit defined by risk management for the maximum change of interest bearing assets and liabilities established by a +200 bp parallel change of interest rates amounts to EUR 175 million as of 31 December 2010 (2009: EUR 157 million).

# 40. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to meet commitments associated with financial instruments.

Liquidity risk is within the authority of ALCO. The L-OLC (Local Operating Liquidity Committee) is responsible for operational managing and analyzing of the liquidity situation of the Group.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

Liquidity risk is quantified based on the liquidity regulation of NBS. The fixed and non-liquid assets ratio was 0.34 at the end of 2010 (must be lower than 1.0) (end of 2009: 0.52). The liquid assets ratio, that must be greater than 1.00, was 1.22 at the end of 2010 (end of 2009:1.16).

In addition, own measurement and prediction system of financing needs offers information for liquidity management. New scenario based Survival Period Analysis was developed and implemented in 2010. It should inform about Group's survival period under five different stress scenarios, including name, market, and combined crisis.

There are internal limits set for funding concentrations. Their aim is to monitor and prevent the liquidity risk stemming from a too large deposit concentration of one or small number of depositors (possibility of sudden withdrawal).

A minimal liquidity reserve of EUR 1 billion is defined. It consists of highly liquid ECB eligible bonds that the Group can use as collateral in unexpected situations.
The liquidity of the Group is also covered by a large proportion of government bonds on the Bank's total balance sheet. The overall liquidity situation of the Group was satisfactory throughout 2010.

### Liquidity gap

Liquidity gap is a standard liquidity analysis that compares volumes cash flows from assets and liabilities in specified time buckets. Assets and liabilities are structured in defined classes. The internal limit is defined such that in each time bucket the liquidity gap should be less than EUR 1.3 billion. This limit was fulfilled in all tenors during the year 2010.

The Group is long liquidity in its shortest tenor, but is short thereafter. The situation during year 2010 was stable.

Cash flows are based on contractual maturities, notional (or market) values only, with no interest being considered.

### Maturity analysis

The following table shows the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities.

| As at 31 December 2010<br>ths. EUR | On demand and less than 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Amounts owed to financial institutions | 1 067 697 | 36 219 | 16 097 | 42 068 | 4 630 | **1 166 710** |
| Amounts owed to customers | 4 446 693 | 909 651 | 1 261 753 | 1 558 500 | 20 212 | **8 196 808** |
| Debt securities in issue | 448 | 6 627 | 91 944 | 266 219 | 62 480 | **427 717** |
| Subordinated debt | - | 1 010 | 3 030 | 91 602 | 121 356 | **216 998** |
| **Total** | **5 514 838** | **953 506** | **1 372 823** | **1 958 388** | **208 678** | **10 008 233** |

| As at 31 December 2009<br>ths. EUR | On demand and less than 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Amounts owed to financial institutions | 689 362 | 72 623 | 1 256 140 | 66 276 | 8 606 | **2 093 007** |
| Amounts owed to customers | 4 399 071 | 1 178 793 | 1 188 775 | 1 065 009 | 27 125 | **7 858 772** |
| Debt securities in issue | 235 | 555 | 219 023 | 230 978 | 67 063 | **517 854** |
| Subordinated debt | - | 1 250 | 3 750 | 99 444 | 104 861 | **209 305** |
| **Total** | **5 088 668** | **1 253 220** | **2 667 688** | **1 461 707** | **207 655** | **10 678 938** |



# 41. OPERATIONAL RISK

Operational risk is the risk of loss (direct and indirect) resulting from inadequate or failed internal processes, people and systems, or from external events which lead (or have the potential to lead) to losses, or have other negative impacts on the Group. This definition includes legal risk, but excludes strategic and reputation risk. Operational risks arise from all of the Group's operations and each of the business lines.

Primary responsibility for the day-to-day management of operational risk is assigned to every business unit. The Strategic Risk Management unit performs activities of global scope and has a methodical, coordination, and harmonization role.

The main objectives of operational risk management are:

- **to set up a Group-wide framework for operational risk management and to translate this framework into internal regulations,**
- **to properly identify major drivers of operational risk,**
- **to develop models for the quantification of risk exposure profile and for the calculation of both economic and regulatory capital,**
- **to prevent or minimize losses due to operational risk by the adaptation of suitable processes, preventive measures, or selecting suitable insurance,**
- **to create an effective system of business continuity management,**
- **to continuously improve the operational risk management process,**
- **to provide quality reporting and documentation (quarterly reporting of operational risk events for the board of directors, senior management and regional directors).**

Operational risk management is performed within the following main activities:

- **system of internal controls - each unit manager is responsible for the effectiveness and quality of the control system within his area of competence,**
- **business continuity management - to ensure the uninterrupted provision of business operations and services,**
- **insurance – to minimize losses due to operational risk,**
- **outsourcing – the respective business unit is responsible for the operational risk management related to outsourcing, internal audit can also exercise periodic controls,**
- **anti-money laundering,**
- **risk assessment of new products, activities, processes and systems before being introduced or undertaken.**

The Group measures its operational risk exposure using the loss distribution approach (LDA). In modelling the distribution, the following are used: internal data collection, external data, scenario analysis, risk mapping and key risk indicators (key risk indicators track the most important drivers of operational risk) and factors reflecting the business environment and internal control systems.

In this, the probability distribution of both the frequency of loss and the amount of loss is modelled, and is recombined into a compound distribution of yearly losses. From this distribution, both expected and unexpected losses can be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9% and the holding period should be one year.

The LDA approach is used as a basis for measurement and allocation of the capital charge within AMA (Advanced Measurement Approach). Permission for use of AMA was granted by NBS effective from 1 July 2009.

Since 2005 the Group has been involved in a comprehensive group-wide captive insurance program. Under this program, the vast majority of operational risks - property damage, internal & external fraud. IT failures, civil liability, etc. - are covered for both the Bank and its subsidiaries.

Decision-making in the area of operational risk is covered by high-level ORCO committee (Operational Risk and Compliance Committee), of which board members and senior managers are members, and which have the ultimate authority in making decisions regarding risk exposure against operational risk.

# 42. CAPITAL MANAGEMENT

The Group's lead regulator, the NBS, sets and monitors capital requirements. The Group assesses the volume of its regulatory and economic capital (ICAAP).

### Regulatory capital

In implementing current capital requirements the NBS requires the Group to maintain a prescribed ratio of total capital to total risk weighted assets (minimum 8%). As of 31 December 2010 and 2009, the Group has complied with the capital adequacy requirement. The Group calculates requirements for credit risk using the Basel II IRB approach and for market risk in its trading portfolios using internal VaR models. Basel II has also come with a new capital requirement on operational risk.

The Group's regulatory capital is analysed in two tiers:

- **Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve after deduction for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.**
- **Tier 2 capital, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealised gains on equity instruments classified as available for sale.**

Various limits are applied to elements of the capital base. The amount of qualifying tier 2 capital cannot exceed tier 1 capital and qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. Other deductions from capital include the carrying amounts of investments qualifying as financial institutions exceeding 10% participation on their share capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain the future development of the business. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

**The Group's regulatory capital position at 31 December 2010 and 2009 was as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Tier 1 capital** | | |
| Ordinary share capital | 212 000 | 212 000 |
| Capital reserves | 118 899 | 118 899 |
| Retained earnings | 449 318 | 419 152 |
| Non Controlling Interest | 2 576 | 2 402 |
| Less intangible assets | (62 750) | (79 100) |
| **Total** | **720 043** | **673 353** |
| | | |
| **Tier 2 capital** | | |
| Fair value reserve for available-for-sale equity securities | 3 099 | 3 338 |
| IRB SURPLUS | 224 | - |
| Qualifying subordinated liabilities | 194 000 | 180 000 |
| **Total** | **197 323** | **183 338** |
| | | |
| Deductions from Tier I and Tier II capital | (678) | (47 794) |
| **Total regulatory capital** | **916 688** | **808 897** |

## ICAAP

Internal Capital Adequacy Assessment Process (ICAAP) is a process in which all significant risks that the Group faces must be covered by internal capital (coverage potential). This means that all material risks are quantified, aggregated, and compared to the coverage potential. A maximum risk exposure limit and lower trigger level are defined, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

The Group`s ICAAP is defined by the group ICAAP framework. The key term within the context of ICAAP is the concept of economic capital. This is a measure of risk that captures unexpected losses. As opposed to expected loss, which is the anticipated probability-weighted average loss on a portfolio or business, and is considered a part of doing business, and is typically covered by reserves or income, unexpected loss describes the volatility of actual losses around this anticipated average. Typically, a very high confidence interval is assumed, in order to cover even very severe loss events (except for the most catastrophic ones for which it is impossible to hold capital). In the Group, the confidence interval is set at 99.9% and the holding period is one year.

Objectives of ICAAP are:

- **to integrate risk management for different risk types into a single high-level process,**
- **to relate risk exposures to internal capital,**
- **to continuously monitor and adjust capital levels to changing risk profile.**

ICAAP is a process that within the Group consists of the following steps:

- **Risk materiality assessment**
  - **identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation**
- **Risk-bearing capacity calculation**
  - **calculation of the risk exposure for each particular material risk**
  - **aggregation of the individual risks into a single economic capital figure**
  - **calculation of internal capital (coverage potential)**
  - **relating economic to internal capital**
- **Stress testing**
  - **verification of economic capital figures via severe. yet plausible stress scenarios**
- **Capital management**
  - **management of consistency between economic and internal capital including forecasting.**

ICAAP is regularly (quarterly) reported to the Board of Directors. Currently credit, operational, and market risk of both trading and banking books are included in the capital coverage. Liquidity, business risk and stress testing results will be included in the near future.

# 43. OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group is a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

## (a) Loan commitments. Guarantees and Letters of Credit

Bank guarantees and letters of credit cover liabilities to clients (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represents an irrevocable liability of the Group to pay a certain amount as stated in the bank guarantee in the case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Group performed according to the instruction of the buyer to pay a specified amount to the seller against the documents that meet the letter of credit requirements. The Group deals with letters of credit subject to 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

The primary purpose of these instruments is to ensure that funds are available as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

## (b) Derivatives

The Group maintains strict control limits on net open derivative positions, i.e, the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e, assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most cases requires margin deposits.

**The following table contains off-balance sheet credit exposures and also treasury commitments:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Guarantees given | 244 271 | 221 596 |
| Guarantees from letters of credit | 2 804 | 2 480 |
| Loan commitments and undrawn loans | 796 511 | 854 223 |
| **Total** | **1 043 586** | **1 078 299** |



**Derivatives in notional and fair value:**

| | 2010 | | | |
|---|---|---|---|---|
| | Receivables | | Liabilities | |
| ths. EUR | Notional value | Fair value | Notional value | Fair value |
| **Hedging** | 107 821 | 2 955 | 107 821 | 7 960 |
| **Total hedging instruments** | **107 821** | **2 955** | **107 821** | **7 960** |
| **Trading derivatives** | | | | |
| Forward rate agreements (FRA) | - | - | - | - |
| Foreign currency forwards | 77 378 | 804 | 77 311 | 738 |
| Option contracts | 383 720 | 4 655 | 367 866 | 4 585 |
| Interest rate swaps (IRS) | 1 394 936 | 41 954 | 1 394 936 | 42 413 |
| Currency interest rate swaps (CIRS) | 44 203 | 1 702 | 44 203 | 1 701 |
| Currency swaps | 106 081 | 2 374 | 105 998 | 2 271 |
| **Total trading derivatives** | **2 006 318** | **51 489** | **1 990 314** | **51 708** |
| **Total** | **2 114 139** | **54 444** | **2 098 135** | **59 668** |

Negative value of derivatives of 2010 EUR 51.7 million (2009: EUR 57.3 million) are presented as 'Financial liabilities at fair value through profit and loss'.

| | 2009 | | | |
|---|---|---|---|---|
| | Receivables | | Liabilities | |
| ths. EUR | Notional value | Fair value | Notional value | Fair value |
| **Hedging** | 66 597 | 3 759 | 66 597 | 5 045 |
| **Total hedging instruments** | **66 597** | **3 759** | **66 597** | **5 045** |
| **Trading derivatives** | | | | |
| Forward rate agreements (FRA) | - | - | - | - |
| Foreign currency forwards | 262 772 | 2 323 | 262 611 | 2 163 |
| Option contracts | 733 864 | 4 691 | 737 262 | 4 658 |
| Interest rate swaps (IRS) | 1 480 025 | 42 445 | 1 480 025 | 48 484 |
| Currency interest rate swaps (CIRS) | 61 749 | 1 752 | 61 481 | 1 496 |
| Currency swaps | 179 295 | 2 300 | 177 515 | 454 |
| **Total trading derivatives** | **2 717 705** | **53 511** | **2 718 894** | **57 255** |
| **Total** | **2 784 302** | **57 270** | **2 785 491** | **62 300** |

All derivative transactions during 2010 and 2009 were traded on the over-the-counter 'OTC' markets.

# 44. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

## (a) Fair values of financial assets and liabilities measured at amortized cost

In the following table, the fair values of the balance sheet items are compared with the carrying amounts.

| ths. EUR | Carrying value 2010 | Estimated fair value 2010 | Carrying value 2009 | Estimated fair value 2009 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and advances to financial institutions | 1 253 486 | 1 253 925 | 1 196 606 | 1 198 512 |
| Loans and advances to customers | 5 680 619 | 5 807 439 | 5 736 555 | 5 869 556 |
| Held to maturity securities | 2 285 263 | 2 326 636 | 2 420 060 | 2 449 923 |
| **Financial liabilities** | | | | |
| Amounts owed to financial institutions | 1 164 963 | 1 165 330 | 2 074 679 | 2 073 375 |
| Amounts owed to customers and debt securities in issue | 8 553 658 | 8 060 846 | 8 277 056 | 7 819 535 |

### Loans and advances to financial institutions

The fair value of current account balances approximates their carrying amount, as the Group's term placements generally re-price within relatively short time periods.

### Loans and advances to customers

Loans and advances are net of specific and other provisions for impairment. The fair value represents management's estimate of the ultimate fair value of the loans and advances to customers. The credit risk of each instrument is taken into account in the way that the yield curve used for the discounting of this instrument is increased by the value of the relevant credit risk margin.

### Held to maturity securities

The fair value of held-to-maturity securities was calculated based on the same principles used for the valuation of available-for-sale securities and trading, and at fair value through profit and loss securities as described in Note 3 (g).

### Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. On demand deposits are modelled according to generally accepted assumptions within the Erste Group Bank. The estimated fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with a similar remaining maturity.

## (b) Determination of fair values of residual financial assets and liabilities

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker. To this end, ultimate responsibility for the determination of fair values lies with SRM. SRM establishes the pricing policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant pricing sources.

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. In less liquid markets, direct observation of a traded price may not be possible. In these circumstances. SRM source Erste Group Bank to validate the financial instrument's fair value. Greater weight is given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- **the extent to which prices may be expected to represent genuine traded or tradable prices;**
- **the degree of similarity between financial instruments;**
- **the degree of consistency between different sources;**
- **the process followed by the pricing provider to derive the data;**
- **the elapsed time between the date to which the market data relates and the balance sheet date; and**
- **the manner in which the data was sourced.**

The results of Erste Group Bank independent validation process are reported to SRM.

The best indicator of the fair value is the price which can be obtained in an active market. If prices from an active market are available they are used. For fair value valuation mainly external data sources (like quotes from exchanges or broker quotations) are used. In case no market prices are available, the fair value is derived via pricing models, which use observable inputs. In some cases it is not possible either to get prices from exchanges or using a pricing model which is based on observable inputs. In such cases inputs are estimated based on similar risk factors.

Erste Group Bank uses only common, market approved models for the evaluations. For linear derivatives (e.g., Interest Rate Swaps. Cross Currency Swaps. FX-Forwards. Forward Rate Agreements) market values are calculated by discounting the expected cash flows. Plain Vanilla-OTC-Options (Equity, Currency and Interest Options) are evaluated using option pricing models of the Black Scholes generation, complex interest derivatives using Hull White and BGM models.

Only models which have went through an internal approval process and where the independent determination of the inputs (e.g. interest rates, volatilities) is ensured are used.
Models are applied only if an internal approval process and the independent determination of inputs (e.g. interest rates, volatilities) is ensured.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**The table below details the valuation methods used to determine the fair value of financial instruments measured at fair value:**

| 31 December 2010 ths. EUR | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Securities available for sale | 323 888 | 525 848 | 46 622 | 896 358 |
| Securities at fair value through profit or loss | 25 420 | 7 577 | 10 813 | 43 811 |
| Financial assets - trading | - | 19 880 | - | 19 880 |
| Derivative financial assets | - | 49 470 | 2 019 | 51 489 |
| **Total assets** | **349 308** | **602 775** | **59 454** | **1 011 538** |
| Derivative financial liabilities | - | 49 760 | 1 949 | 51 708 |
| **Total liabilities** | **-** | **49 760** | **1 949** | **68 262** |

| 31 December 2009 ths. EUR | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Securities available for sale | 417 860 | 668 165 | 43 251 | 1 129 276 |
| Securities at fair value through profit or loss | 49 499 | 7 368 | 17 379 | 74 246 |
| Derivative financial assets | - | 51 701 | 1 810 | 53 511 |
| **Total assets** | **467 359** | **727 234** | **62 440** | **1 257 033** |
| Derivative financial liabilities | - | 55 478 | 1 777 | 57 255 |
| **Total liabilities** | **-** | **55 478** | **1 777** | **57 255** |

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by the market trend in the structured credit segment (CLNs). The decrease in trading activity led to a reduction in the proportion of observable transactions and thus to the allocation of more instruments to this category.

**The table shows the development of fair value of financial instruments for which valuation models are based on non observable inputs:**

| ths. EUR | Securities available for sale | Securities at fair value through profit or loss | Derivative financial assets | Derivative financial liabilities |
|---|---|---|---|---|
| **MV as of 31 Dec 2009** | **43 251** | **17 380** | **1 809** | **(1 777)** |
| accrued coupon | 355 | 17 | - | - |
| **Balance as of 31 Dec 2009** | **43 251** | **17 380** | **1 809** | **(1 777)** |
| Total gains or losses: | | | | |
| in profit or loss | 28 | (470) | 210 | (171) |
| in other comprehensive income | 1 132 | - | - | - |
| Issues | 6 000 | - | - | - |
| Settlements | (3 891) | (6 098) | - | - |
| **Transfers into Level 3** | **-** | **-** | **-** | **-** |
| Transfers out of Level 3 | - | - | - | - |
| Exchange rate change | - | - | - | - |
| **MV as of 31 Dec 2010** | **46 164** | **10 795** | **2 019** | **(1 949)** |
| accrued coupon | 458 | 18 | - | - |
| **Balance as of 31 Dec 2010** | **46 622** | **10 813** | **2 019** | **(1 949)** |
| Total gains /(losses) for the period included in profit or loss for assets/liabilities held at the end of the reporting period | - | 135 | 210 | (171) |

# 45. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table shows the distribution of assets and liabilities and equity to current (due within one year) and non-current (due over one year) based on their remaining contractual maturity.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| **ths. EUR** | **Current** | **Non-current** | **Total** | **Current** | **Non-current** | **Total** |
| Cash and balances at the central bank | 335 356 | - | 335 356 | 322 937 | - | **322 937** |
| Loans and advances to financial institutions | 914 890 | 338 596 | 1 253 486 | 406 559 | 791 197 | 1 197 756 |
| Loans and advances to customers | 1 363 338 | 4 711 521 | 6 074 859 | 1 834 540 | 4 215 608 | 6 050 148 |
| Provisions for losses on loans and advances | - | (394 240) | (394 240) | - | (314 743) | (314 743) |
| Financial assets at fair value through profit or loss | 42 502 | 72 678 | 115 180 | 20 833 | 106 925 | 127 758 |
| Securities available for sale | 159 326 | 743 306 | 902 632 | 498 557 | 639 086 | 1 137 643 |
| Securities held to maturity | 186 089 | 2 099 174 | 2 285 263 | 430 096 | 1 989 964 | 2 420 060 |
| Investments in associates and other investments | - | 28 582 | 28 582 | - | 28 325 | 28 325 |
| Intangible assets | - | 63 325 | 63 325 | - | 79 762 | 79 762 |
| Property and equipment | - | 209 683 | 209 683 | - | 224 860 | 224 860 |
| Assets held for rental income | - | 4 809 | 4 809 | - | 6 481 | 6 481 |
| Non-current assets held for sale | - | 37 913 | 37 913 | - | 31 793 | 31 793 |
| Current income tax asset | 281 | - | 281 | 24 088 | - | 24 088 |
| Deferred income tax asset | 90 | 70 709 | 70 799 | 1 | 55 339 | 55 340 |
| Other assets | 17 910 | 22 031 | 39 941 | 53 812 | 39 455 | 93 267 |
| **Total assets** | **3 019 782** | **8 008 087** | **11 027 869** | **3 591 423** | **7 894 052** | **11 485 475** |
| Amounts owed to financial institutions | 1 119 511 | 45 452 | 1 164 963 | 2 004 200 | 70 479 | 2 074 679 |
| Amounts owed to customers | 6 610 826 | 1 547 633 | 8 158 459 | 6 752 421 | 1 049 375 | 7 801 796 |
| Debt securities in issue | 97 708 | 297 491 | 395 199 | 215 647 | 259 613 | 475 260 |
| Provisions for liabilities and other provisions | 564 | 23 058 | 23 622 | 467 | 22 426 | 22 893 |
| Financial liabilities at fair value through profit or loss | 8 715 | 42 993 | 51 708 | 11 039 | 46 216 | 57 255 |
| Other liabilities | 86 272 | 11 676 | 97 948 | 83 857 | 7 550 | 91 407 |
| Current income tax | 11 364 | - | 11 364 | 316 | - | 316 |
| Deferred income tax liability | 191 | - | 191 | - | 87 | 87 |
| Subordinated debt | 405 | 194 700 | 195 105 | 260 | 180 000 | 180 260 |
| Equity | - | 929 310 | 929 310 | - | 781 522 | 781 522 |
| **Total liabilities and equity** | **7 935 556** | **3 092 313** | **11 027 869** | **9 068 207** | **2 417 268** | **11 485 475** |

# 46. SEGMENT REPORTING

The segment reporting of the Group follows the presentation and measurement requirements of IFRS as well as Erste Group standards.

### Segment Structure

For the purpose of transparent presentation of the group structure, the segment reporting has been harmonised with the structure of Erste Group and is divided into the following segments:

- **Retail**
- **Local corporates**
- **Real Estate**
- **Assets and Liabilities management**
- **Group Large Corporates**
- **Group Capital Markets**
- **Corporate Center**
- **Free capital**

The segment reporting follows the rules used in the Group controlling report which is produced on a monthly basis for the Holding Board. The report is reconciled with the monthly reporting package and the same segments used in the Group Controlling report are also applied in the External segment reporting for Erste Group.
By adding up Retail, Local corporates, Real estate, ALM and the Corporate centre a core business for the Group is defined, for which the Group is primarily responsible from a Holding Group point of view.

For the definition of segments/business lines in the Group, the Group applies the account manager principle, which means that each client has assigned an account manager, who is assigned to a particular business line/segment. In other words, profit/loss is allocated to an account manager and one customer can have exactly one account manager.
Within the segment report the local fully consolidated subsidiaries as well as other participations are allocated to the respective business line (please see the definitions below).

### Retail

The Retail segment is constituted by the branch network where SLSP sells products mainly to private, free professionals and micro customers. The Retail stream is divided into 8 regions, then to 76 areas and then 291 branches (status as of 31 December 2010). In addition the Retail segment also includes at equity results of PSS (building society).

### Local corporates

Local corporates segment primarily consists of SME (Small and medium enterprises) the Public sector. Leasing SLSP and Factoring SLSP. Local corporates includes mainly the following client segments:

- **Small SME (up to EUR 5 mil gross domestic product 'GDP' weighted turnover)**
- **Medium SME (up to EUR 30 mil GDP weighted turnover)**
- **Large SME (up to EUR 175 mil GDP weighted turnover)**
- **Non-profit Sector**
- **Public Sector (financing of public projects like highways, infrastructure, etc.).**
- **Certain MICRO clients are treated as Local Corporates (e.g, small members of a group of companies)**

### Real Estate

Real estate segment covers all the commercial and residential projects financed by the Group.

### Assets and Liabilities Management

Business line Assets and Liabilities Management manages the structure of balance sheet (banking book) according to market conditions in order to cover the bank's liquidity needs and to ensure a high degree of capital utilization. ALM also contains the transformation margin as a result of the mismatch in balance sheet from time and currency point of view. The transformation margins as well as ALM own business (HTM, AFS, FV portfolio on assets side and Bonds issued on liability side) the main part of this segment.

### Group Large Corporates

The Group Large Corporates segment includes all group large corporate customers operating in the markets of Erste Group. The GLC client is a company which has a GDP/Head adjusted annual turnover of more than EUR 175 million in at least one of EBG core market.

### Group Capital Markets

GCM is responsible for trading in foreign exchange and interest rate products as well as securities for all customer groups and for the development of market-oriented products. The segment Group capital markets in terms of the Group includes divisionalised business lines like Treasury Trading and Institutional Sales. Results and positions coming from Corporate and Retail Sales are included in particular business line e.g. Retail, SME, Real Estate etc. as a result of using the account manager principle.

### Corporate Centre

Typically, corporate Centre contains the non-client business of the Group. The Corporate Centre segment includes mainly positions and items which cannot be directly allocated to specific segment or business line like parts. Additionally, all non-allocated participations like Laned, Derop, Realitná spoločnosť SLSP, sIT Solutions, sProserv and other participations are recognised within this segment.

### Free Capital

Free capital is not a segment but the difference between the total equity according to the balance sheet and the sum of the allocated capital of Business lines. Under the free capital a subordinated debt as taken from the holding company is also presented.

| 2010<br>ths. EUR | Retail | Local Corporates | Real Estate | ALM | Corporate centre | Core business |
|---|---|---|---|---|---|---|
| Net interest income | 297 629 | 43 612 | 14 183 | 56 652 | 8 500 | 420 576 |
| Risk provisions for loans and advances | (82 833) | (25 469) | (19 515) | 109 | (2) | (127 709) |
| Net fee and commission income | 105 770 | 8 396 | 868 | - | (8 456) | 106 578 |
| Net trading result | 4 839 | 1 160 | 8 | (1 064) | (908) | 4 034 |
| General administrative expenses | (192 099) | (18 516) | (2 169) | (2 487) | (6 936) | (222 207) |
| Other result | (12 790) | (166) | 659 | 3 373 | (12 222) | (21 146) |
| **Pre-tax profit** | **120 516** | **9 016** | **(5 966)** | **56 582** | **(20 023)** | **160 125** |
| Taxes on income | (22 830) | (2 157) | 1 133 | (10 751) | 1 915 | (32 689) |
| Non Controlling Interest | - | 3 | - | - | (126) | (123) |
| **Net profit after Non Controlling Interest** | **97 687** | **6 862** | **(4 832)** | **45 832** | **(18 234)** | **127 313** |
| Average risk-weighted assets | 2 974 411 | 1 383 066 | 530 216 | 122 954 | 219 883 | 5 230 531 |
| Average attributed equity | 253 780 | 110 896 | 42 428 | 11 208 | 19 150 | 437 462 |
| **Cost/income ratio** | **47.06%** | **34.83%** | **14.40%** | **4.47%** | **(802.83%)** | **41.83%** |
| **ROE based on net profit after Non Controlling Interest(1)** | **38.49%** | **6.19%** | **(11.39%)** | **408.90%** | **(95.22%)** | **29.10%** |

| 2010<br>ths. EUR | GLC | GM | Free capital | SLSP group |
|---|---|---|---|---|
| Net interest income | 14 718 | 3 248 | 8 055 | 446 597 |
| Risk provisions for loans and advances | (2 042) | - | - | (129 751) |
| Net fee and commission income | 4 284 | 3 894 | - | 114 756 |
| Net trading result | 656 | 3 982 | - | 8 672 |
| General administrative expenses | (4 838) | (3 929) | - | (230 974) |
| Other result | (18) | (0) | - | (21 164) |
| **Pre-tax profit** | **12 760** | **7 195** | **8 055** | **188 136** |
| Taxes on income | (2 424) | (1 367) | (1 534) | (38 014) |
| Non Controlling Interest | - | - | - | (123) |
| **Net profit after Non Controlling Interest** | **10 336** | **5 828** | **6 522** | **149 999** |
| | | | | |
| Average risk-weighted assets | 995 402 | 162 952 | - | 6 388 885 |
| Average attributed equity | 79 665 | 14 556 | 290 195 | 821 877 |
| **Cost/income ratio** | **24.61%** | **35.32%** | **0.00%** | **40.52%** |
| | | | | |
| **ROE based on net profit after Non Controlling Interest1(1)** | **12.97%** | **40.04%** | **2.25%** | **18.25%** |

Notes:
1) ROE = return on equity.

| 2009<br>ths. EUR | Retail | Local Corporates | Real Estate | ALM | Corporate centre | Core business |
|---|---|---|---|---|---|---|
| Net interest income | 285 858 | 52 985 | 13 868 | 30 214 | (1 503) | 381 422 |
| Risk provisions for loans and advances | (89 094) | (66 132) | (17 084) | (330) | 16 189 | (156 451) |
| Net fee and commission income | 101 457 | 10 244 | 643 | - | (7 793) | 104 551 |
| Net trading result | 5 400 | 3 600 | 264 | 4 787 | (5 768) | 8 284 |
| General administrative expenses | (201 262) | (22 710) | (2 214) | (3 445) | (19 927) | (249 558) |
| Other result | (13 368) | (2 308) | (12 564) | (11 577) | (20 019) | (59 836) |
| **Pre-tax profit** | **88 991** | **(24 321)** | **(17 087)** | **19 649** | **(38 822)** | **28 411** |
| Taxes on income | (16 617) | (685) | 1 113 | (3 733) | 3 430 | (16 494) |
| Non Controlling Interest | - | - | - | - | (358) | (358) |
| **Net profit after Non Controlling Interest** | **72 374** | **(25 006)** | **(15 974)** | **15 916** | **(35 749)** | **11 559** |
| | | | | | | |
| Average risk-weighted assets | 2 611 780 | 1 806 926 | 624 593 | 112 120 | 248 945 | 5 404 364 |
| Average attributed equity | 233 260 | 144 308 | 49 976 | 13 551 | 21 003 | 462 098 |
| **Cost/income ratio** | **51.25%** | **33.98%** | **14.99%** | **9.84%** | **(132.28%)** | **50.49%** |
| **ROE based on net profit after Non Controlling Interest[1]** | **31.03%** | **(17.33%)** | **(31.96%)** | **117.46%** | **(170.21%)** | **2.50%** |

| 2009<br>ths. EUR | GLC | GM | Free capital | SLSP group |
|---|---|---|---|---|
| Net interest income | 10 499 | 6 922 | 6 903 | 405 746 |
| Risk provisions for loans and advances | (3 987) | - | - | (160 439) |
| Net fee and commission income | 2 466 | 2 811 | - | 109 828 |
| Net trading result | 401 | 4 115 | - | 12 800 |
| General administrative expenses | (3 247) | (3 926) | - | (256 729) |
| Other result | (8) | - | - | (59 844) |
| **Pre-tax profit** | **6 125** | **9 921** | **6 903** | **51 362** |
| Taxes on income | (1 164) | (1 885) | (1 312) | (20 857) |
| Non Controlling Interest | - | - | - | (358) |
| **Net profit after Non Controlling Interest** | **4 961** | **8 036** | **5 591** | **30 147** |
| | | | | |
| Average risk-weighted assets | 698 194 | 186 259 | - | 6 288 817 |
| Average attributed equity | 56 431 | 15 888 | 243 713 | 778 130 |
| **Cost/income ratio** | **24.29%** | **28.35%** | **0.00%** | **48.59%** |
| **ROE based on net profit after Non Controlling Interest[1]** | **8.79%** | **50.58%** | **2.29%** | **3.87%** |

Notes:
1) ROE = return on equity.

## 47. ASSETS UNDER ADMINISTRATION

The Group provides custody, trustee, investment management, and advisory services to third parties, which involves the Group making allocation and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group accepted in custody EUR 730 million and EUR 744 million of assets as at 31 December 2010 and 2009, respectively, representing securities from customers in its custody for administration, including assets managed by Asset Management Slovenskej sporiteľne, a wholly owned subsidiary of the Group before 2009.

## 48. RELATED PARTY TRANSACTIONS

### (a) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Erste Group Bank, which indirectly holds 100% of the voting rights of the Group's total shares. Related parties include subsidiaries and associates of the Group and other members of Erste Group Bank group.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits

### (b) Transactions with Erste Group Bank group

**Assets and liabilities include accounting balances with the parent bank and companies under its direct control, as follows:**

| ths. EUR | 2010<br>Erste Group Bank | 2010<br>Companies under the control of Erste Group Bank | 2009<br>Erste Group Bank | 2009<br>Companies under the control of Erste Group Bank |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to financial institutions | 1 127 414 | 112 359 | 961 004 | 700 |
| Loans and advances to customers | - | 76 990 | - | 79 856 |
| Trading assets | 13 852 | - | 14 260 | - |
| Available for sale portfolio | - | 11 278 | - | 10 662 |
| Other assets | 2 601 | 979 | 3 451 | 34 568 |
| **Total** | **1 143 867** | **201 606** | **978 715** | **125 786** |
| | | | | |
| **Liabilities** | | | | |
| Amounts owed to financial institutions | 35 431 | 69 707 | 318 363 | 112 362 |
| Amounts owed to customers | 37 | 7 554 | 926 | 8 509 |
| Debt securities in issue | - | 18 | - | 18 |
| Trading liabilities | 17 700 | - | 17 408 | - |
| | | | | |
| **AFS revaluation** | - | (749) | - | (646) |
| Other liabilities | 7 960 | 1 325 | 4 695 | 1 811 |
| Subordinated debt | 180 306 | - | 180 260 | - |
| **Total** | **241 434** | **77 855** | **521 652** | **122 054** |

The Group received a guarantee issued by its parent bank with a maximum value of EUR 50 million (2009: EUR 50 million) covering all the Group's exposures to the parent bank and its group companies. Under the agreement, the parent bank pledged securities issued or guaranteed by the Republic of Italy with a face value amounting to EUR 50 million (2009: EUR 50 million).

In 2010 the Group received a bank guarantee provided by its parent bank in the amount of EUR 144 million covering exposures towards subsidiaries and other group members (2009: EUR 242 million).

Exposures towards corporate clients covered by the parent's bank guarantees (excluding exposures towards ERSTE Group entities) are in the amount of EUR 62.57 million (2009: EUR 63.25 million).

The Group purchased software from companies under the control of Erste Group Bank in 2010 in the amount of EUR 2.4 million (2009: 19.7 million). In 2009 the Group sold part of the core banking system in value of EUR 33 million to s IT Solutions SK, spol. s r.o. (see note 25).

The Group entered into two loan contracts with its parent company Erste Group Bank in the amount of EUR 180 million subordinated loan (2009: EUR 180 million).

**Income and expenses related to the parent bank and its subsidiaries include the following:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **ths. EUR** | **Erste Group Bank** | **Companies under the control of Erste Group Bank** | **Erste Group Bank** | **Companies under the control of Erste Group Bank** |
| Interest income | 20 737 | 4 866 | 14 543 | 4 873 |
| Interest expense | (4 349) | (593) | (5 845) | (2 015) |
| Net fees and commissions | 2 | 4 455 | (107) | 2 433 |
| Net trading result | 2 836 | 304 | 3 122 | - |
| General administrative expenses | (1 083) | (7 340) | (1 585) | (15 336) |
| Other operating result | 60 | 609 | - | 303 |
| **Total** | **18 203** | **2 301** | **10 128** | **(9 742)** |

### (c) Transactions with associates of the Bank, other than those under control of Erste Group Bank

**Assets and liabilities include accounting balances with the associates, as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Loans and advances to financial institutions | - | 2 338 |
| Financial assets at fair value through profit or loss | 1 173 | 1 163 |
| Securities available for sale | 13 453 | 13 343 |
| Ostatné aktíva | - | - |
| **Total** | **14 626** | **16 844** |
| | | |
| **Liabilities** | | |
| Amounts owed to financial institutions | 21 090 | 30 644 |
| Amounts owed to customers | - | 415 |
| **Total** | **21 090** | **31 059** |



**Income and expenses from the associates include the following:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Interest income | 6 | 62 |
| Interest expense | (51) | (95) |
| General administrative expenses | (81) | (281) |
| **Total** | **(126)** | **(314)** |

The Group received dividends from its associates in the amount of EUR 3.1 million in 2010 (2009: EUR 2.9 million).

### (d) Transactions with key management personnel

Liabilities to members of the Board of Directors and Supervisory Board represent EUR 3.4 million and EUR 2.1 million as at 31 December 2010 and 2009, respectively.

Remuneration of members of the Board of Directors and Supervisory Board paid during 2010 amounts to EUR 2.3 million (2009: EUR 1.4 million) which represents short-term employee benefits.

## 49. POST BALANCE SHEET EVENTS

From 31 December 2010 up to the date of issue of these financial statements there were no such events identified that would require adjustments to or disclosure in these financial statements.

# Separate Financial Statements

## prepared in Accordance with International Financial Reporting Standards as adopted by the European Union for the Year Ended 31 December 2010

## and Independent Auditors' Report

# Independent Auditors' Report to the Shareholder of Slovenská sporiteľňa, a.s.

ERNST & YOUNG

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**Independent Auditors' Report**

To the Shareholder of Slovenská sporiteľňa, a. s.:

We have audited the accompanying separate financial statements of Slovenská sporiteľňa, a. s. ('the Bank'), which comprise the balance sheet as at 31 December 2010, the income statement, comprehensive income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these separate 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 whether the separate financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

8 February 2011
Bratislava, Slovak Republic

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský
SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B
a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

## Separate Income Statement
### For the Year Ended 31 December 2010

| ths. EUR | Note | 2010 | 2009 |
|---|---|---|---|
| Interest income | | 530 343 | 523 463 |
| Interest expense | | (89 761) | (125 882) |
| Income from investments in subsidiaries and associates | | 3 113 | 2 992 |
| **Net interest and investment income** | **5** | **443 695** | **400 573** |
| Provisions for losses on loans, advances and off-balance sheet credit risks | 7 | (124 703) | (145 766) |
| **Net interest and investment income after provisions** | | **318 992** | **254 807** |
| Fee and commission income | | 128 903 | 124 334 |
| Fee and commission expense | | (13 969) | (13 793) |
| **Net fee and commission income** | **6** | **114 934** | **110 541** |
| Net trading result | 8 | 9 193 | 13 943 |
| General administrative expenses | 9 | (231 723) | (257 051) |
| Other operating result | 10 | (31 122) | (89 941) |
| **Profit for the year before income taxes** | | **180 274** | **32 299** |
| Income tax expense | 11 | (37 810) | (20 379) |
| **Net profit for the year after income taxes** | | **142 464** | **11 920** |
| Basic and diluted earnings per EUR 1 000 share (EUR) | 32 | 672 | 56 |

The notes on pages 122 to 189 are an integral part of these financial statements

These financial statements were approved and authorised for issue by the Board of Directors of the Bank on 8 February 2011.

Ing. Jozef Síkela
Chairman of the Board of Directors and Chief Executive Officer

Ing. Štefan Máj
Deputy Chairman of the Board of Directors and First Deputy of the Chief Executive Officer

## Separate Comprehensive Income Statement
### For the Year Ended 31 December 2010

| ths. EUR | Note | 2010 | 2009 |
|---|---|---|---|
| **Net profit for the year after income taxes** | | **142 464** | **11 920** |
| Available for sale reserves | | (2 828) | 16 813 |
| Cash flow hedge reserves | | (459) | (489) |
| Actuarial gains  on defined benefit pension plans | | 273 | 157 |
| Income tax relating to components of other comprehensive income | | 624 | (3 101) |
| **Other comprehensive (expense)/income for the year after income taxes** | | **(2 390)** | **13 380** |
| | | | |
| **Total comprehensive income for the year** | | **140 074** | **25 300** |

The notes on pages 122 to 189 are an integral part of these financial statements

## Separate Balance Sheet
### As at 31 December 2010

| ths. EUR | Note | 2010 | 2009 |
|---|---|---|---|
| | | | |
| **ASSETS** | | | |
| Cash and balances at the central bank | 12 | 335 352 | 322 934 |
| Loans and advances to financial institutions | 13 | 1 253 413 | 1 191 727 |
| Loans and advances to customers | 14 | 6 081 303 | 6 013 146 |
| Provisions for losses on loans and advances | 15 | (368 259) | (289 360) |
| Financial assets at fair value through profit or loss | 16 | 115 870 | 129 405 |
| Securities available for sale | 17 | 904 254 | 1 141 199 |
| Securities held to maturity | 18 | 2 285 263 | 2 420 061 |
| Investments in subsidiaries and associates | 19 | 15 147 | 19 777 |
| Intangible assets | 20 | 63 075 | 79 430 |
| Property and equipment | 21 | 116 720 | 129 426 |
| Investment property | 21 | 3 455 | 3 959 |
| Non-current assets held for sale | 22 | 37 913 | 31 020 |
| Current income tax asset | 23 | - | 24 078 |
| Deferred income tax asset | 23 | 70 934 | 55 520 |
| Other assets | 24 | 29 594 | 60 719 |
| **Total assets** | | **10 944 034** | **11 333 041** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Amounts owed to financial institutions | 25 | 1 126 160 | 1 976 818 |
| Amounts owed to customers | 26 | 8 169 055 | 7 835 708 |
| Debt securities in issue | 27 | 380 933 | 426 454 |
| Provisions | 28 | 23 059 | 22 426 |
| Financial liabilities at fair value through profit or loss | 42.b | 51 708 | 57 255 |
| Other liabilities | 29 | 93 701 | 81 244 |
| Current income tax liability | 23 | 11 363 | - |
| Subordinated debt | 30 | 195 105 | 180 260 |
| **Total liabilities** | | **10 051 084** | **10 580 165** |
| Equity | 31 | 892 950 | 752 876 |
| **Total liabilities and equity** | | **10 944 034** | **11 333 041** |

The notes on pages 122 to 189 are an integral part of these financial statements

## Separate Statement of Changes in Equity
### For the Year Ended 31 December 2010

| ths. EUR | Share capital | Legal reserve fund | Other Funds | Retained earnings | Hedging reserves | Revaluation reserves | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2008** | **211 585** | **79 795** | **39 326** | **475 816** | **835** | **(15 005)** | **792 352** |
| Net profit for the year | - | - | - | 11 920 | - | - | 11 920 |
| Other comprehensive income | - | - | - | 157 | (396) | 13 619 | 13 380 |
| Dividends paid | - | - | - | (65 193) | - | - | (65 193) |
| Other funds contributed by shareholders | 415 | - | - | - | - | - | 415 |
| Other change | - | - | 2 | - | - | - | 2 |
| **As at 31 December 2009** | **212 000** | **79 795** | **39 328** | **422 700** | **439** | **(1 386)** | **752 876** |
| Net profit for the year | **-** | **-** | **-** | **142 464** | **-** | **-** | **142 464** |
| Other comprehensive income | **-** | **-** | **-** | **273** | **(372)** | **(2 291)** | **(2 390)** |
| **As at 31 December 2010** | **212 000** | **79 795** | **39 328** | **565 437** | **67** | **(3 677)** | **892 950** |

The notes on pages 122 to 189 are an integral part of these financial statements

## Separate Statement of Cash Flows
### For the Year Ended 31 December 2010

| ths. EUR | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income taxes | | 180 274 | 32 299 |
| Adjustments for: | | | |
| Provisions for losses on loans, advances, off-balance sheet and write-offs | 15 | 111 360 | 136 652 |
| Provisions | | 3 519 | 5 771 |
| Impairment of tangible and intangible assets | 20. 21 | 2 952 | 62 |
| Depreciation and amortisation | 20. 21 | 41 221 | 45 896 |
| Gain on disposal of fixed assets | | 447 | (140) |
| Net loss from financial activities | | 15 463 | 20 507 |
| Net (gain) from investing activities | | (93 596) | (82 618) |
| Impairment of investments in subsidiaries and associates | 10 | 15 356 | 51 014 |
| Recycling of available for sale reserve | | (459) | 7 611 |
| **Cash flows from operations before changes in operating assets and liabilities** | | **276 537** | **217 054** |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposits with the central bank | | (41 164) | 827 602 |
| Loans and advances to financial institutions | | (61 659) | (1 049 634) |
| Loans and advances to customers | | (100 618) | (425 571) |
| Financial assets at fair value through profit or loss and securities available for sale | | 247 652 | (270 255) |
| Other assets | | (1 762) | (398) |
| Increase/(decrease) in operating liabilities: | | | |
| Amounts owed to financial institutions | | (850 658) | (166 049) |
| Amounts owed to customers | | 333 347 | (739 094) |
| Provisions | | (2 613) | (8 519) |
| Financial liabilities at fair value through profit or loss | | (5 547) | (4 765) |
| Other liabilities | | 13 231 | (48 193) |
| **Net cash flows provided by/(used in) operating activities before income tax** | | **(193 255)** | **(1 667 822)** |
| Income taxes paid | | (17 158) | (105 509) |
| **Net cash flows provided by/(used in) operating activities** | | **(210 413)** | **(1 773 331)** |
| **Cash flows from investing activities** | | | |
| Purchase of securities held to maturity | | (500 301) | (1 214 873) |
| Proceeds from securities held to maturity | | 645 997 | 209 691 |
| Interest received from securities held to maturity | | 79 277 | 61 285 |
| Dividends received from associates | | 3 100 | 2 981 |
| Purchase of share in subsidiaries and associates | | (10 932) | (25 032) |
| Proceeds from sale of subsidiaries and associates | | 964 | 7 070 |
| Purchase of intangible assets, property and equipment | | (22 708) | (40 116) |
| Proceeds from sale of intangible assets, property and equipment | | 33 647 | 3 177 |
| **Net cash flows provided by/(used in) investing activities** | | **229 044** | **(995 816)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | - | (65 193) |
| Drawing of subordinated debt | | 14 500 | - |
| Interest paid on subordinated debt | | (3 443) | (5 500) |
| Issue of the bonds | | 131 132 | 137 426 |
| Repayment of the bonds | | (176 107) | (118 411) |
| Interest paid to the holders of the bonds | | (12 995) | (18 176) |
| Other financing activities | | - | 417 |
| **Net cash flows provided by/(used in) financing activities** | | **(46 913)** | **(69 436)** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (438) | 494 |
| **Net increase / (decrease) in cash and cash equivalents** | | **(28 719)** | **(2 838 089)** |
| **Cash and cash equivalents at the beginning of the year** | **33** | **258 419** | **3 096 507** |
| **Cash and cash equivalents at the end of the year** | **33** | **229 700** | **258 419** |

The notes on pages 122 to 189 are an integral part of these financial statements

# Notes to the Separate Financial Statements
## prepared in Accordance with International Financial Reporting Standards as adopted by the European Union Year Ended 31 December 2010

## 1. INTRODUCTION

Slovenská sporiteľňa, a. s. (hereafter 'the Bank') has its registered office at Tomašikova 48, Bratislava, the Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Registry on 1 April 1994. The identification number of the Bank is 00 151 653 and its tax identification number is 2020411536. The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial, and private customers, principally in the Slovak Republic.

Personal changes were made in the Board of Directors on June 1. 2010. Ing. Jan Rollo and Mag. Frank Michael Beitz do not continue in their functions with the Bank. Ing. Jozef Síkela has been appointed new Chief Executive Officer and Chairman of the Board of Directors and a new member of the Board of Directors Ing. Jiří Huml has been also appointed. Competencies were reallocated between Board members. Members of the Board of Directors of the Bank as of December 31. 2010 are Ing. Jozef Síkela (Chairman), Ing. Štefan Máj (Deputy Chairman), Ing. Peter Krutil (Member), Ing. Martin Pilecký (Member) and Ing. Jiří Huml (Member).

The Chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The Deputy Chairman of the Board of Directors is the First Deputy of the Chief Executive Officer. Other members of the Board of Directors are simultaneously Deputies of the Chief Executive Officer.

The members of the Supervisory Board as of 31 December 2010 were as follows: Martin Škopek (Chairman) from September 14, 2010, Wolfgang Schopf (Deputy Chairman), and Dr. Franz Hochstrasser, Herbert Juranek and JUDr. Beatrica Melichárová as members. In 2010 Supervisory Board´s members were also Mr. Bernhard Spalt till March 24, 2010 and Mr. Martin Rohmann from March 25, 2010 till September 13, 2010.

The CEE banking subsidiaries of Erste Group Bank AG (Slovenská sporiteľňa, Česká sporitelna, Erste Bank Hungary, BCR, Erste Bank Croatia, Erste Bank Serbia) were in 2009 placed under EGB Ceps Holding GmbH, a 100% indirect subsidiary of Erste Group Bank. Reorganisation did not affect Erste Group Bank's Consolidated Financial Statements, as its (indirect) stake in its CEE banking subsidiaries is equal to its direct stake before the reorganisation.

As of 31 December 2010 and 2009, the only shareholder of the Bank was EGB Ceps Holding GmbH, with registered office Graben 21, 1010 Vienna, Austria. The Separate financial statements of Erste Group Bank will be available after their completion at Firmenbuchgericht Wien, Marxergasse 1a, 1030 Vienna, Austria Court.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

The Bank applied all Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the European Union ('EU') that are relevant to the Bank's operations.

### a) Standards and interpretations relevant to Bank's operations, effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

**– IFRS 2 Share-based Payment (Revised)**

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Bank adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Bank.

**– IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners.
The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.
The change in accounting policy was applied prospectively and had no impact on earnings per share.

**– IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

**– IFRIC 17 Distribution of Non-cash Assets to Owners**

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Bank.

**– Improvements to IFRSs**

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Bank.

**Issued in May 2008**

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Bank.

**Issued in April 2009**

**IFRS 2 Share-based Payment**
Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2. Effective for periods beginning on or after 1 July 2009

**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

**IFRS 8 Operating Segments**
Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank has continued to disclose this information in Note 45.

**IAS 1 Presentation of Financial Statements: Current/non-current classification of convertible instruments**
The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. Effective for annual periods beginning on or after 1 January 2010.

**IAS 7 Statement of Cash Flows**
States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

**IAS 17 Leases - Classification of land and buildings**
The specific guidance on classifying land as a lease has been removed so that only the general guidance remains. Effective for annual periods beginning on or after 1 January 2010.

**IAS 36 Impairment of Assets**
The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Bank as the annual impairment test is performed before aggregation.

**IAS 38 Intangible Assets: Consequential amendments arising from IFRS 3**
If an intangible acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided the individual assets have similar useful lives.

**IAS 38 Intangible Assets: Measuring fair value**
The valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.

**IAS 39 Financial Instruments: Recognition and Measurement - Cash flow hedge accounting**
Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss. Effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.

**IFRIC 9 Reassessment of Embedded Derivatives Scope of IFRIC 9 and IFRS 3**
IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation or a joint venture. The amendment is effective prospectively for annual periods beginning on or after 1 July 2009.

**IFRIC 16 Hedges of a Net Investment in a Foreign Operation**
Amendment of the restriction on the entity that can hold hedging instruments: Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met. See Section 1 for further details. The amendment is effective for annual periods beginning on or after 1 July 2009.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- **IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for accounting periods beginning on or after 30 March 2009);**

- **IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for accounting periods beginning on or after 1 January 2010);**

- **IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for accounting periods beginning on or after 1 November 2009);**

- **IFRS 1 (revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for accounting periods beginning on or after 1 January 2010);**

### b) Standards and interpretations issued but not yet effective

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

**– IAS 24 Related Party Disclosures (Amendment)**

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

**– AS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)**

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Bank at initial application.

**– IFRIC 14 Prepayments of a minimum funding requirement (Amendment)**

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Bank.

**– IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

At present. IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2010.

**– IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

**– Disclosures — Transfers of Financial Assets (Amendments to IFRS 7)**

The IASB has amended the required disclosures relating to transfers of financial assets. The objective of the amendments is to help users of financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position.

**– Improvements to IFRSs (issued in May 2010)**

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Bank:

- **IFRS 3 Business Combinations**
- **IFRS 7 Financial Instruments: Disclosures**
- **IAS 1 Presentation of Financial Statements**
- **IAS 27 Consolidated and Separate Financial Statements**
- **IFRIC 13 Customer Loyalty Programmes**

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank 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. Based on 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

Pursuant to Article 17a of Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 banks are required to prepare their separate and consolidated financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS). As a result, separate financial statements prepared in accordance with IFRS have effectively replaced financial statements prepared under Slovak Accounting Standards.

The financial statements of the Bank for the previous period (31 December 2009) were signed and authorised for issue on 9 February 2010.

The separate financial statements comprising the accounts of the Bank, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). Except for certain standards issued but not yet effective (see note 2b) and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. IFRS as adopted by the EU does not currently differ from IFRS and its effective standards and interpretations as issued by the International Accounting Standards Board (IASB). The Bank has determined that the standards not endorsed by the EU would not impact the separate financial statements had such standards been endorsed by the EU at the balance sheet date.

### (b Basis of preparation

The Bank is required to prepare Separate Financial Statements. These separate financial statements do not include consolidation of assets, liabilities, or operational results of subsidiaries. The Bank prepared and issued Consolidated Financial Statements for the year ended 31 December 2010 on 8 February 2011.

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

These financial statements were prepared using the going concern assumption that the Bank will continue in operation for the foreseeable future.

The Bank holds controlling interests in subsidiaries as described in Note 19. The subsidiaries are accounted for at cost in these separate financial statements less any impairment losses.

Since 1 January 2009, the Slovak Republic entered the Euro zone and the Slovak crown (SKK) was replaced by the new currency Euro (EUR). The change in functional currency was implemented prospectively as of 1 January 2009 and all assets, liabilities and equity of the Bank were converted into EUR based on the official conversion rate EUR 1 = SKK 30.1260. Corresponding financial information was translated by the official conversion rate of 30.1260 SKK/EUR.

The unit of measurement is thousand of EUR (EUR thousand), unless stated otherwise. The amounts in parentheses represent negative values.

### (c) Subsidiaries and associates

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

#### Subsidiary Undertakings

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

Investments in subsidiaries are accounted for using the cost method. Dividend income is recognized in the Income Statement under 'Income from investments in subsidiaries and associates'. Impairment losses are recognized in the Income Statement under 'Other operating result' when the recoverable amount of the Bank's investment in a subsidiary is determined to be less than its carrying amount, or the value is otherwise impaired.

#### Associated Undertakings

An associate is an entity in which the Bank normally holds, directly or indirectly, more than 20% but less than 50% over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. 'Significant influence' is the power to participate in the financial and operating policy decisions of the investee, without having control or joint control over those policies.

Associates are accounted for using the cost method. Dividend income is recognized in the Income Statement under 'Income from investments in subsidiaries and associates'. Impairment losses are recognized in the Income Statement under 'Other operating result' when the recoverable amount of the Bank's investment in an associate is determined to be less than its carrying amount, or the value is otherwise impaired.

### (d) Cand Cash Equivalents

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

### (e) Loans and Advances, and Provisions for Losses on Loans and Advances

Loans and advances are measured initially at their fair value plus transaction costs, subsequently carried at amortised cost using the effective interest rate, less any provisions for impairment. The effective interest rate represents the rate that exactly discounts estimated future cash flows through the expected life of the financial asset to that asset's carrying amount. Origination fees and directly attributable costs related to loans and advances are amortised over the contractual life of the loan. All loans and advances are initially recognised when cash is advanced to borrowers.



Provisions for loan impairment are recognised for the estimated irrecoverable amounts of Loans and Advances when there is objective evidence that they are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated Impairment provisions are created through the Income Statement in 'Provisions for losses on loans, advances and off-balance sheet credit risk'. If the reason for provisioning no longer exists or the provision is not appropriate, the redundant provisions are released through the Income Statement in 'Provisions for losses on loans, advances and off-balance sheet credit risks'.

Write-offs are generally recorded against provisions when all reasonable restructuring or collection activities have taken place and further recovery is considered to be ineffective taking into account loans outstanding, expenses on collection, and forecasted result. Recoveries of loans and advances previously written-off are reflected into income.

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

#### Individual assessment of impairment

Loans and advances to institutions, sovereign and corporate classes, are generally considered by the Bank as being individually significant (generally clients with exposures exceeding EUR 1.3 million or turnover of more than EUR 1 million) and are analysed on an individual basis.

Loans and advances with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments, as well as proceeds from collateral. Impairment amount is determined by the difference between the loan's gross carrying amount and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

#### Portfolio assessment of impairment

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit rating system.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### (f) Debt and Equity Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of securities and pursuant to the Bank's security investment strategy. The Bank has developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to the 'Financial assets at fair value through profit or loss' portfolio, the 'Available for sale' portfolio, and the 'Held to maturity' portfolio. The main difference between the portfolios relates to the measurement of securities in fair value and amortised costs, and the reporting of unrealised gains or losses.

All 'regular way' purchases and sales of securities are recognised using settlement date accounting.

#### Financial Assets at Fair Value through Profit or Loss (´FVTPL´)

A financial asset at fair value through profit or loss is a financial asset classified as either held for trading or designated by the entity upon initial recognition.

A financial asset is classified as held for trading if:

- **it has been acquired principally for the purpose of selling in the near future; or**
- **it is part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or**
- **it is a derivative that is not designated and effective as a hedging instrument.**

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- **such designation eliminates or significantly reduces a measurement or recognition inconsistency that**

**would otherwise arise; or**

- **the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or**
- **it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.**

Assets in this portfolio are initially recognised at fair value and are subsequently re-measured to fair value. Interest income is calculated and recognised in the 'Net interest and investment income'. Changes in the fair values of securities held for trading are recognised in the Income Statement as 'Net trading result'. Changes in the fair values of other financial assets designated as at FVTPL are recognised in 'Other operating result'.

**Available for Sale Securities ('AFS securities')**

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

AFS securities are initially recognised at fair value and are subsequently re-measured to fair value. Interest is recognised using the effective interest rate in the 'Net interest and investment income'. Unrealised changes in the fair values of AFS securities are recognised as adjustments to equity revaluation reserves, with the exception of the impairment losses.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity revaluation reserve is included in income statement for the period as 'Other operating result'.

For available-for-sale financial investments, the Bank assess at each balance sheet date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

In case of equity investments classified as available-for-sale, objective evidence of impairment also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss is removed from 'Available for sale reserve' in the equity and is reclassified and shown as impairment loss in 'Other operating result'. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

The investments in equity instruments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method and are subject to impairment test.

**Securities Held to Maturity ('HTM securities')**

Se curities held to maturity are financial assets with fixed maturity that the Bank has the positive intent and ability to hold to maturity. HTM securities are initially recognised at fair value. HTM securities are subsequently reported at amortised cost using the effective interest method, less any provision for impairment.

A financial asset held to maturity is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When the impairment of assets is identified, the Bank recognises provisions through the Income Statement.

Changes in the fair value of HTM securities are not recognised in the financial statements, but are disclosed in Note 43.

**Fair value of financial instruments**

The fair value is the amount for which a financial instrument could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction.

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

- **the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;**
- **the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;**
- **the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.**

### (g) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at fair value and are subsequently measured at the higher of:

- **the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions. Contingent Liabilities, and Contingent Assets; and**
- **the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.**

### (h) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset (financial liability) and of allocating interest income (interest expense) over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the financial asset (financial liability), or, where appropriate, a shorter period.

### (i) Recognition and derecognition of financial assets and financial liabilities

All financial assets and liabilities except for Issued debt securities and derivative financial instruments are initially recognised on the settlement date, i.e., the date when an asset is delivered to or by the Bank. Issued debt securities and derivative financial instruments are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument.

This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises the asset to the extent of continuing involvement in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### (j) Sale and Repurchase Agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain at the fair value or amortised cost within the relevant portion on the assets and the consideration received is recorded in 'Amounts owed to financial institutions' or 'Amounts owed to customers'. Debt or equity securities purchased under a commitment to resell at a pre-determined price are recorded in 'Loans and advances to financial institutions' or 'Loans and advances to customers'. Interest is accrued using the effective interest rate.

### (k) Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful life years through 'General administrative expenses' as follows:

| Type of intangible assets | Depreciation period 2010 and 2009 |
|---|---|
| Core banking system and related applications | 8 years |
| Other software | 4 years |

The estimated useful lives and amortizati[illegible] at the end of each reporting period, with the effect of any changes in the estimate accounted for on a prospective basis. Impairment losses are recorded in 'Other operating result' in the Income statement.

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

### (l) Property and Equipment

Property and equipment is stated at historical cost less accumulated depreciation using a straight-line basis depreciation over estimated useful lives as follows:

| Type of property and equipment | Depreciation period 2010 and 2009 |
|---|---|
| Buildings and structures | 30 years |
| Electronic machines and equipment | 4 - 6 years |
| Hardware | 4 years |
| Vehicles | 4 years |
| Fixture and fittings | 6 - 12 years |
| Leasehold improvements | Shorter of lease period or life of asset |

Land and assets under construction are not depreciated.

### (m) Investment Property

Investment property is property, i.e, land or building, held to earn rental revenue. Investment property is stated at historical cost less impairment provisions and accumulated depreciation using a straight-line basis depreciation over estimated useful lives. The carrying amount of investment property, its depreciation, and rental revenues are disclosed in Note 21. The estimated useful life of buildings classified as investment property is 30 years.

### (n) Impairment of Property and Equipment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is determined as the higher of estimated fair value less cost to sell and value in use. The largest components of the Bank's assets are periodically tested for impairment, and impairments are provisioned through the Income Statement 'Other operating result'. Repairs are charged to the Income Statement in 'General administrative expenses' under 'Other administrative expenses' in the year in which the expenditures are incurred.

### (o) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The Bank's management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.
Any gain or loss from sale and impairment losses and their reversals are included in 'Other operating result'.

### (p) Provisions

Provisions are recognised when the Bank has a current legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

### (q) Long-term Employee Benefit Provisions

The Bank operates unfunded defined long-term benefit programs comprising lump-sum post-employment and working anniversary.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the jubilee benefit obligation are charged to the Income Statement in the current year. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in equity in the period in which they occur.

See Note 28(d) for key assumptions used in actuarial valuations.

### (r) Dividends to shareholder

Dividends to shareholders are deducted from equity in the period in which they are declared by the General Assembly.

### (s) Taxation

Income tax on the Bank's current year results consists of both current income tax and deferred tax.

Income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Currently enacted or substantially enacted tax rates are used to determine deferred income tax. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that the Bank will be able to realise the deferred tax assets in the future. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered, or realization of the tax benefit is otherwise impaired.

Deferred income tax is charged or credited to the Income Statement, except when such deferred income tax relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Dividends received by the Bank are subject to income tax only if such dividends were paid from profit generated prior to 1 January 2004.

### (t) Derivative Financial Instruments

Derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency options (both put and call options) and other finance derivative instruments. The Bank uses various types of derivative instruments in both its trading and hedging activities.

Financial derivative instruments entered into for trading purposes are stated at fair value. Unrealised gains and losses are reported as 'Financial assets at fair value through profit or loss' and 'Financial liabilities at fair value through profit or loss' on the balance sheet. Fair values of derivatives are based on quoted market prices or pricing models which take into account the current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with gains and losses reported in the Income Statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in 'Net trading result'.

Hedging derivatives are defined as derivatives that comply with the Bank's risk management strategy. The hedging relationship is formally documented at the inception of the hedging relationship and the hedge is effective at inception and throughout the period. Changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within the range of 80% to 125%.

The Bank designates hedging derivatives as: either. (a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or. (b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Positive fair value of hedging instruments and positive revaluation of hedged items is presented in 'Other assets'. Similarly, negative fair value of hedging instruments and negative revaluation of hedged items is presented in 'Other liabilities'.
Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of a hedged item arising from the hedged risk is amortised to the Income Statement over the period to maturity.

#### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity adjustment. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recorded to the Income Statement in the periods in which the hedged item will affect the Income Statement (for example, when the forecast sale that

is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative fair value adjustments reported in equity at that time remains in equity and is recognised in the Income Statement when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative fair value adjustments reported in equity is immediately recorded to the Income Statement.
See also Note 42.

### (u) Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in local currency at official exchange rates as announced by the NBS on the date of transaction. Financial assets and liabilities denominated in foreign currencies are translated into local currency at the prevailing NBS exchange rate on the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the Income Statement in 'Net trading result'.

### (v) Interest Income and Interest Expense

Interest income and expense are recognised in the Income Statement when earned or incurred, on an accrual basis, using the effective interest rates.

### (w) Fees and Commissions

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

#### Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### (x) Leases

#### Bank as the Lessee

Finance leases of property and equipment under which the Bank assumes substantially all the risks and rewards incidental to ownership are recognised in the balance sheet by recording an asset and liability equal to the present value of all future lease payments. Leasehold improvements on leased assets are depreciated in accordance with the estimated useful life of the asset, or the lease term if shorter. Lease liabilities are reduced by repayments of principal, whilst the finance charge component of the lease payment is charged directly to the Income Statement.

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

#### Bank as the Lessor

Amounts due from lessees under finance leases are recorded as 'Loans and advances to customers' at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### (y) Earnings per Share

Earnings per share has been calculated by dividing the net profit or loss applicable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, and has been calculated for shares with nominal value of EUR 1 000 based on their share on rights to receive dividends.

### (z) Assets under Administration

Assets under administration are not recognised as assets or liabilities on the balance sheet, but are accounted for as off-balance sheet items since the Bank does not bear risks and rewards of ownership associated with such items. See also Note 46.



### (aa) Regulatory Requirements

The Bank is subject to the regulatory requirements of the central bank. These regulations include those pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, asset concentration, credit risk connected to clients of the Bank, liquidity, interest rate, and foreign currency position.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Significant areas of judgment include the following:

#### – Fair value of financial instruments

The recent financial crisis and resulting impact on financial markets and the economic environment have resulted in material adjustments to valuation of the Bank's assets. The management of the Bank has considered all relevant factors in making prudent and reasonable valuation estimates in the circumstances. Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Financial assets at fair value through profit and loss and securities available for sale include credit linked investments and managed funds totaling EUR 37.5 million as of 31 December 2010 (2009: EUR 26.8 million). The estimated fair values of all of the abovementioned financial assets have been affected by decreased market liquidity and widening credit spreads in the financial markets mainly in 2008.

#### – Impairment of available for sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each balance sheet date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

#### – Impairment of loans and advances

As described in Note 13, 14 and 15 the Bank creates provision for impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are negatively impacted. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These provisions are based on the Bank's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to loan default, as well as subjective judgments of the Bank's management about estimated future cash-flows.

#### – Provisions

The amounts recognized as provisions are based on the management's judgments and represent the best estimate of expenditures required to settle a liability of uncertain timing or amount resulting from an obligation. See Note 28 for more detailed disclosures of provisions.

#### – Income taxes

Income tax rules and regulations have undergone significant changes in recent years and there is little historical precedent or interpretative rulings on a number of complex issues affecting the banking industry. Also, tax authorities have broad powers in interpreting the application of the tax laws and regulations in the course of its examination of taxpayers. Accordingly there is a high level of inherent uncertainty about the ultimate outcome of examinations by the tax authorities. Judgment was also made with respect to future recoverability of deferred tax assets.

# 5. NET INTEREST AND INVESTMENT INCOME

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Interest income from: | | |
| Loans and advances to financial institutions | 23 981 | 26 579 |
| Loans and advances to customers | 384 457 | 371 192 |
| Financial assets at fair value through profit and loss | 1 450 | 2 150 |
| Securities available for sale | 30 011 | 48 887 |
| Securities held to maturity | 90 175 | 74 062 |
| Other interest income and similar income | 269 | 593 |
| **Total interest and similar income** | **530 343** | **523 463** |
| Interest expense for: | | |
| Amounts owed to financial institutions | (12 249) | (6 518) |
| Amounts owed to customers | (62 049) | (98 856) |
| Debts securities in issue | (11 675) | (15 417) |
| Subordinated debt | (3 788) | (5 091) |
| **Total interest and similar expenses** | **(89 761)** | **(125 882)** |
| **Net interest income** | **440 582** | **397 581** |
| Income from investments in subsidiaries and associates | 3 113 | 2 992 |
| **Net interest and investment income** | **443 695** | **400 573** |

In 2010, interest income includes a total of EUR 8.4 million (2009: EUR 7.3 million) relating to impaired financial assets.

**Income from investments in subsidiaries and associates**

| Company | 2010 ths. EUR | 2009 ths. EUR |
|---|---|---|
| Prvá stavebná sporiteľňa, a.s. (PSS) | 2 987 | 2 981 |
| IT Solutions SK, spol. s r.o | 113 | - |
| Visa Inc | 3 | 2 |
| Mastercard Incorporated | 10 | 9 |
| **Total** | **3 113** | **2 992** |

# 6. NET FEE AND COMMISSION INCOME

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Fee and commission income from: | | |
| Payment transfers | 83 890 | 81 905 |
| Lending business | 30 446 | 28 545 |
| Securities | 7 048 | 7 749 |
| Other fees | 7 519 | 6 135 |
| **Total fee and commission income** | **128 903** | **124 334** |
| Fee and commission expense for: | | |
| Payment transfers | (10 612) | (9 047) |
| Lending business | (2 281) | (3 792) |
| Securities | (712) | (547) |
| Other fees | (364) | (407) |
| **Total fee and commission expense** | **(13 969)** | **(13 793)** |
| **Net fee and commission income** | **114 934** | **110 541** |

Security fees relate to fees earned or paid by the Bank on trust and fiduciary activities.

## 7. PROVISIONS FOR LOSSES ON LOANS. ADVANCES AND OFF BALANCE SHEET CREDIT RISKS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Provisioning charges for: | | |
| Specific risk provisions | (146 285) | (51 409) |
| Portfolio risk provisions | (84 676) | (119 616) |
| Total provisioning charges | **(230 961)** | **(171 022)** |
| Release of provisions | | |
| Specific risk provisions | 54 912 | 22 849 |
| Portfolio risk provisions | 56 311 | 4 236 |
| Total release of provisions | **111 223** | **27 085** |
| **Net provisions for losses on loans and advances (Note 15)** | **(119 738)** | **(143 937)** |
| Recoveries of loans written off / other | (485) | 192 |
| Net creation of provisions for off-balance risks | (4 480) | (2 021) |
| **Net provisions** | **(124 703)** | **(145 766)** |

## 8. NET TRADING RESULT

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Foreign exchange and currency derivatives | 7 270 | 7 565 |
| Interest derivatives | (281) | 4 668 |
| Trading securities gains | 2 058 | 1 711 |
| Other gains/(losses) | 146 | (1) |
| **Total** | **9 193** | **13 943** |

## 9. GENERAL ADMINISTRATIVE EXPENSES

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Personnel expenses** | | |
| Wages and salaries | (65 724) | (69 684) |
| Social security expenses | (21 394) | (23 373) |
| Long term employee benefits | (995) | (472) |
| Other personnel expenses | (360) | (3 308) |
| **Total personnel expenses** | **(88 473)** | **(96 837)** |
| **Other administrative expenses** | | |
| Data processing expenses | (39 843) | (48 499) |
| Building maintenance and rent | (25 303) | (29 216) |
| Costs of bank operations | (16 034) | (18 369) |
| Advertising and marketing | (12 148) | (11 104) |
| Legal fees and consultation | (2 964) | (1 732) |
| Expenses for personal leasing | (180) | - |
| Other administrative expenses | (5 629) | (5 398) |
| **Total other administrative expenses** | **(102 029)** | **(114 318)** |
| **Depreciation** | | |
| Amortisation of intangible assets | (25 211) | (27 977) |
| Depreciation | (16 010) | (17 919) |
| **Total depreciation, amortization** | **(41 221)** | **(45 896)** |
| **Total** | **(231 723)** | **(257 051)** |

The average number of employees in the Bank was 3 922 in 2010 and 4 466 in 2009, thereof five members of the Board of Directors in both years.

**Other administrative expenses include the cost of audit services and other advisory services provided by the audit company:**

| ths. EUR | 2010 ths. EUR | 2009 ths. EUR |
|---|---|---|
| Audit of statutory financial statements | (272) | (269) |
| Audit of group reporting | (272) | (269) |
| Other related services provided to bank | (161) | (180) |
| **Total** | **(705)** | **(718)** |

## 10. OTHER OPERATING RESULT

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Revaluation of securities at fair value, net | (173) | 1 022 |
| Profit/(loss) on securities available-for-sale | 1 688 | (14 100) |
| Net gain from disposal of subsidiaries and associates | 758 | 5 079 |
| Impairment of investments in subsidiaries and associates | (15 356) | (51 014) |
| Contribution to deposit protection fund | (13 096) | (13 390) |
| Other operating result | (4 943) | (17 538) |
| **Total other operating result** | **(31 122)** | **(89 941)** |

Loss on available-for-sale securities contains recycling of the revaluation reserve in the amount of EUR 5.9 million related to the sale and EUR 8.2 million related to impairment of these positions in 2009.

Net gain from disposal of subsidiaries and associates in 2009 comprises of EUR 5.1 million profit on the sale of the Asset management Slovenskej Sporiteľne, a.s, to Erste Asset Management GmbH for cash consideration of EUR 7 million in February 2009. There was no similar significant transaction occurring in 2010.

See Note 19 for information concerning impairment of investments in subsidiaries and associates.

The Bank is legally obliged to make a contribution to the deposit protection fund of Slovakia calculated based on its customer deposit liabilities.

Year 2009 was influenced by the loss on a significant legal case amounting to EUR 14.3 million, with a net effect on 'Other operating result' of EUR 7 million (Note 28).

## 11. INCOME TAX EXPENSE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Current tax expense | 52 599 | 49 151 |
| Deferred tax income (Note 23) | (14 789) | (28 772) |
| **Total** | **37 810** | **20 379** |

**The actual tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Slovak Republic as follows:**

| | 2010 ths. EUR | % | 2009 ths. EUR | % |
|---|---|---|---|---|
| **Profit before tax** | **180 274** | | **32 299** | |
| | | | | |
| **Theoretical tax at income tax rate of 19%** | **34 252** | **19.0** | **6 137** | **19.0** |
| | | | | |
| Tax effect of expenses that are not deductible in determining taxable profit: | | | | |
| - Allocation of provisions to capital participations | 4 938 | 2.7 | 11 738 | 36.3 |
| - Other | 2 324 | 1.3 | 11 238 | 34.8 |
| **Total tax effect of expenses that are not deductible in determining taxable profit** | **7 262** | **4.0** | **22 976** | **71.1** |
| | | | | |
| Tax effect of revenues that are deductible in determining taxable profit: | | | | |
| - Release of provisions to capital participations | (1 540) | (0.9) | (3 626) | (11.2) |
| - Income from dividends | (557) | (0.3) | (433) | (1.3) |
| - Other | (1 608) | (0.9) | (4 675) | (14.5)) |
| **Total tax effect of revenues that are deductible in determining taxable profit** | **(3 704)** | **(2.1)** | **(8 734)** | **(27)** |
| | | | | |
| **Tax expense and effective tax rate for the year** | **37 810** | **21.0** | **20 379** | **63.1** |

## 12. CASH AND BALANCES AT THE CENTRAL BANK

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Cash balances | 225 303 | 254 049 |
| Minimum reserve deposit with NBS | 110 049 | 68 885 |
| **Total** | **335 352** | **322 934** |

The minimum reserve deposit represents a mandatory deposit (bearing 1% interest as of 31 December 2010; 2009: 1.5%) calculated in accordance with regulations issued by the central bank (2% of certain Bank's liabilities) with restricted withdrawal.

During the one month period that included the year end date, the Bank maintained, as required, an average reserve balance at the NBS of approximately EUR 196.2 million (31.12.2009: EUR 127.9 million).

## 13. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Loans and advances on demand (nostro accounts) | 4 397 | 4 370 |
| Placements with financial institutions | 1 249 016 | 1 187 357 |
| **Loans and advances to Financial institutions, gross** | **1 253 413** | **1 191 727** |
| Provisions for impairment (Note 15) | - | (1 150) |
| **Total** | **1 253 413** | **1 190 577** |

Repurchase agreements with Erste Group in the amount of EUR 655.6 million (2009: EUR 725.6 million) are collateralized by securities issued by financial institutions in the market value of EUR 814 million (2009: EUR 865.5 million). The nominal value was EUR 865 million and EUR 896.5 million in 2010 and 2009, respectively.

The recorded amounts represent the maximum exposure to credit risk.

## 14. LOANS AND ADVANCES TO CUSTOMERS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Corporate clients | 2 111 743 | 2 526 367 |
| Syndicated loans | 376 696 | 464 937 |
| Overdrafts | 379 758 | 451 002 |
| Direct provided loans | 1 355 289 | 1 610 563 |
| Retail clients | 3 902 494 | 3 430 447 |
| Mortgage loans | 2 846 515 | 2 431 390 |
| Consumer loans | 904 616 | 812 162 |
| Social loans | 14 018 | 21 232 |
| Overdrafts | 137 345 | 165 529 |
| Public sector | 67 066 | 56 332 |
| **Total** | **6 081 303** | **6 013 146** |
| Provisions for impairment (Note 15) | (368 259) | (288 210) |
| **Total** | **5 713 044** | **5 724 936** |

As at 31 December 2010, the 15 largest customers accounted for 10.1% of the gross loan portfolio in the amount of EUR 614.1 million (2009: 12.8%. EUR 770.2 million).

### Mandate loans

As of 31 December 2010, the Bank cooperated with six external outsourcing companies. Under mandate contracts the management and administration of certain non-performing receivables is outsourced. The Bank maintains the risks and rewards associated with the underlying exposures and shares part of recoveries with the external service providers. Total outsourced gross loans amounted to EUR 63.6 million as of 31 December 2010 (2009: EUR 99 million).

### Write off and sale of receivables

In 2010, the Bank sold a total of EUR 43.3 million of loan receivables (2009: EUR 43.8 million) for a consideration of EUR 11.3 million (2009: EUR 9.8 million), and used corresponding provisions of EUR 31.5 million (2009: EUR 27 million).

The Bank has also written off loans with a carrying amount of EUR 7 million that were almost fully provided (2009: EUR 13.2 million).

## 15. PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

| | 2010 | | |
|---|---|---|---|
| ths. EUR | Loans and advances to financial institutions | Loans and advances to customers | Total |
| As at 1 January | 1 150 | 288 209 | 289 359 |
| Net allocation / (release) of provisions (excluding effect of unwind) | (1 150) | 120 888 | 119 738 |
| Use of provisions due to sale and write-off of receivables and other adjustments | - | (36 342) | (36 342) |
| Unwinding of discount on provisions | - | (4 496) | (4 496) |
| **As at 31 December** | **-** | **368 259** | **368 259** |

| | 2009 | | |
|---|---|---|---|
| ths. EUR | Loans and advances to financial institutions | Loans and advances to customers | Total |
| As at 1 January | - | 191 192 | 191 192 |
| Net allocation / (release) of provisions (excluding effect of unwind) | 1 150 | 142 787 | 143 937 |
| Use of provisions due to sale and write-off of receivables and other adjustments | - | (38 484) | (38 484) |
| Unwinding of discount on provisions | - | (7 285) | (7 285) |
| **As at 31 December** | **1 150** | **288 210** | **289 360** |

Use of provisions results mainly from write off and the sale of impaired receivables, see Note 14.
Unwinding represents the decrease in the impairment provisions, resulting from the unwinding of the cash flow discounting due to passage of time.

## 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Trading assets** | | |
| Debt securities and other fixed income securities - listed | 19 880 | - |
| Financial derivatives with positive fair value (Note 42 b) | 52 179 | 55 159 |
| Interest Rate Agreements | 44 080 | 45 024 |
| Exchange Rate Agreements | 5 975 | 8 403 |
| Other | 2 124 | 1 732 |
| | 72 059 | 55 159 |
| **Assets classified at fair value at acquisition** | | |
| Credit investments | 7 935 | 7 855 |
| Debt securities and participation certificates | 35 876 | 66 391 |
| | 43 811 | 74 246 |
| **Total** | **115 870** | **129 405** |

The amounts represent the maximum exposure to credit risk.

Financial assets are designated at fair value portfolio based on the intention to manage these on the fair value basis.

With effect from 4 February 2008, the Bank has adopted a new business model of financial markets trading in cooperation with Erste Group Bank. Erste Group Bank has started to conduct all trading operations on a central trading book in order to better manage market risks from the group trading activities (i.e., transactions with retail, corporate and other institutional clients) with the exception of the equity risk trading and transactions for the Bank's liquidity management purposes.

Trading gains (i.e. from Erste Group Bank's market positions) are distributed according to approved rules based on the financial results back to the Group's local banks and reported in the 'Net trading result'. The basic principle underlying these rules involves Erste Group Bank absorbing potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. Included in the new business model of financial markets trading is an reallocation of the trading costs for individual participating Erste Group Bank subsidiaries based on the Bank's Cost Income Ratio.

### Credit Linked Investments

The 'Fair Value Through Profit and Loss' portfolio includes credit investments in the amount of EUR 7. 9 million as at 31 December 20 10 (2009: EUR 7.8 million). As of 31 December 2010, these investments comprise credit linked notes (2009: credit linked notes).

As of 31 December 2010 and 2009, fair values of credit linked investments held by the Bank were determined with reference to third party quotations. Where available, these quotations were tested by reference to the quoted market prices.

The Bank believes that the prices of asset backed securities used as of 31 December 2010 and 2009 are prudent and reasonable and represent the best possible estimate of the fair value of these financial instruments.

| | | Carrying amount | | Notional amount | |
|---|---|---|---|---|---|
| **Type of instrument** | **Rating range** | **2010** | **2009** | **2010** | **2009** |
| Collateralized debt obligations | C | 10 | 3 | 935 | 690 |
| Credit linked notes | A | 7 925 | 7 852 | 8 000 | 8 000 |
| **Total** | | **7 935** | **7 855** | **8 935** | **8 689** |

### Debt securities and participation certificates

| **ths. EUR** | **2010** | **2009** |
|---|---|---|
| State institutions in Slovak Republic | 6 599 | 8 831 |
| Financial institutions in the Slovak Republic | 10 299 | 12 127 |
| Foreign state institutions | 9 695 | 29 705 |
| Foreign financial institutions | 1 720 | 8 392 |
| Other entities in the Slovak Republic | 1 169 | 1 135 |
| Other foreign entities | 6 394 | 6 201 |
| **Total** | **35 876** | **66 391** |

## 17. SECURITIES AVAILABLE FOR SALE

| **ths. EUR** | **2010** | **2009** |
|---|---|---|
| Debt securities and other fixed income securities – listed | 881 660 | 1 113 909 |
| Managed Funds | 16 337 | 18 940 |
| Debt and other fixed income securities | 897 997 | 1 132 849 |
| Equity securities – shares | 6 257 | 8 350 |
| Listed | 3 826 | 4 121 |
| Unlisted | 2 431 | 4 229 |
| **Net amount** | **904 254** | **1 141 199** |

Managed funds are investments in funds managed by third party fund managers who invests an administrated amount into different asset classes (fixed income assets, asset backed securities, funds, etc.) in accordance with prearranged regulations. In its portfolio, the Bank has managed funds invested through the purchase of bonds and managed funds invested through the purchase of the participating interest.

The maximum exposure to credit risk is represented by carrying amounts.

As at 31 December 2010, the securities included in the available for sale portfolio placed as collateral for collateralized lending include state bonds with a nominal value amounting to EUR 298 million (2009: EUR 0 million). Corporate bonds in the amount of EUR 2.6 million (2009: EUR 2.6 million) are fully guaranteed by the State in the same volume.

### Debt securities and other fixed income securities at fair value by type of issuer comprise:

| **ths. EUR** | **2010** | **2009** |
|---|---|---|
| State institutions in the Slovak Republic | 658 065 | 898 186 |
| Financial institutions in the Slovak Republic | 43 265 | 39 643 |
| Foreign state institutions | 50 583 | 45 988 |
| Foreign financial institutions | 119 325 | 124 752 |
| Other entities in the Slovak Republic | 26 759 | 24 280 |
| **Total** | **897 997** | **1 132 849** |

### Fair value hedge

The Bank has in its portfolio as at 31 December 2010 fixed rate EUR denominated bonds with face value of EUR 91 million (2009: EUR 50 million). As the purchase of the bonds increased the exposure to interest rate risk in the period from five to ten years, the Bank entered into an interest rate swap in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates. Notional and fair value of the aforementioned hedging derivative is reported in note 42.

During the period, hedges were effective in hedging the fair value exposure to interest rate movements. For the year ended 31 December 2010, the Bank recognised a net loss of EUR 2.2 million (2009: loss of EUR 0.73 million), representing the loss on the hedging instruments. The total gain on hedged item attributable to the hedged risk amounted to a gain of EUR 2.48 million (2009: gain of EUR 0.47 million).

## 18. SECURITIES HELD TO MATURITY

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Debt securities and other fixed income securities – listed | 2 285 263 | 2 420 061 |
| **Total** | **2 285 263** | **2 420 061** |

The amounts represent the maximum exposure to credit risk.

**Debt securities and other fixed income securities at carrying value by type of issuer, comprise:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| State institutions in the Slovak Republic | 2 099 259 | 2 222 692 |
| Financial institutions in the Slovak Republic | 27 122 | 43 962 |
| Foreign state institutions | 57 572 | 55 384 |
| Foreign financial institutions | 48 562 | 46 812 |
| Other entities in the Slovak Republic | 23 589 | 23 586 |
| Other foreign entities | 29 159 | 27 625 |
| **Total** | **2 285 263** | **2 420 061** |

As at 31 December 2010, the securities included in the held to maturity portfolio placed as collateral for collateralized lending include state bonds with a nominal value amounting to EUR 1 952 million (2009: EUR 1 533 million). Additionally, corporate bonds in the amount of EUR 28 million (2009: EUR 27 million) are placed as collateral.

## 19. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Investment in subsidiaries | 11 251 | 15 675 |
| Investment in associates | 3 896 | 4 102 |
| **Total** | **15 147** | **19 777** |

During 2010, the Bank received dividends from participations in the amount of EUR 3.1 million (2009: EUR 3 million).

Due to the deterioration of the economic conditions mainly on real estate and leasing markets the Bank performed impairment testing on its subsidiaries and associates portfolio; and recognized impairment loss provisions in the 'Other operating result' of the Income statement as follows:

| | Cost ths. EUR | | Impairment ths. EUR | | Net book value ths. EUR | |
|---|---|---|---|---|---|---|
| **Company** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| Realitná spoločnosť Slovenskej sporiteľne, a.s. | 13 679 | 7 678 | (13 679) | (5 504) | - | 2 174 |
| Leasing Slovenskej sporiteľne, a.s. | 36 967 | 36 967 | (36 967) | (35 734) | - | 1 233 |
| Factoring Slovenskej sporiteľne, a.s. | 8 260 | 4 000 | (8 260) | (2 980) | - | 1 020 |
| Derop B.V. | 11 244 | 11 244 | - | - | 11 244 | 11 244 |
| Informations-Technologie Austria – SK, s. r. o. | 3 | 3 | - | - | 3 | 3 |
| Procurement Services SK, s.r.o. | 3 | n/a | - | n/a | 3 | n/a |
| **Subsidiaries** | **70 156** | **59 892** | **(58 906)** | **(44 218)** | **11 250** | **15 674** |
| 3on private equity, a.s. | - | 207 | | | - | 207 |
| Prvá stavebná sporiteľňa, a.s. | 1 093 | 1 093 | - | - | 1 093 | 1 093 |
| Slovak Banking Credit Bureau, s.r.o. | 3 | 3 | - | - | 3 | 3 |
| Erste Corporate Finance, a.s. | 390 | 390 | - | - | 390 | 390 |
| s IT Solutions SK, spol. s r.o. | 2 409 | 2 409 | - | - | 2 409 | 2 409 |
| Czech and Slovak Property Fund B.V. | 18 414 | 18 710 | (18 414) | (18 710) | - | - |
| **Associates** | **22 309** | **22 812** | **(18 414)** | **(18 710)** | **3 895** | **4 102** |
| **Total** | **92 465** | **82 704** | **(77 320)** | **(62 928)** | **15 145** | **19 776** |

| | Impairment provision on subsidiaries | | Impairment provisions on Associates | | Total | |
|---|---|---|---|---|---|---|
| **ths. EUR** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| As at 1 January | 44 218 | 19 086 | 18 710 | 1 061 | 62 928 | 20 147 |
| Allocation | 14 688 | 34 002 | 668 | 17 649 | 15 356 | 51 651 |
| Release | - | (546) | - | - | - | (546) |
| Use/Realized (gains)-losses | - | (8 324) | (964) | - | (964) | (8 324) |
| **As at 31 December** | **58 906** | **44 218** | **18 414** | **18 710** | **77 320** | **62 928** |

## (a) Investment in subsidiaries

| Name of the company | Registered office | Principal activity | Bank interest 2010 | Bank voting rights 2010 |
|---|---|---|---|---|
| Realitná spoločnosť Slovenskej sporiteľne, a.s. | Námestie SNP 1, 811 06 Bratislava, Slovak Republic | Real estate agency | 100.00% | 100.00% |
| Leasing Slovenskej sporiteľne, a.s. | Tomášikova 48, 832 69 Bratislava, Slovak Republic | Financial and operational leasing | 96.66% | 96.66% |
| Factoring Slovenskej sporiteľne, a.s. | Tomášikova 48, 832 67 Bratislava, Slovak Republic | Factoring | 100.00% | 100.00% |
| Derop B.V. | Naritaweg 165 1043 BW Amsterdam, The Netherlands | Incorporation, management and financing of companies | 85.00% | 85.00% |
| Informations-Technologie Austria – SK, s. r. o. | Tomášikova 48, 831 04 Bratislava | IT services and IT systems maintenance | 51.00% | 51.00% |
| Procurement Services SK, s.r.o. | Tomášikova 48 832 75 Bratislava | Procurement | 51.00% | 51.00% |

### 2010

| ths. EUR | Interest held (%) | Voting power held (%) | Net book value | Total assets | Total equity | Total income | Total expense |
|---|---|---|---|---|---|---|---|
| Realitná spoločnosť Slovenskej sporiteľne, a.s. | 100.00 | 100.00 | - | 8 974 | 1 198 | 6 472 | 12 859 |
| Leasing Slovenskej sporiteľne, a.s. | 96.66 | 96.66 | - | 88 237 | 4 949 | 13 869 | 12 106 |
| Factoring Slovenskej sporiteľne, a.s. | 100.00 | 100.00 | - | 30 513 | 1 189 | 3 398 | 7 515 |
| Derop B.V. | 85.00 | 85.00 | 11 245 | 10 468 | 10 461 | - | 26 |
| Informations-Technologie Austria SK, s.r.o. | 51.00 | 51.00 | 3 | 1 362 | 210 | 7 793 | 7 523 |
| Procurement Services SK, s.r.o. | 51.00 | 51.00 | 3 | 285 | 29 | 267 | 275 |
| **Total** | | | **11 251** | | | | |

### 2009

| ths. EUR | Interest held (%) | Voting power held (%) | Net book value | Total assets | Total equity | Total income | Total expense |
|---|---|---|---|---|---|---|---|
| Realitná spoločnosť Slovenskej sporiteľne, a.s. | 100.00 | 100.00 | 2 174 | 20 857 | 1 598 | 53 | 4 829 |
| Leasing Slovenskej sporiteľne, a.s. | 96.66 | 96.66 | 1 233 | 197 691 | 2 503 | 12 156 | 35 606 |
| Factoring Slovenskej sporiteľne, a.s. | 100.00 | 100.00 | 1 020 | 51 751 | 1 046 | 3 157 | 6 265 |
| Derop B.V. | 85.00 | 85.00 | 11 244 | 10 945 | 10 487 | - | 21 |
| Informations-Technologie Austria SK, s.r.o. | 51.00 | 51.00 | 3 | 5 360 | 55 | 9 461 | 9 413 |
| **Total** | | | **15 675** | | | | |



Throughout the years 2007 to 2010 the Bank provided support to the subsidiaries that were affected by the financial downturn. Capital injections were provided to Leasing Slovenskej sporiteľne, a.s.. Factoring Slovenskej sporiteľne, a.s, and Realitná spoločnosť Slovenskej sporiteľne, a.s, and were immediately impaired and presented in 'Other operating result' (See note 10 and tables above). In 2010 additional equity was provided to Realitná spoločnosť and Factoring in the amount of EUR 6 million and EUR 4.3 million respectively.

## b) Investment in associates

| Name of the company | Registered office | Principal activity | Bank interest 2010 | Bank voting rights 2010 |
|---|---|---|---|---|
| Prvá stavebná sporiteľňa, a.s. | Bajkalská 30 829 48 Bratislava, Slovak Republic | Banking | 9.98% | 35.00% |
| Slovak Banking Credit Bureau, s.r.o. | Malý trh 2/A 811 08 Bratislava, Slovak Republic | Retail credit register | 33.33% | 33.33% |
| Erste Corporate Finance, a.s. | Evropská 2690/17 116 00 Praha, Czech Republic | Financial and legal advisory | 25.00% | 25.00% |
| s IT Solutions SK, spol. s r. o. | Prievozská 14 821 09 Bratislava, Slovak Republic | Software company | 23.50% | 23.50% |
| Czech and Slovak Property Fund B.V. | Fred. Roeskestraat 123, Amsterdam, The Netherland | Real estate fund | 10.00% | 10.00% |

### 2010

| ths. EUR | Interest held (%) | Voting power held (%) | Net book value | Total assets | Total equity | Total income | Total expense |
|---|---|---|---|---|---|---|---|
| Prvá stavebná sporiteľňa, a.s. | 9.98 | 35.00 | 1 093 | 2 070 081 | 254 554 | 132 045 | 93 363 |
| Slovak Banking Credit Bureau, s.r.o. | 33.33 | 33.33 | 3 | 117 | 114 | 888 | 861 |
| Erste Corporate Finance, a.s. | 25.00 | 25.00 | 390 | 2 506 | 2 147 | 1 524 | 1 955 |
| s IT Solutions SK, spol, s r.o. | 23.50 | 23.50 | 2 409 | 55 908 | 47 983 | 8 297 | 11 634 |
| Czech and Slovak Property Fund B.V. | 10.00 | 10.00 | - | 315 211 | (3 984) | 37 108 | 42 820 |
| **Total** | | | **3 896** | | | | |

### 2009

| ths. EUR | Interest held (%) | Voting power held (%) | Net book value | Total assets | Total equity | Total income | Total expense |
|---|---|---|---|---|---|---|---|
| 3on private equity, a.s. | 35.29 | 35.29 | 207 | 835 | 760 | 742 | 583 |
| Prvá stavebná sporiteľňa, a.s. | 9.98 | 35.00 | 1 093 | 1 999 750 | 252 900 | 138 005 | 110 075 |
| Slovak Banking Credit Bureau, s.r.o. | 33.33 | 33.33 | 3 | 114 | 106 | 806 | 775 |
| Erste Corporate Finance, a.s. | 25.00 | 25.00 | 390 | 1 765 | 1 492 | 2 418 | 3 164 |
| s IT Solutions SK, spol, s r.o. | 23.50 | 23.50 | 2 409 | 48 221 | 4 632 | 30 629 | 30 005 |
| Czech and Slovak Property Fund B.V. | 10.00 | 10.00 | - | 311 210 | 603 | 17 462 | 39 434 |
| **Total** | | | **4 102** | | | | |

Although the Bank's share and voting rights in the Czech and Slovak Property Fund represents only 10.00%, the Company is classified as an associate based on the Bank's equity share of its earnings amounting to 33.33%.

The Bank held a 9.98% shareholding in PSS at 31 December 2010 and 31 December 2009. The Bank, based on the contract with Erste Group Bank, represents shareholder interests of the parent company in PSS (25.02%). In 2004, following NBS approval, the Bank's representative replaced a representative of Erste Group Bank on the Supervisory board of PSS. As a result, the Bank established significant influence over PSS from 2004. The investment in PSS is therefore presented as an associate, with the dividend income from this investment reported under 'Income / (Loss) from investment in subsidiaries and associates' in 2010 and 2009.

## 20. INTANGIBLE ASSETS

| ths. EUR | Software | Other intangible assets | Assets not yet put in service | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **1 January 2010** | **179 985** | **8 277** | **42 521** | **230 783** |
| Additions | - | - | 10 096 | 10 096 |
| Disposals | (58) | (5 598) | - | (5 656) |
| Transfers | 3 454 | 196 | (3 650) | - |
| **31 December 2010** | **183 381** | **2 875** | **48 967** | **235 223** |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| **1 January 2010** | **(143 733)** | **(7 620)** | **-** | **(151 353)** |
| Amortisation | (27 306) | (279) | - | (25 211) |
| Disposals | 58 | 5 598 | - | 5 655 |
| **Provision for impairment** | **(172 220)** | **(2 301)** | **-** | **(172 148)** |
| | | | | |
| **Net book value** | | | | |
| **31 December 2009** | **36 252** | **657** | **42 521** | **79 430** |
| **31 December 2010** | **11 161** | **574** | **48 967** | **63 075** |

Assets not yet put in service include the cost of a bank system development project in the amount of EUR 40.2 million as at 31 December 2010 (2009 : EUR 34 million). The total cost of the system is estimated at EUR 117 million and its putting into use is expected in 2011.

The Bank capitalizes borrowing costs related to these assets, based on the outstanding financed value and 5 year moving average bank refinancing rate. Capitalized borrowing costs amount to EUR 4 755 thousand in 2010 (2009: EUR 3 479 thousand).

The original cost of fully amortised intangible assets that are still in use by the Bank amounts to EUR 128.2 million (2009: EUR 99.3 million).



| ths. EUR | Software | Other intangible assets | Assets not yet put in service | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **1 January 2009** | **168 663** | **8 014** | **56 593** | **233 270** |
| Additions | - | - | 30 070 | 30 070 |
| Disposals | (156) | (32) | (32 369) | (32 557) |
| Transfers | 11 478 | 295 | (11 773) | - |
| **31 December 2009** | **179 985** | **8 277** | **42 521** | **230 783** |
| | | | | |
| **Accumulated amortisation and impairment** | | | | |
| **1 January 2009** | **(116 090)** | **(7 374)** | **-** | **(123 464)** |
| Amortisation | (27 702) | (275) | - | (27 977) |
| Disposals | 59 | 29 | - | 88 |
| **31 December 2009** | **(143 733)** | **(7 620)** | **-** | **(151 353)** |
| | | | | |
| **Net book value** | | | | |
| **31 December 2008** | **52 573** | **640** | **56 593** | **109 806** |
| **31 December 2009** | **36 252** | **657** | **42 521** | **79 430** |

## 21. PROPERTY. EQUIPMENT AND INVESTMENT PROPERTY

| ths. EUR | Land and buildings | Equipment fixtures and fittings | Motor vehicles | Assets not yet put in service | Total property and equipment | Investment property |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **1 January 2010** | **147 085** | **170 701** | **2 019** | **2 922** | **322 727** | **6 697** |
| Additions | - | - | - | 12 671 | 12 671 | - |
| Disposals | (1 180) | (29 546) | (915) | - | (31 641) | - |
| Transfers | (12 666) | 7 103 | 144 | (11 943) | (17 362) | 37 |
| **31 December 2010** | **133 239** | **148 258** | **1 248** | **3 650** | **286 395** | **6 734** |
| | | | | | | |
| **1 January 2010** | **(44 998)** | **(146 499)** | **(1 804)** | **-** | **(193 301)** | **(2 738)** |
| Depreciation | (6 426) | (9 491) | (93) | - | (16 010) | (206) |
| Disposals | 438 | 29 426 | 899 | - | 30 763 | - |
| Provisions for impairment | (349) | - | - | - | (349) | (221) |
| Transfers | 9 222 | - | - | - | 9 222 | (114) |
| **31 December 2010** | **(42 113)** | **(126 564)** | **(998)** | **-** | **(169 675)** | **(3 279)** |
| | | | | | | |
| **Net book value** | | | | | | |
| **31 December 2009** | **102 087** | **24 202** | **215** | **2 922** | **129 426** | **3 959** |
| **31 December 2010** | **91 126** | **21 694** | **250** | **3 650** | **116 720** | **3 455** |

The original cost of property and equipment that is fully depreciated but still in use by the Bank amounts to EUR 103.6 million (2009: EUR 121.8 million).

The Bank has assessed the impairment of assets (buildings) that were unused or rented to other parties. Based on the estimated recoverable amounts the Bank recorded total of EUR 221 thousand of impairment provisions into 'Other operating result' as of 31 December 2010 (2009: release of EUR 347 thousand). Provisions for impairment amount to EUR 539 thousand as of 31 December 2010 (2009: EUR 317 thousand).

Transfers also represent reclassification to Non-Current assets held for sale.

| ths. EUR | Land and buildings | Equipment fixtures and fittings | Motor vehicles | Assets not yet put in service | Total property and equipment | Investment property |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **1 January 2009** | **137 930** | **178 962** | **2 713** | **11 441** | **331 046** | **11 948** |
| Additions | - | - | - | 11 008 | 11 008 | - |
| Disposals | (1 029) | (15 658) | (826) | (23) | (17 536) | (595) |
| Transfers | 10 184 | 7 397 | 132 | (19 504) | (1 791) | (4 656) |
| **31 December 2009** | **147 085** | **170 701** | **2 019** | **2 922** | **322 727** | **6 697** |
| | | | | | | |
| **1 January 2009** | **(39 703)** | **(150 805)** | **(2 528)** | **-** | **(193 036)** | **(3 539)** |
| Depreciation | (6 294) | (11 268) | (100) | - | (17 662) | (257) |
| Disposals | 151 | 15 574 | 824 | - | 16 549 | 87 |
| Transfers | 848 | - | - | - | 848 | 971 |
| 31 December 2009 | (44 998) | (146 499) | (1 804) | - | (193 301) | (2 738) |
| | | | | | | |
| **Net book value** | | | | | | |
| **31 December 2008** | **98 227** | **28 157** | **185** | **11 441** | **138 010** | **8 409** |
| **31 December 2009** | **102 087** | **24 202** | **215** | **2 922** | **129 426** | **3 959** |

### Operating leases

The Bank enters into operating leasing arrangements for motor vehicles, technology, and premises used for banking operations as lessee.

**The following table summarises future minimum lease payments under non-cancellable operating leases:**

| Outstanding commitments from operating leases | 2010 ths. EUR | 2009 ths. EUR |
|---|---|---|
| Payable in period: | | |
| - Less than 1 year | 3 645 | 5 458 |
| - From 1 year to 5 years | 8 485 | 9 061 |
| - Over 5 years | 299 | - |
| Operating leasing payments recognised as expense in the period | 4 396 | 4 568 |

### Investment property

The Bank owns buildings rented to other parties with a total net book value of EUR 3.5 million (net of impairment. EUR 539 thousand) as at 31 December 2010 (2009: EUR 4 million net of impairment of EUR 317 thousand).Total rental income earned by the Bank amounted to EUR 475 thousand (2009: EUR 593 thousand) and is presented as 'Interest income'. The depreciation of assets held for rental income is presented under 'Interest income' and amounted to EUR 206 thousand (2009: EUR 257 thousand).

The estimated fair value of investment property as at 31 December 2010 was EUR 4.1 million (2009: EUR 4 million).

The Bank uses its own model for determining the fair value of investment property, which is based on discounting future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location.

### Insurance coverage

The Bank's insurance covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism, and other damages).



## 22. NON-CURRENT ASSETS HELD FOR SALE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **As at 1 January** | **31 020** | **29 376** |
| | | |
| Additions: | | |
| Acquisitions | 3 | - |
| Reclassification from Property and Equipment | 8 212 | 31 852 |
| **Total additions** | **8 215** | **31 852** |
| | | |
| Disposals: | | |
| Sales | (179) | (1 364) |
| Reclassification to Property and Equipment | - | (28 906) |
| Provision for impairment | (1 143) | 62 |
| **Total disposals** | **(1 322)** | **(30 208)** |
| | | |
| **As at 31 December** | **37 913** | **31 020** |

The Bank intends to dispose of selected items of property within 12 months after classification to portfolio of Non-Current Assets Held for Sale. The Bank is actively searching for a buyer.

The Bank has used judgments in the valuation of particular components of fixed assets to reflect recoverable amount. This is related to own land and buildings, property held for sale, and software.

## 23. INCOME TAX ASSETS AND LIABILITIES

**The structure of the tax position as at 31 December 2010 and 31 December 2009 was as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Deferred income tax asset | 70 934 | 55 520 |
| Current income tax asset | - | 24 078 |
| **Total income tax assets** | **70 934** | **79 598** |
| Current income tax liability | 11 363 | - |
| **Total income tax liabilities** | **11 363** | **-** |

| Deferred tax booked | directly to equity | | to Income Statement | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ths. EUR | Securities available for sale | Cash flow hedges | Provisions for losses on loans and advances | Securities | Intangible assets | Property and equipment | Provisions | Associates and other investments | Other | Total |
| **31 December 2008** | **3 448** | **(151)** | **22 008** | **597** | **1 627** | **(3 983)** | **1 029** | **1 627** | **3 649** | **29 850** |
| Charge/(credit) to equity for the year | (347) | - | - | - | - | - | - | - | - | (347) |
| Charge/(credit) to Income Statement for the year | - | - | 31 043 | - | (1 086) | (381) | 384 | (758) | (430) | 28 772 |
| Transferred from equity to Income Statement | (2 848) | 93 | - | - | - | - | - | - | - | (2 755) |
| **31 December 2009** | **253** | **(58)** | **53 051** | **597** | **541** | **(4 364)** | **1 413** | **869** | **3 219** | **55 520** |
| Charge/(credit) to equity for the year | 1 255 | - | - | - | - | - | - | - | - | 1 255 |
| Charge/(credit) to Income Statement for the year | - | - | 14 187 | (302) | (541) | (91) | 775 | (5) | 739 | 14 762 |
| Transferred from equity to Income Statement | (645) | 42 | - | - | - | - | - | - | - | (603) |
| **31 December 2010** | **863** | **(16)** | **67 238** | **295** | **-** | **(4 455)** | **2 188** | **864** | **3 958** | **70 934** |

Certain deferred tax assets and liabilities have been offset in accordance with the Bank's accounting policy.

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

## 24. OTHER ASSETS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Customers, advances, reinvoiced amounts and prepayments | 9 304 | 43 604 |
| Payment cards and cheques | 2 412 | 5 222 |
| Accounting hedging | 11 605 | 7 085 |
| Material and inventories | 1 146 | 1 276 |
| Other | 5 127 | 3 532 |
| **Total** | **29 594** | **60 719** |

In 2009. Customers, advances, reinvoiced amounts and prepayments comprised mainly a receivable from s IT solutions SK related to the sold software amounting to EUR 33 million.

## 25. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Amounts owed on demand | 1 812 | 2 983 |
| Repo trades with debt securities | 808 232 | 1 293 569 |
| Term deposits and clearing | 316 116 | 680 266 |
| **Total** | **1 126 160** | **1 976 818** |

The liabilities at 31 December 2010 in the amount of EUR 808 million (2009: EUR 1 294 million), from repo trade are collateralised by State bonds and treasury bills in the amount of EUR 780 million (2009: EUR 1 267 million) and by corporate bonds in the amount of EUR 28 million (2009: EUR 27 million).

## 26. AMOUNTS OWED TO CUSTOMERS

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Amounts owed on demand | 3 195 777 | 3 056 014 |
| Savings deposits | 537 442 | 477 373 |
| Term deposits | 4 435 836 | 4 302 321 |
| **Total** | **8 169 055** | **7 835 708** |

Savings deposits are deposits with a defined period of notice, term deposits have a defined maturity date. Savings deposits usually remain in place for a long-term period.

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Savings deposits | 537 442 | 477 373 |
| Term deposits and amounts owed on demand: | | |
| Corporate clients | 1 496 945 | 1 542 179 |
| Retail clients | 5 600 014 | 5 533 622 |
| Public sector | 405 747 | 151 760 |
| Other | 128 907 | 130 774 |
| **Total** | **8 169 055** | **7 835 708** |

As at 31 December 2010 and 31 December 2009, no amounts owed to clients were collateralised by securities.

As at 31 December 2010, amounts owed to customers includes special guaranteed deposits in the amount of EUR 142 million (2009: EUR 164 million). These contracts include embedded currency, commodity and equity derivatives in the amount of EUR 5.9 million (2009: EUR 6.2 million) which were separated and disclosed under 'Financial assets at fair value through profit or loss' and 'Financial liabilities at fair value through profit or loss'.

## 27. DEBT SECURITIES IN ISSUE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Bonds in issue | 367 996 | 402 658 |
| Bonds in issue - Guaranteed deposit | 12 937 | 23 796 |
| **Total** | **380 933** | **426 454** |



**Bonds in issue are presented in the following table:**

| | Date of issue | Maturity date | Actual interest rate | Nominal value 2010 ths. EUR | Nominal value 2009 ths. EUR |
|---|---|---|---|---|---|
| Mortgage bonds | August 2003 | August 2010 | 4.65% | - | 16 597 |
| Mortgage bonds | August 2004 | August 2010 | 4.40% | - | 16 597 |
| Mortgage bonds | March 2006 | March 2016 | 6M BRIBOR +0.09% | 16 597 | 16 597 |
| Other bonds | June 2007 | June 2010 | 6M BRIBOR +0.04% | - | 62 537 |
| Mortgage bonds | July 2007 | July 2027 | 4.95% | 16 597 | 16 597 |
| Mortgage bonds | September 2007 | September 2012 | 6M BRIBOR +0.02% | 19 916 | 19 916 |
| Mortgage bonds | April 2008 | April 2012 | 6M BRIBOR +0.10% | 6 639 | 6 639 |
| Mortgage bonds | April 2008 | April 2021 | 5.00% | 16 597 | 16 597 |
| Other bonds | May 2008 | May 2012 | 4.52% | 3 651 | 3 651 |
| Mortgage bonds | July 2008 | July 2010 | 5.30% | - | 44 812 |
| Mortgage bonds | July 2008 | July 2011 | 6M BRIBOR +0.20% | 14 273 | 14 273 |
| Mortgage bonds | September 2008 | September 2010 | 5.00% | - | 5 089 |
| Mortgage bonds | September 2008 | September 2010 | 5.00% | - | 9 726 |
| Mortgage bonds | October 2008 | October 2010 | 5.00% | - | 8 215 |
| Mortgage bonds | October 2008 | April 2011 | 6M BRIBOR +0.40% | 8 166 | 8 299 |
| Mortgage bonds | February 2009 | February 2011 | 2.70% | 3 640 | 3 650 |
| Other bonds | March 2009 | March 2011 | 3M EURIBOR +0.80% | 2 000 | 2 000 |
| Other bonds | April 2009 | April 2011 | 2.70% | 9 755 | 9 931 |
| Other bonds | May 2009 | May 2013 | 3M EURIBOR | 4 900 | 4 950 |
| Other bonds | May 2009 | May 2012 | 3.25% | 14 632 | 14 840 |
| Mortgage bonds | July 2009 | January 2013 | 3.50% | 9 781 | 9 970 |
| Mortgage bonds | August 2009 | August 2011 | 3M EURIBOR +1.15% | 10 000 | 10 000 |
| Mortgage bonds | August 2009 | August 2013 | 3.60% | 9 740 | 9 945 |
| Mortgage bonds | August 2009 | August 2013 | 3.60% | 9 741 | 9 913 |
| Mortgage bonds | October 2009 | October 2013 | 3.03% | 12 099 | 12 258 |
| Mortgage bonds | November 2009 | November 2011 | 3M EURIBOR+0.64% | 25 000 | 25 000 |
| Mortgage bonds | December 2009 | December 2013 | 3.50% | 14 867 | 15 000 |
| Mortgage bonds | December 2009 | December 2013 | 3.50% | 5 000 | 5 000 |
| Mortgage bonds | January 2010 | January 2014 | 3.50% | 5 994 | - |
| Mortgage bonds | February 2010 | February 2015 | 3.62% | 2 095 | - |
| Mortgage bonds | March 2010 | March 2014 | 3.30% | 10 697 | - |
| Mortgage bonds | March 2010 | March 2015 | 6M EURIBOR+0.95% | 20 000 | - |
| Mortgage bonds | April 2010 | April 2015 | 3.50% | 9 759 | - |
| Mortgage bonds | May 2010 | May 2014 | 2.80% | 7 749 | - |
| Mortgage bonds | July 2010 | July 2015 | 3.10% | 15 000 | - |
| Mortgage bonds | July 2010 | July 2015 | 6M EURIBOR+1.00% | 10 000 | - |
| Mortgage bonds | August 2010 | August 2015 | 3.09% | 17 000 | - |
| Mortgage bonds | September 2010 | September 2014 | 2.80% | 9 975 | - |
| Mortgage bonds | October 2010 | October 2014 | 2.35% | 9 960 | - |
| Mortgage bonds | November 2010 | November 2015 | 2.65% | 9 998 | - |
| Other bonds | December 2010 | December 2015 | 2.76% | 2 905 | - |
| **Total nominal value** | | | | **364 723** | **398 599** |
| Accrued interest | | | | 3 273 | 4 059 |
| **Total** | | | | **367 996** | **402 658** |

All bonds shown above are listed and traded on the Bratislava Stock Exchange ('BSE').

As at 31 December 2010, debt securities in issue include embedded commodity derivatives and shares in the amount of EUR 363 thousand (2009: EUR 657 thousand) which were separated and are disclosed under "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value The Bank set up a fair value hedge in July 2007 to hedge issued mortgage bonds in the amount of EUR 16.6 million (former SKK 500 million) with a fixed rate. To protect against interest rate risk, the Bank entered into an interest rate swap. The notional and fair value of the aforementioned hedging derivative is reported in Note 42.

During the period, the hedge was effective in the hedging of fair value exposure to interest rate movements. For the year ended 31 December 2010, the Bank recognised a net gain of EUR 726 thousand (2009: loss of EUR 221 thousand), representing the gain on the hedging instruments. The total loss on hedged items attributable to hedged risk amounted to loss EUR 774 thousand (2009: gain of EUR 238 thousand).

## 28. PROVISIONS

| ths. EUR | 2009 | Additions | Use | Reversals | 2010 |
|---|---|---|---|---|---|
| Provision for off-balance sheet items | 6 530 | 5 437 | - | (957) | 11 010 |
| Interest bearing deposit products | 896 | 299 | (896) | - | 299 |
| Legal cases | 8 798 | 3 616 | (1 522) | (2 426) | 8 466 |
| Employee benefit provisions | 2 757 | 1 157 | (195) | (435) | 3 284 |
| Other provisions | 3 445 | - | - | (3 445) | - |
| **Total** | **22 426** | **10 509** | **(2 613)** | **(7 263)** | **23 059** |

### (a) Provision for off-balance sheet and other risks

The provisions for credit risk of off-balance sheet items have been created to cover estimated losses present in the balances of unused loan commitments, guarantees, and letters of credits accounted for off-balance sheet.

### (b) Provisions for interest-bearing products

Provision has been made for prize-saving books for the amount of the estimated probable awards attributed to the holders.

### (c) Provision for legal cases

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2010. These matters have arisen from normal banking activities. According to the updated status of these matters in terms of the risk of losses and the amounts claimed, the Bank has increased provision for these legal cases by EUR 1.2 million for existing cases. The Bank settled certain cases and used the related provision of EUR 1.5 million.

The net release (see also note 10) in the provisions for legal cases of EUR 0.3 million is reported under 'Other operating result' in the Income Statement (2009: EUR 5.2 million ).

### (d) Long – term employee benefits provisions

The Bank has a defined benefit program, under which employees are entitled to a lump-sum payment upon taking retirement or a working jubilee. As at 31 December 2010 there were 3 816 employees at the Bank covered by this program (2009: 4 466 employees).

During the year ending 31 December 2010, the actuarial calculation based on the projected unit credit method was performed resulting in the final employee benefit obligation in the amount of EUR 3 284 thousand (2009: EUR 2 757 thousand).

**The amounts recognised in the balance sheet and Income Statement as at 31 December 2010 are as follows:**

| ths. EUR | Pension provisions | Jubilee provisions | Total long-term provisions |
|---|---|---|---|
| **Long-term employee provisions at 31 December 2008** | **1 560** | **1 197** | **2 757** |
| New commitments from acquisitions of companies | | | |
| Service costs | 111 | 188 | 299 |
| Interest costs | 73 | 58 | 131 |
| Payments | (154) | (162) | (316) |
| Actuarial losses | (157) | 43 | (114) |
| **Long-term employee provisions at 31 December 2009** | **1 433** | **1 324** | **2 757** |
| **New commitments from acquisitions of companies** | | | |
| Service costs | 91 | 949 | 1 040 |
| Interest costs | 60 | 57 | 117 |
| Payments | (28) | (167) | (195) |
| Actuarial (gains) | (273) | (162) | (435) |
| **Long-term employee provisions at 31 December 2010** | **1 283** | **2 001** | **3 284** |

### Key assumptions used in actuarial valuation:

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

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Real annual discount rate | 3.13% | 4.27% |
| Annual future real rate of salary increases | 0.00% | 0.00% |
| Annual employee turnover | 0.00% - 13.08% | 0.00% - 8.14% |
| Retirement age | 62 years | 62 years |

## 29. OTHER LIABILITIES

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Other short-term payables to customers related to money transfer | 22 881 | 20 728 |
| Accruals for general administrative expenses | 31 637 | 27 855 |
| Various creditors | 28 143 | 25 660 |
| Accounting hedging | 11 040 | 7 001 |
| **Total** | **93 701** | **81 244** |

**Summary of the social fund liability included in Other liabilities – Various creditors is as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| As at 1 January | 367 | 449 |
| Additions | 2 718 | 1 691 |
| Drawings | (1 913) | (1 773) |
| **As at 31 December** | **1 172** | **367** |

## 30. SUBORDINATED DEBT

With the ultimate objective to strengthen the Bank's own funds, the Bank entered into subordinated loan contracts with its parent company Erste Group Bank on 21 December 2006 and 26 August 2008. Based on the first contract, the Bank drew EUR 100 million subordinated loan in February 2007 with a repayment date of 21 December 2016, with floating interest rate based on selected 3M or 6M EURIBOR. Based on the second contract, the Bank drew EUR 80 million subordinated loan in August 2008 with a maturity five years and floating interest rate 3M EURIBOR.

In June 2010, the Bank issued its first subordinated bond in the amount of EUR 5 million with a maturity five years and a fixed rate 3.8% p.a.

In August 2010, the Bank issued second subordinated bond in the amount of EUR 10 million with a maturity of ten years. The bond includes an embedded derivative which was separated and disclosed under "Financial liabilities at fair value through profit or loss". The Fair value of the derivative as of December 31, 2010 is close to zero. The minimum yield is 43% of nominal amount payable at maturity date, the maximum yield is 59% of nominal amount.

Subordinated debt ranks behind other liabilities in the case of financial difficulties of the Bank.

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## 31. EQUITY

### Share capital

**Authorised, called-up, and fully paid share capital consists of the following:**

| Nominal value | Number of shares | 2010 ths. EUR | Number of shares | 2009 ths. EUR |
|---|---|---|---|---|
| EUR 1,000 each | 212 000 | 212 000 | 212 000 | 212 000 |
| **Total** | | **212 000** | | **212 000** |

Voting rights and rights to receive dividends are attributed to each class of share, pro rata to their share of the share capital of the Bank.

**The distribution of profit is shown in the following table:**

| | Attributable from the profit for the year | |
|---|---|---|
| **Dividends per share** | **2010*** | **2009** |
| Profit of the year | 142 464 | 11 920 |
| Transfer to retained earnings | 87 664 | 11 920 |
| Dividends paid to shareholder from profit for the year | 54 800 | - |
| Number of shares EUR 1 000 each | 212 000 | 212 000 |
| **Amount of dividends per EUR 1 000 share (EUR)** | **258** | **-** |

* Based on the proposed profit distribution.

### Legal reserve fund

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

### Other funds

Other funds as at 31 December 2010 included only the Statutory fund amounting to EUR 39.3 million (2009: EUR 39.3 million).

The Statutory fund was created from distributable profits to strengthen the Bank's capital base. The Statutory fund may be terminated and transferred back to distributable profits if the Bank's share capital or legal reserve fund is increased. Such termination and transfer requires the approval of the Supervisory Board and the General Assembly.



### Hedging reserves

Hedging reserves represent the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. Hedging reserves are disclosed net of the deferred tax effect.

### Revaluation reserves

Revaluation reserves represent the unrealised revaluation of Securities available for sale. Revaluation reserves are disclosed net of deferred tax effect.

Other funds, hedging reserves, and revaluation reserves are not available for distribution to shareholders.

## 32. EARNINGS PER SHARE

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Net profit applicable to ordinary shares | 142 464 | 11 920 |
| Number of shares EUR 1 000 each | 212 000 | 212 000 |
| **Basic and diluted profit per EUR 1 000 share (EUR)** | **672** | **56** |

## 33. SUPPLEMENTARY DATA TO STATEMENTS OF CASH FLOWS

**Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Cash on hand (Note 12) | 225 303 | 254 049 |
| Accounts with other financial institutions repayable on demand (Note 13) | 4 397 | 4 370 |
| **Total cash and cash equivalents** | **229 700** | **258 419** |

| Operational cash flows from interests | 2010 | 2009 |
|---|---|---|
| Interest paid | (56 878) | (121 994) |
| Interest received | 446 368 | 473 468 |

## 34. FINANCIAL RISK MANAGEMENT

The Bank's primary risk management objective is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively.

The most important categories of risk, that the Bank faces, include:

- **Credit risk is the risk of loss arising from default by a creditor or counterparty.**
- **Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc.**
- **Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events; it includes legal risk, but does not include strategic and reputation risk.**
- **Liquidity risk is defined as the inability to meet Bank's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding.**
- **Fraud risk is the risk of financial or reputation losses originating from the intent to defraud the Bank or its entities by falsifying information or by misrepresentation by employees, existing or potential customers, or any third parties.**
- **Compliance risk is the risk of breaching regulatory rules and related litigation risk (with regulators or clients), financial risk (fines, compensation of damage), reputation risk and the risk of breaking of corporate culture.**
- **Reputation risk is the risk of losses arising from failure to meet stakeholders' reasonable expectations of the Bank's performance and behaviour.**
- **Strategic and business risks are the risks to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.**

The ultimate risk management body is the Board of Directors. It delegates some of its authority for particular risk management areas to respective committees (ALCO. ORCO and CRC). Currently, the Chairman of the Board of Directors and CEO also serves as Chief Risk Officer (CRO).

Asset & Liability Committee (ALCO) has ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

As for corporate credit risk, the ultimate decision making body is the Credit Committee of Supervisory Board, which consists of the members of the Supervisory Board. The Credit Committee of Board of Directors (CRC) is next in line with direct authority over the credit risk area.

Operational Risk and Compliance Committee (ORCO) is the authorized body to make decisions on operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for operational risk, compliance, financial crime, and anti-money laundering issues.

ALCO, ORCO, and CRC are composed of members of the board and senior managers. The Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee (OLC) governs the execution of liquidity management. OLC reports directly to ALCO. It analyzes the liquidity situation of the Bank on a regular basis and proposes measures to be taken. OLC consists of members of Trading. BSM and Strategic Risk Management units.

Risk Advisory Committee (RAC) is composed of senior risk managers and specialists from risk management areas. It analyzes overall credit risk development on a monthly basis and proposes measures and follow-ups to be taken.

Watch List Committee (WLC) analyzes actual and expected credit risk development of watch list clients (closely monitored clients are typically assigned to worse rating grades). It proposes immediate steps of the Bank, including decrease of client's exposure, increase of collateral, rescheduling, etc. The members of WLC are senior managers, responsible risk managers from Corporate Credit Risk Management and representatives of business lines.

Structure of risk management organization consists of six crucial units:

- **Strategic Risk Management (SRM) – is responsible for operational risk, liquidity risk, complete trading book market risk, banking book market risk of investment portfolios and overall banking book VAR measurement, and credit risk control, provisioning, and credit risk statistical and rating models.**
- **Corporate Credit Risk Management Division - carries out all activities concerning operative credit risk of corporate clients and financial Institutions.**
- **Retail Credit Risk Management Division – is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process and portfolio management for the retail segment.**
- **Restructuring & Workout – is responsible for the effectiveness of collection process, reduction of non-performing loans and collateral management.**
- **Financial Crime & Compliance – is responsible for compliance risk management (e.g, code of ethics, full compliance with legal requirements, anti-money laundering program) and for fraud risk management (prevention, detection, investigation, deterrence, and recovery of financial fraud). The Compliance Officer has a direct reporting line to the CRO.**
- **Balance Sheet Management - focuses on risk management of balance sheet as a whole, specifically focusing on management of interest income risk and market value of equity risk.**

The risk management function is completely independent from commercial business lines. Overall, risk management has the following roles:

- **setting strategies and policies for risk management**
- **building a risk-aware culture within the Bank**
- **design and oversight internal risk policies, processes, and structures for business units**
- **designing and reviewing processes of risk management**
- **risk reporting**
- **risk identification, calculation, and measurement, and setting of risk premiums**
- **implementation, calibrating and periodical reviewing of models for risk measurement**
- **protect against losses from financial crime activities and compliance violations**

## 35. CREDIT RISK

Credit risk is the risk that a loss will be incurred if the Bank's counterparty to a transaction does not fulfill its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the Bank. It arises from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk also includes sovereign, country, concentration, settlement, and dilution risk.

The Bank reports capital adequacy using the "internal-ratings based" (IRB) approach to credit risk since July 2008 as the first bank in Slovakia. The approval by the Financial Market Authority of Austria and National Bank of Slovakia indicated that the Bank's credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation as well as into internal controls and reporting and that they play the essential role.

The cornerstone of the loan process in the Bank is based on risk assessment using rating systems and the assignment of a rating grade. The final rating is a key factor for a loan decision, loan amount, and price. The rating systems are developed, implemented and regularly validated in cooperation within Erste Group Bank using common Group standards and tools. The rating systems are used since the year 2006 and the Bank collects all data necessary for accurate and efficient risk control and management. The rating systems and their validation are properly documented.

Strategic Risk Management ('SRM'), more specifically its Credit Risk Control department, is the independent risk control unit in the Basel II sense. SRM is not involved in operative credit decision-making. However, it is responsible for the design of rating systems, the testing and monitoring of the accuracy and selectivity of internal rating grades, and the production and analysis of summary reports from the Bank's rating systems. SRM is also responsible for the design and implementation of models for the calculation of risk parameters (Probability of default - PD. Loss-given default - LGD. Credit conversion factor - CCF etc.), standard risk costs, and portfolio provisions. It is also responsible for the design and implementation of models for the calculation of risk-weighted assets according to Basel II and model for economic capital.

The Corporate Credit Risk Management Division formulates credit policy and internal provisions on credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). It furthermore monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits and maintains deal and limit documentation for corporate clients. This Division is also involved in the credit approval process or taking direct credit decisions.

The Retail Credit Risk Management Division formulates credit policy and internal provisions on the credit approval process for retail clients. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). It furthermore monitors the development of the credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limit documentation and performs early collection.

Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring, and the restructuring of receivables in overdue and specific provisions. It is also responsible for collateral management.

Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit.

### Maximum exposure to credit risk

Maximum exposure to the credit risk of financial assets is represented by their net carrying amount (carrying amount in the case of derivatives measured at fair value).

Maximum exposure to credit risk for off balance sheet commitments (e.g, undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Bank has to pay if the commitment is called on.

Information regarding exposure to credit risk arising from financial assets other than loans and off balance sheet commitments is detailed in individual notes.

### Exposure to credit risk from loans, advances to customers, financial guarantees granted and undrawn loan commitments.

**The following table presents the maximum exposure to credit risk of loans, advances to customers, financial guarantees granted and undrawn loan commitments:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Gross amount** | **7 129 362** | **7 103 054** |
| On-balance sheet total (Note 14) | 6 081 303 | 6 013 146 |
| Off-balance sheet total (Note 42.a) | 1 048 059 | 1 089 908 |
| **Gross amount** | **7 129 362** | **7 103 054** |
| Retail | 4 400 737 | 3 965 142 |
| Corporate and other classes | 2 728 625 | 3 137 912 |
| **Provision for impairment** | **(379 269)** | **(294 740)** |
| Retail | (253 112) | (202 711) |
| Corporate and other classes | (126 158) | (92 029) |
| **Net amount** | **6 750 093** | **6 808 314** |
| Retail | 4 147 625 | 3 762 431 |
| Corporate and other classes | 2 602 468 | 3 045 883 |

Note: Retail loans include small loans to entrepreneurs.



**Provisions for impairment are structured as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Provisions for losses on loans and advances (Note 15) | 368 259 | 288 210 |
| Provisions for off-balance sheet items (Note 28) | 11 010 | 6 530 |
| **Total provision for impairment** | **379 269** | **294 740** |

Information on the credit quality of loans, advances to customers, financial guarantees granted and undrawn loan commitments, classified as retail asset class by the Bank are as follows:

**Retail asset class**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Total exposure** | | |
| Investment grade (1-5) | 3 722 042 | 3 236 995 |
| Subinvestment grade (6) | 222 593 | 246 868 |
| Subinvestment grade (7) | 48 453 | 83 547 |
| Subinvestment grade (8) | 136 863 | 152 058 |
| Rating R: Defaulted | 270 785 | 245 675 |
| **Gross amount** | **4 400 737** | **3 965 142** |
| Provisions for impairment | (253 112) | (202 711) |
| **Net amount** | **4 147 625** | **3 762 431** |
| Ageing of loans rated 1 – 8 is as follows: | | |
| 0 days | 3 953 368 | 3 512 545 |
| 1 – 30 days | 134 330 | 158 445 |
| 31 – 60 days | 25 807 | 29 131 |
| 61 – 90 days | 16 017 | 18 677 |
| 90 days+ * | 429 | 670 |

* Overdue amount is non material, i.e, less than EUR 50 per client (materiality limit introduced in Q4/09).
Note: The increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Bank considers the financial position and performance of the counterparty, qualitative factors, as well as general economic trends in the particular industry and country. Categories of 1 to 8 represent individually non-impaired loans.
In case of private individuals the Bank is using product definition of non-performing loans, i.e, if one loan of the client is more than 90 days overdue all client's accounts within the same product must be reported in the non-performing category. In case of other segments loans with rating R are reported as non-performing.

### Individually impaired loans and irrevocable commitments

Impaired loans and irrevocable commitments are those for which the Bank determines that it is probable it will be unable to collect all principal and interest due according to the contractual terms of these financial instruments. These are graded 'R' in the Bank's internal risk rating system.

### Past due but not individually impaired loans

Loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate.

### Neither past due nor individually impaired loans

Loans where contractual interest or principal payments are not past due and the Bank does not expect impairment.

Information regarding the credit quality of loans, advances to customers, financial guarantees granted and undrawn loan commitments (classified as corporate, institutional or sovereign asset class) are as follows:

**Corporate and other asset classes**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Total exposure** | | |
| Investment grade (1-5) | 1 995 687 | 2 303 619 |
| Subinvestment grade (6) | 272 964 | 328 909 |
| Subinvestment grade (7) | 106 711 | 258 725 |
| Subinvestment grade (8) | 188 644 | 107 656 |
| Rating R: Defaulted | 164 620 | 139 002 |
| **Gross amount** | **2 728 625** | **3 137 912** |
| Provision for impairment | (126 158) | (92 029) |
| **Net amount** | **2 602 468** | **3 045 883** |
| | | |
| **Individually impaired** | | |
| **Gross amount** | **164 620** | **139 002** |
| Provision for impairment | (80 275) | (59 990) |
| **Net amount** | **84 344** | **79 012** |
| | | |
| **Past due (excluding individually impaired)** | | |
| Investment grade (1-5) | 1 063 | 7 885 |
| Subinvestment grade (6) | 10 980 | 3 955 |
| Subinvestment grade (7) | 1 558 | 3 550 |
| Subinvestment grade (8) | 10 326 | 16 272 |
| **Gross amount** | **23 927** | **31 663** |
| Provision for impairment | (1 313) | (1 070) |
| **Net amount** | **22 614** | **30 594** |
| | | |
| **Past due (excluding individually impaired)** | | |
| 1-30 days | 8 292 | 14 602 |
| 31-60 days | 12 831 | 9 881 |
| 61-90 days | 2 803 | 7 180 |
| | | |
| **Neither past due nor individually impaired** | | |
| Investment grade (1-5) | 1 994 624 | 2 295 734 |
| Subinvestment grade (6) | 261 984 | 324 954 |
| Subinvestment grade (7) | 105 154 | 255 175 |
| Subinvestment grade (8) | 178 317 | 91 384 |
| **Gross amount** | **2 540 079** | **2 967 247** |
| Provision for impairment | (44 570) | (30 970) |
| **Net amount** | **2 495 509** | **2 936 277** |

Note: The Increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Bank considers financial position and performance of counterparty, qualitative factors as well as general economic trends in particular industry and country. Exposures rated as 1 – 8 according to the Bank's internal rating are not considered to be individually impaired.



## Default events

Part of the Bank's reporting is the monitoring of default events behind defaulted individually significant loans. The Bank defines five default events:

- **E1 - unlikeliness to pay**
- **E2 - 90 days overdue**
- **E3 - distressed restructuring of exposure**
- **E4 - Exposure write-off**
- **E5 - Bankruptcy**

When a default event is recognized in the system, the rating of the client is automatically changed to defaulted.

## Collaterals

The Bank holds collateral against loans and advances to customers in the form of real estates, securities, bank guaranties and other credit enhancements. Estimates of fair value are based on the value of collateral assessed at the time of borrowing that is regularly updated. Collateral is not generally held over loans and advances to banks, except when securities are held as a part of reverse repurchase activities (see Note 13). Collaterals against investment securities are described in Note 17 and 18.

Estimated fair values of collaterals and other credit enhancements held against loans, advances to customers, financial guarantees granted and undrawn loan commitments is shown below:

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Real estates | 5 746 770 | 5 024 962 |
| Securities | 148 443 | 163 178 |
| Bank guaranties | 240 033 | 332 699 |
| Other | 271 369 | 193 813 |
| **Total** | **6 406 615** | **5 714 652** |

## Renegotiated loans

The carrying amount of financial assets that would otherwise be past due or impaired and whose terms have been renegotiated during 2010 and 2009:

| | Number of clients | | ths. EUR | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Renegotiated loans | 28 | 36 | 67 007 | 55 309 |

## Concentration risk

A summary of concentrations of financial assets (including derivatives), loan commitments and guarantees as of 31 December 2010 and 2009 based on the debtors' industry are presented below:

| 31 December 2010 ths. EUR | Loans and advances to customers Gross | Net | Loans and advances to financial institutions Gross | Net | Investment securities Gross | Net |
|---|---|---|---|---|---|---|
| Activities of households as employers | 4 080 494 | 3 871 762 | - | - | 417 | 417 |
| Public administration defence | 103 666 | 103 659 | - | - | 2 901 654 | 2 901 654 |
| Financial and insurance activities | 83 111 | 82 807 | 1 253 413 | 1 253 413 | 311 007 | 303 164 |
| Real estate activities | 828 735 | 806 121 | - | - | - | - |
| Manufacturing | 681 970 | 645 722 | - | - | 29 482 | 29 482 |
| Wholesale and retail trade | 404 918 | 362 570 | - | - | - | - |
| Construction | 268 658 | 250 395 | - | - | 582 | 582 |
| Transportation and storage | 169 103 | 161 263 | - | - | 55 222 | 55 222 |
| Electricity, gas, steam and air conditioning supply | 207 764 | 205 646 | - | - | - | - |
| Accommodation and food service activities | 117 852 | 92 439 | - | - | - | - |
| Agriculture forestry and fishing | 41 881 | 37 954 | - | - | - | - |
| Professsional, scientific and technical activities | 41 062 | 36 584 | - | - | - | - |
| Human health and social work activities | 36 541 | 36 067 | - | - | - | - |
| Administrative and support service activities | 21 540 | 19 614 | - | - | - | - |
| **Other** | **5 722** | **4 736** | **-** | **-** | **14 866** | **14 866** |
| Arts, entertainment and recreation | 15 300 | 14 474 | - | - | - | - |
| Information and communication | 7 200 | 6 288 | - | - | - | - |
| Other service activities | 7 037 | 5 970 | - | - | - | - |
| Water supply, sewerage, waste management | 2 824 | 2 314 | - | - | - | - |
| Education | 2 068 | 1 830 | - | - | - | - |
| Mining and quarrying | 1 914 | 1 879 | - | - | - | - |
| **Total** | **7 129 362** | **6 750 093** | **1 253 413** | **1 253 413** | **3 313 230** | **3 305 387** |

| 31 December 2009 ths. EUR | Loans and advances to customers Gross | Net | Loans and advances to financial institutions Gross | Net | Investment securities Gross | Net |
|---|---|---|---|---|---|---|
| Activities of households as employers | 3 648 699 | 3 479 239 | - | - | 779 | 779 |
| Public administration defence | 104 186 | 104 161 | - | - | 3 269 213 | 3 269 213 |
| Financial and insurance activities | 145 966 | 144 906 | 1 191 727 | 1 190 577 | 345 214 | 339 167 |
| Manufacturing | 785 202 | 762 506 | - | - | 17 150 | 17 150 |
| Real estate activities | 778 407 | 769 641 | - | - | - | - |
| Wholesale and retail trade | 485 083 | 441 467 | - | - | - | - |
| Construction | 365 357 | 352 117 | - | - | 572 | 572 |
| Transportation and storage | 233 149 | 225 805 | - | - | 53 713 | 53 713 |
| Electricity, gas, steam and air conditioning supply | 218 859 | 218 510 | - | - | - | - |
| Accommodation and food service activities | 121 007 | 106 443 | - | - | - | - |
| Professsional, scientific and technical activities | 58 980 | 54 440 | - | - | - | - |
| Agriculture forestry and fishing | 48 527 | 44 539 | - | - | - | - |
| Human health and social work activities | 36 991 | 36 620 | - | - | - | - |
| Administrative and support service activities | 24 884 | 23 042 | - | - | - | - |
| Other | 4 921 | 4 590 | - | - | 10 071 | 10 071 |
| Information and communication | 12 770 | 11 654 | - | - | - | - |
| Arts, entertainment and recreation | 9 400 | 9 135 | - | - | - | - |
| Other service activities | 6 807 | 6 429 | - | - | - | - |
| Mining and quarrying | 6 586 | 6 493 | - | - | - | - |
| Water supply, sewerage, waste management | 5 652 | 5 118 | - | - | - | - |
| Education | 1 621 | 1 458 | - | - | - | - |
| **Total** | **7 103 054** | **6 808 314** | **1 191 727** | **1 190 577** | **3 696 712** | **3 690 665** |

**A summary of the concentrations of loans and advances to customers, loan commitments, and guarantees classified by asset classes (as of 31 December 2010 and 2009) is presented below:**

| ths. EUR | 2010 Gross | 2010 Net | 2009 Gross | 2009 Net |
|---|---|---|---|---|
| Retail | 4 400 737 | 4 147 625 | 3 965 142 | 3 762 431 |
| Corporate | 2 617 745 | 2 491 588 | 3 023 369 | 2 931 673 |
| Institution | 60 880 | 60 880 | 6 956 | 6 623 |
| Sovereigns | 50 000 | 50 000 | 107 587 | 107 587 |
| **Carrying amount** | **7 129 362** | **6 750 093** | **7 103 054** | **6 808 314** |

**As of 31 December 2010 and 2009 the following loans and off balance sheet exposures are related to property business activities (based on the purpose of the loan). These loans were provided mainly to finance the acquisition, operation or construction of properties:**

| ths. EUR | 2010 Maximum exposure | 2010 On-balance | 2009 Maximum exposure | 2009 On-balance |
|---|---|---|---|---|
| Residential developments | 106 096 | 57 943 | 182 239 | 114 745 |
| Office schemes | 323 159 | 259 124 | 302 905 | 252 152 |
| Hotels, Pensions | 121 300 | 107 765 | 157 521 | 124 899 |
| Retail premises | 164 767 | 115 204 | 140 009 | 120 001 |
| Mixed schemes | 103 951 | 82 551 | 120 725 | 97 801 |
| Lands | 73 743 | 55 739 | 104 169 | 62 770 |
| Rental flats | 29 369 | 21 975 | 30 375 | 24 412 |
| Leisures | 996 | 736 | 13 908 | 3 833 |
| Logistics | 6 385 | 4 100 | 5 948 | 3 612 |
| **Total** | **929 765** | **705 138** | **1 057 800** | **804 226** |

**The following table presents a summary of the Bank's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government, and similar exposures:**

| ths. EUR | 2010 Amount ths. EUR | 2010 Portion of total assets % | 2009 Amount ths. EUR | 2009 Portion of total assets % |
|---|---|---|---|---|
| Cash and balances at the central bank | 110 049 | 1.01% | 68 885 | 0.61% |
| Loans and advances to customers | 230 908 | 2.11% | 255 659 | 2.26% |
| Securities portfolios | 2 810 449 | 25.68% | 3 156 366 | 27.85% |
| **Total** | **3 151 406** | **28.80%** | **3 480 910** | **30.71%** |

**The Bank holds a large volume of State debt securities. A breakdown of State debt securities is shown below per portfolio and type of security:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | **6 599** | **8 831** |
| | | |
| State bonds denominated in EUR | 6 599 | 8 831 |
| **Securities available for sale** | **661 121** | **901 259** |
| Treasury bills | 39 760 | 298 983 |
| Slovak government Eurobonds | 618 305 | 599 202 |
| Companies controlled by the Slovak government | 3 056 | 3 074 |
| **Securities held to maturity** | **2 122 849** | **2 246 276** |
| Treasury bills | - | 119 900 |
| State bonds denominated in EUR | 2 099 260 | 2 102 791 |
| Companies controlled by the Slovak government | 23 589 | 23 585 |
| **Trading Book Securities** | **19 880** | **-** |
| Treasury bills | 19 880 | - |
| **Total** | **2 810 449** | **1 846 644** |

The rating of the Slovak Republic according to the international rating agency Standard & Poor's is A + as at December 15, 2010 and January 14, 2010.



# 36. MARKET RISK

Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- **risk identification - identify all risks inherent in the trading operations and in new products (new products check), and ensure these are subject to adequate procedures and controls before being introduced or undertaken.**
- **risk measurement – calculation of risk exposure using sensitivities and value-at-risk.**
- **limits management - development of a comprehensive limit system and limit allocation. Limit setting is a way to restrict the maximum risk exposure.**
- **risk monitoring and reporting.**

The main tool to measure market risk exposure in the Bank is Value-at-Risk (VaR) which is complemented by back testing and a stress testing programme.

The Bank separates its exposure to market risk between the Trading Book and Banking Book.

### Market Risk - Trading Book

The trading book represents the Bank's positions in financial instruments – cash, derivative or securities - held either with trading intent (i.e. for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements), or in order to hedge other instruments of the trading book.

For the purpose of market risk measurement of the trading book. VaR with complementary stress testing and extreme value theory measurements is used.

The VaR risk measurement estimates the maximum potential loss in pre-taxation profit over a given holding period for a specified confidence level. VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities, changes in interest rates, foreign exchange rates, and other market factors. Risks can be measured consistently across all markets and products of the trading book, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR. Value-at-Risk is not an indication of actual future performance of investments which may increase or decrease in value. An important part of the VaR model is Back Testing that compares the ex-post computed VaR with the profit and loss actually achieved over the holding period, and thus ascertains whether the actual loss of overdrafts is in accordance with the selected confidence level.

Value-at-risk is subject to some model assumptions (normality of distribution, historical simulation, etc.). Stress testing partially tackles these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VaR, sensitivity, and stop-loss limits.

A new Erste Bank holding structure is effective as of February 2008. As a part of this strategic decision only the money market desk remains within the responsibility of the Bank, from interbank trading. In addition, no new derivatives are allowed on the desk and the eligible products are limited to deposits, treasury bills. FX swaps and repurchase agreements.

**As of 31 December 2010, the maximum one day expected loss from exposures of the trading book, that may result from changes in interest rates, exchange rates and other market factors, are as follows:**

| ths. EUR Desk | Interest | Currency | 2010 Price | Volatility | Total | Limit |
|---|---|---|---|---|---|---|
| Foreign Exchange | 0.0 | 0.8 | 0.0 | 0.0 | 0.8 | 50 |
| Money Market | 51.1 | 0.0 | 0.0 | 0.0 | 51.1 | 450 |
| Fixed Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 |
| **Total** | **51.1** | **0.8** | **0.0** | **0.0** | **50.8** | **500** |

| ths. EUR Desk | Interest | Currency | 2009 Price | Volatility | Total | Limit |
|---|---|---|---|---|---|---|
| Foreign Exchange | 0.0 | 0.2 | 0.0 | 0.0 | 0.2 | 100 |
| Money Market | 18.1 | 0.0 | 0.0 | 0.0 | 18.1 | 620 |
| Fixed Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 |
| **Total** | **18.1** | **0.2** | **0.0** | **0.0** | **18.1** | **660** |

The limit represents the Bank's internally defined maximum one day loss that is used as a benchmark for managing the market risk of the trading book.

### Market Risk - Banking Book

Banking book market risk management consists of optimizing the Bank's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. The decisions are based on the balance sheet development, the economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position.

Overall responsibility over the banking book market risk is delegated to ALCO. It reviews risk exposures and potential effects of asset/liability strategy on them and makes sure that they are in line with intended risk profile.

The main steps to market risk analyzing and managing:

- **The assumptions set-up: for products, for scenarios and for strategies.**
- **The analysis:**
  - **of Market Value of Equity risk (MVoE) - risk of change of market value of the portfolio in the case of change of interest rates curve (see note 38).**
  - **of Net Interest Income Risk (NII risk) - forecast of net interest income in future periods (which includes the base case scenario) and change of net interest income in the case of defined development of yield curve (deterministic scenarios) (see note 38) and forecast of net interest income in the case of stochastic rate changes (which includes the worst case scenario) (stochastic scenarios).**
- **The tools to manage the market risk exposure of the banking book:**
  - **Investments into financial instruments**
  - **Hedging (in broader sense hedging means an economic activity that mitigates risk, but does not necessarily qualify for IFRS hedge accounting; in more narrow sense hedging is the hedge accounting according to IFRS requirements).**

The results of standard analysis (stable balance sheet positions, stable margins, various market parameters shocks) are included in the ALCO report and presented at the ALCO meeting on a monthly basis. Based on the requests and market situation, non-standard analysis is presented at ALCO meetings on an irregular basis.

The recent changes in market conditions resulted in high market price volatility, decreased market liquidity for some securities, significant changes in interest rates, widening credit spreads and changes of ratings by rating agencies on many issuers. In response to this situation, the Bank's management increased its monitoring of events and the impact and potential impact on the Bank's portfolios and financial position. Methods used included monitoring of global, regional and local economic news, research on counterparties and markets, and scenario analysis.

### Market risk of investment portfolios

Investment portfolios of the banking book (including derivatives) are subject to strict rules of market risk management which are set up by SRM and approved by ALCO committee.

SRM daily executes portfolio revaluation, risk measurement and monitoring. The primary measure is value-at-risk with the same parameters as for the trading book (i.e. two-year historical simulation. 99% confidence interval, one day holding period). Additionally, other measures are used, mainly interest rate sensitivity. Positions are also subject to periodic (at least monthly) stress testing.

In order to limit the risk, a comprehensive system of limits is set up, primarily based on VaR and stop-loss limits. Limits are structured according to individual subportfolios, while separate limits are defined for derivative trades. Monitoring is performed by SRM on a daily basis.

Risk reporting is done daily for relevant managers and monthly for ALCO.



## 37. FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. This risk is primarily eliminated by the daily closing of open FX positions against Erste Group Bank. The Bank is permitted to hold strategic FX positions, however, these are strictly limited by VaR and stop-loss limits. Monitoring is performed on a daily basis by SRM.

**The following table summarizes the FX position of the Bank:**

| ths. EUR | EURO | US Dollar | Czech Crown | Other | Total |
|---|---|---|---|---|---|
| Cash and balances at the central bank | 318 418 | 3 734 | 6 533 | 6 667 | **335 352** |
| Loans and advances to financial institutions | 1 210 451 | 38 937 | 217 | 3 808 | **1 253 413** |
| Loans and advances to customers | 6 024 670 | 9 734 | 40 600 | 6 299 | **6 081 303** |
| Provisions for losses on loans and advances | (365 965) | (133) | (2 106) | (55) | **(368 259)** |
| Financial assets at fair value through profit or loss | 115 860 | 10 | - | - | **115 870** |
| Securities available for sale | 889 150 | 3 826 | 11 278 | - | **904 254** |
| Securities held to maturity | 2 249 148 | 7 538 | 28 577 | - | **2 285 263** |
| **Total financial assets** | **10 441 732** | **63 646** | **85 099** | **16 719** | **10 607 196** |
| Amounts owed to financial institutions | 1 052 687 | 1 512 | 61 667 | 10 294 | **1 126 160** |
| Amounts owed to customers | 8 063 931 | 62 181 | 26 424 | 16 519 | **8 169 055** |
| Debt securities in issue | 380 933 | - | - | - | **380 933** |
| Financial liabilities at fair value through profit or loss | 51 708 | - | - | - | **51 708** |
| Subordinated debt | 195 105 | - | - | - | **195 105** |
| **Total financial liabilities** | **9 744 364** | **63 693** | **88 091** | **26 813** | **9 922 961** |
| **Total net FX position of financial assets and liabilities at 31 December 2010** | **697 368** | **(47)** | **(2 992)** | **(10 094)** | **9 922 961** |
| Total financial assets at 31 December 2009 | 10 787 766 | 23 904 | 89 621 | 27 821 | 10 929 112 |
| Total financial liabilities at 31 December 2009 | 10 326 107 | 66 632 | 56 600 | 27 156 | 10 476 495 |
| **Total net FX position of financial assets and liabilities at 31 December 2009** | **461 659** | **(42 728)** | **33 021** | **665** | **452 617** |

**The following table details the Bank's sensitivity to percentage movement of exchange rates. These changes represent the management's assessment of reasonably possible changes in foreign exchange rates:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Currency** | **Appreciation/ (Depreciation) of EUR** | **Impact on net income** | **Appreciation/ (Depreciation) of EUR** | **Impact on net income** |
| USD | 6.45% | 3 | (1.24%) | (528) |
| CZK | 4.23% | 127 | 9.31% | (3 076) |

Movement changes in foreign exchange rates would not have an impact on equity (other than the impact on net income) as at 31 December 2010 and 31 December 2009.

## 38. INTEREST RATE RISK

### Interest rate risk indicators

Interest rate risk is the risk that net interest income ("NII") from financial instruments will fluctuate due to changes in market interest rates. The Bank manages its interest rate risk through monitoring interest rate behaviour and the re-pricing dates of the Bank's assets and liabilities, and developing models showing the potential impact that changes in interest rates may have on the Bank's net interest income and market value of the Bank's assets and liabilities. Interest rate risk limits are approved by ALCO. The one year forecasted net interest income in the case of a 200 basis points (bp) parallel change of interest rates should not exceed 15% of the forecasted NII according to the base market scenario (stable yield curve). The change of the market value of the portfolio of the Bank's interest earning assets and liabilities in the case of a 200 bp parallel changes of interest rates should not exceed 20% of the capital of the Bank.

**As at 31 December 2010, the 200 bp change in interest rates would affect net interest income (comparison with 2009 year) as follows:**

| **Net interest income** | **2010 ths. EUR** | **2009 ths. EUR** |
|---|---|---|
| + 200 bp | ( 1 419) | 8 818 |
| - 200 bp | (13 869) | (16 701) |

Change in yield curve by + 200 bp would affect the market value of interest bearing assets and liabilities totaling to EUR (59.9) million, of which the revaluation directly in equity is EUR (42.8) million as at 31 December 2010 (2009: EUR (33.8) million, directly in equity (45.9) million).

The limit defined by risk management for the maximum change of interest bearing assets and liabilities established by a +200 bp parallel change of interest rates amounts to EUR 175 million as of 31 December 2010 (2009: EUR 157 million).



## 39. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments.

Liquidity risk is within the authority of ALCO. The L-OLC (Local Operating Liquidity Committee) is responsible for operational managing and analyzing of the liquidity situation of the Bank.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfillment of minimum required reserves is performed by the Treasury department.

Liquidity risk is quantified based on the liquidity regulation of NBS. The fixed and non-liquid assets ratio was 0.34 at the end of 2010 (must be lower than 1.0) (end of 2009: 0.52). The liquid assets ratio, that must be greater than 1.00, was 1.22 at the end of 2010 (end of 2009:1.16).

In addition, own measurement and prediction system of financing needs offers information for liquidity management. A new scenario based Survival Period Analysis was developed and implemented in 2010. It's intention is to provide information as to the Bank's survival period under five different stress scenarios, including name, market, and combined crisis.

There are internal limits set for funding concentrations. Their aim is to monitor and prevent the liquidity risk stemming from a too large deposit concentration of one or small number of depositors (possibility of sudden withdrawal).

A minimal liquidity reserve of EUR 1 billion is defined. It consists of highly liquid ECB eligible bonds that the Bank can use as collateral in unexpected situations.

The liquidity of the Bank is also covered by large proportion of government bonds on the Bank's total balance sheet. The overall liquidity situation of the Bank was satisfactory throughout 2010.

### Liquidity gap

Liquidity gap is a standard liquidity analysis that compares volumes cash flows from assets and liabilities in specified time buckets. Assets and liabilities are structured in defined classes. The internal limit is defined such that in each time bucket the liquidity gap should be less than EUR 1.3 billion. This limit was fulfilled in all tenors during the year 2010.

The bank is long liquidity in its shortest tenor, but is short thereafter. The situation during year 2010 was stable.

Cash flows are based on contractual maturities, notional (or market) values only, with no interest being considered.

### Maturity analysis

The following table shows the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities.

| **As at 31 December 2010 ths. EUR** | **On demand and less than 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Amounts owed to financial institutions | 1 067 699 | 31 354 | 2 177 | 21 544 | 4 319 | **1 127 093** |
| Amounts owed to customers | 4 448 050 | 918 794 | 1 261 809 | 1 558 619 | 1 344 | **8 188 616** |
| Debt securities in issue | 448 | 6 627 | 78 478 | 265 157 | 62 480 | **413 189** |
| Subordinated debt | - | 1 010 | 3 030 | 91 602 | 121 356 | **216 998** |
| **Total** | **5 516 197** | **957 785** | **1 345 493** | **1 936 922** | **189 500** | **9 945 897** |

| **As at 31 December 2010 ths. EUR** | **On demand and less than 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Amounts owed to financial institutions | 708 633 | 41 302 | 1 219 630 | 13 869 | 8 663 | **1 992 098** |
| Amounts owed to customers | 4 425 298 | 1 178 795 | 1 196 549 | 1 065 053 | 3 323 | **7 869 018** |
| Debt securities in issue | 235 | 556 | 181 454 | 217 819 | 67 046 | **467 110** |
| Subordinated debt | - | 1 250 | 3 750 | 99 444 | 104 861 | **209 306** |
| **Total** | **5 134 166** | **1 221 903** | **2 601 383** | **1 396 185** | **183 893** | **10 537 532** |

## 40. OPERATIONAL RISK

Operational risk is the risk of loss (direct and indirect) resulting from inadequate or failed internal processes, people and systems, or from external events which lead (or have the potential to lead) to losses, or have other negative impacts on the Bank. This definition includes legal risk, but excludes strategic and reputation risk. Operational risks arise from all of the Bank's operations and each of the business lines.

Primary responsibility for the day-to-day management of operational risk is assigned to every business unit. The Strategic Risk Management unit performs activities of global scope and has a methodical, coordination, and harmonization role.

The main objectives of operational risk management are:

- **to set up a Bank-wide framework for operational risk management and to translate this framework into internal regulations,**
- **to properly identify major drivers of operational risk.**
- **to develop models for the quantification of risk exposure profile and for the calculation of both economic and regulatory capital,**
- **to prevent or minimize losses due to operational risk by the adaptation of suitable processes, preventive measures, or selecting suitable insurance,**
- **to create an effective system of business continuity management,**
- **to continuously improve the operational risk management process,**
- **to provide quality reporting and documentation (quarterly reporting of operational risk events for the board of directors, senior management and regional directors).**

Operational risk management is performed within the following main activities:

- **system of internal controls - each unit manager is responsible for the effectiveness and quality of the control system within his area of competence,**
- **business continuity management - to ensure the uninterrupted provision of business operations and services,**
- **insurance – to minimize losses due to operational risk,**
- **outsourcing – the respective business unit is responsible for the operational risk management related to outsourcing; internal audit can also exercise periodic controls,**
- **anti-money laundering,**
- **risk assessment of new products, activities, processes and systems before being introduced or undertaken.**

The Bank measures its operational risk exposure using the loss distribution approach (LDA). In modelling the distribution, the following are used: internal data collection, external data, scenario analysis, risk mapping and key risk indicators (key risk indicators track the most important drivers of operational risk) and factors reflecting the business environment and internal control systems.

In this, the probability distribution of both the frequency of loss and the amount of loss is modelled, and is recombined into a compound distribution of yearly losses. From this distribution, both expected and unexpected losses can be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9% and the holding period should be one year.

The LDA approach is used as a basis for measurement and allocation of the capital charge within AMA (Advanced Measurement Approach). Permission for use of AMA was granted by NBS effective from 1 July 2009.

Since 2005 the Bank has been involved in a comprehensive group-wide captive insurance program. Under this program, the vast majority of operational risks - property damage, internal & external fraud. IT failures, civil liability, etc. - are covered for both the Bank and its subsidiaries.

Decision-making in the area of operational risk is covered by high-level ORCO committee (Operational Risk and Compliance Committee), of which board members and senior managers are members, and which have the ultimate authority in making decisions regarding risk exposure against operational risk.

## 41. CAPITAL MANAGEMENT

The Bank's lead regulator, the NBS, sets and monitors capital requirements. The Bank assesses the volume of its regulatory and economic capital (ICAAP).

### Regulatory capital

In implementing current capital requirements the NBS requires the Bank to maintain a prescribed ratio of total capital to total risk weighted assets (minimum 8%). As of 31 December 2010 and 2009, the Bank has complied with the capital adequacy requirement. The Bank calculates requirements for credit risk using the Basel II IRB approach and for market risk in its trading portfolios using internal VaR models. Basel II has also come with a new capital requirement on operational risk.

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

- **Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve after deduction for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.**
- **Tier 2 capital, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealised gains on equity instruments classified as available for sale.**

Various limits are applied to elements of the capital base. The amount of qualifying tier 2 capital cannot exceed tier 1 capital and qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. Other deductions from capital include the carrying amounts of investments qualifying as financial institutions exceeding 10% participation on their share capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain the future development of the business. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

**The Bank's regulatory capital position at 31 December 2010 and 2009 was as follows:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| **Tier 1 capital** | | |
| Ordinary share capital | 212 000 | 212 000 |
| Capital reserves | 118 899 | 118 899 |
| Retained earnings | 423 196 | 411 002 |
| Less intangible assets | (62 502) | (78 771) |
| **Total** | **691 593** | **663 130** |
| **Tier 2 capital** | | |
| Fair value reserve for available-for-sale equity securities | 3 099 | 1 935 |
| IRB Surplus | 66 | - |
| Qualifying subordinated liabilities | 194 000 | 180 000 |
| **Total** | **197 165** | **183 338** |
| Deductions from Tier I and Tier II capital | (11 922) | (61 468) |
| **Total regulatory capital** | **876 836** | **785 000** |

## ICAAP

Internal Capital Adequacy Assessment Process (ICAAP) is a process in which all significant risks that the Bank faces must be covered by internal capital (coverage potential). This means that all material risks are quantified, aggregated, and compared to the coverage potential. A maximum risk exposure limit and lower trigger level are defined, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

The Bank's ICAAP is defined by the group ICAAP framework. The key term within the context of ICAAP is the concept of economic capital. This is a measure of risk that captures unexpected losses. As opposed to expected loss, which is the anticipated probability-weighted average loss on a portfolio or business, and is considered a part of doing business, and is typically covered by reserves or income, unexpected loss describes the volatility of actual losses around this anticipated average. Typically, a very high confidence interval is assumed, in order to cover even very severe loss events (except for the most catastrophic ones for which it is impossible to hold capital). In the Bank, the confidence interval is set at 99.9% and the holding period is one year.

Objectives of ICAAP are:

- **to integrate risk management for different risk types into a single high-level process**
- **to relate risk exposures to internal capital**
- **to continuously monitor and adjust capital levels to changing risk profile**

ICAAP is a process that within the Bank consists of the following steps:

- **Risk materiality assessment**
  **– identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation**
- **Risk-bearing capacity calculation**
  **– calculation of the risk exposure for each particular material risk**
  **– aggregation of the individual risks into a single economic capital figure**
  **– calculation of internal capital (coverage potential)**
  **– relating economic to internal capital**
- **Stress testing**
  **– verification of economic capital figures via severe, yet plausible stress scenarios**
- **Capital management**
  **– management of consistency between economic and internal capital including forecasting**

ICAAP is regularly (quarterly) reported to the Board of Directors. Currently credit, operational, and market risk of both trading and banking books are included in the capital coverage. Liquidity, business risk and stress testing results will be included in the near future.

# 42. OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank is a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

### (a) Loan commitments, Guarantees and Letters of Credit

Bank guarantees and letters of credit cover liabilities to clients (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represents an irrevocable liability of the Bank to pay a certain amount as stated in the bank guarantee in the case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Bank performed according to the instruction of the buyer to pay a specified amount to the seller against the documents that meet the letter of credit requirements. The Bank deals with letters of credit subject to 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

The primary purpose of these instruments is to ensure that funds are available 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. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

**The following table contains off-balance sheet credit exposures and also treasury commitments:**

| ths. EUR | 2010 | 2009 |
|---|---|---|
| Guarantees given | 244 271 | 221 596 |
| Guarantees from letters of credit | 2 804 | 2 480 |
| Loan commitments and undrawn loans | 800 984 | 865 832 |
| **Total** | **1 048 059** | **1 089 908** |

### (b) Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any 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), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most cases requires margin deposits.

**Derivatives in notional and fair value**

| | 2010 | | | |
|---|---|---|---|---|
| | Receivables | | Liabilities | |
| ths. EUR | Notional value | Fair value | Notional value | Fair value |
| **Hedging** | 107 821 | 2 955 | 107 821 | 7 960 |
| **Total hedging instruments** | **107821** | **2 955** | **107 821** | **7 960** |
| **Trading derivatives** | | | | |
| Foreign currency forwards | 77 378 | 804 | 77 311 | 738 |
| Option contracts | 383 720 | 4 655 | 367 866 | 4 585 |
| Interest rate swaps (IRS) | 1 409 144 | 42 644 | 1 409 144 | 42 413 |
| Currency interest rate swaps (CIRS) | 44 203 | 1 702 | 44 203 | 1 701 |
| Currency swaps | 106 081 | 2 374 | 105 998 | 2 271 |
| **Total trading derivatives** | **2 020 526** | **52 179** | **2 004 522** | **51 708** |
| **Total** | **2 128 347** | **55 134** | **2 112 343** | **59 668** |

The negative value of derivatives of 2010 EUR 51.7 million (2009: EUR 57.3 million) is presented as 'Financial liabilities at fair value through profit and loss'.

| | 2009 | | | |
|---|---|---|---|---|
| | Receivables | | Liabilities | |
| ths. EUR | Notional value | Fair value | Notional value | Fair value |
| **Hedging** | 66 597 | 3 759 | 66 597 | 5 045 |
| **Total hedging instruments** | **66 597** | **3 759** | **66 597** | **5 045** |
| **Trading derivatives** | | | | |
| Foreign currency forwards | 262 772 | 2 323 | 262 611 | 2 163 |
| Option contracts | 733 864 | 4 691 | 737 262 | 4 658 |
| Interest rate swaps (IRS) | 1 521 150 | 44 093 | 1 521 150 | 48 484 |
| Currency interest rate swaps (CIRS) | 61 749 | 1 752 | 61 481 | 1 496 |
| Currency swaps | 179 295 | 2 300 | 177 515 | 454 |
| **Total trading derivatives** | **2 758 830** | **55 159** | **2 760 019** | **57 255** |
| **Total** | **2 825 427** | **58 918** | **2 826 616** | **62 300** |

All derivative transactions during 2010 and 2009 were traded on the over-the-counter 'OTC' markets.

# 43. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

## (a) Fair values of financial assets and liabilities measured at amortized cost

In the following table, the fair values of the balance sheet items are compared with the carrying amounts.

| ths. EUR | Carrying value 2010 | Estimated fair value 2010 | Carrying value 2009 | Estimated fair value 2009 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and advances to financial institutions | 1 253 413 | 1 253 852 | 1 190 577 | 1 192 483 |
| Loans and advances to customers | 5 713 044 | 5 839 864 | 5 724 936 | 5 857 937 |
| Held to maturity securities | 2 285 263 | 2 326 636 | 2 420 061 | 2 449 924 |
| **Financial liabilities** | | | | |
| Amounts owed to financial institutions | 1 126 160 | 1 126 482 | 1 976 818 | 1 975 514 |
| Amounts owed to customers and debt securities in issue | 8 549 988 | 8 105 698 | 8 262 162 | 7 804 641 |

### Loans and advances to financial institutions

The fair value of current account balances approximates their carrying amount, as the Bank's term placements generally re-price within relatively short time periods.

### Loans and advances to customers

Loans and advances are net of specific and other provisions for impairment. The fair value represents management's estimate of the ultimate fair value of the loans and advances to customers. The credit risk of each instrument is taken into account in the way that the yield curve used for the discounting of this instrument is increased by the value of the relevant credit risk margin.

### Held to maturity securities

The fair value of held-to-maturity securities was calculated based on the same principles used for the valuation of available-for-sale securities and trading, and at fair value through profit and loss securities as described in Note 3(f).

### Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. On demand deposits are modeled according to generally accepted assumptions within the Erste Group Bank. The estimated fair value of fixed interest bearing deposits and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with a similar remaining maturity

## (b) Determination of fair values of residual financial assets and liabilities

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker. To this end, ultimate responsibility for the determination of fair values lies with SRM. SRM establishes the pricing policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant pricing sources.

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. In less liquid markets, direct observation of a traded price may not be possible. In these circumstances. SRM source Erste Group Bank to validate the financial instrument's fair value. Greater weight is given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- **the extent to which prices may be expected to represent genuine traded or tradable prices;**
- **the degree of similarity between financial instruments;**
- **the degree of consistency between different sources;**
- **the process followed by the pricing provider to derive the data;**
- **the elapsed time between the date to which the market data relates and the balance sheet date; and**
- **the manner in which the data was sourced.**

The results of Erste Group Bank independent validation process are reported to SRM.

The best indicator of the fair value is the price which can be obtained in an active market. If prices from an active market are available they are used. For fair value valuation mainly external data sources (like quotes from exchanges or broker quotations) are used. In case no market prices are available, the fair value is derived via pricing models, which use observable inputs. In some cases it is not possible either to get prices from exchanges or using a pricing model which is based on observable inputs. In such cases inputs are estimated based on similar risk factors.

Erste Group Bank uses only common, market approved models for the evaluations. For linear derivatives (e.g., Interest Rate Swaps, Cross Currency Swaps, FX-Forwards, Forward Rate Agreements) market values are calculated by discounting the expected cash flows. Plain Vanilla-OTC-Options (Equity. Currency and Interest Options) are evaluated using option pricing models of the Black Scholes generation, complex interest derivatives using Hull White and BGM models.

Only models which have went through an internal approval process and where the independent determination of the inputs (e.g. interest rates, volatilities) is ensured are used.
Models are applied only if an internal approval process and the independent determination of inputs (e.g. interest rates, volatilities) is ensured.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**The table below details the valuation methods used to determine the fair value of financial instruments measured at fair value:**

| 31 December 2010<br>ths. EUR | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Securities available for sale | 323 888 | 527 487 | 46 622 | 897 997 |
| Securities at fair value through profit or loss | 25 420 | 7 577 | 10 813 | 43 811 |
| Financial assets - trading | - | 19 880 | - | 19 880 |
| Derivative financial assets | - | 50 160 | 2 019 | 52 179 |
| **Total assets** | **349 308** | **605 104** | **59 454** | **1 013 867** |
| Derivative financial liabilities | - | 49 760 | 1 949 | 51 708 |
| **Total liabilities** | **-** | **49 760** | **1 949** | **51 708** |

| 31 December 2009<br>ths. EUR | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Securities available for sale | 417 860 | 671 737 | 43 251 | 1 132 848 |
| Securities at fair value through profit or loss | 49 499 | 7 368 | 17 379 | 74 246 |
| Derivative financial assets | - | 53 349 | 1 810 | 55 159 |
| **Total assets** | **467 359** | **732 454** | **62 440** | **1 262 253** |
| Derivative financial liabilities | - | 55 478 | 1 777 | 57 255 |
| **Total liabilities** | **467 359** | **55 478** | **1 777** | **57 255** |

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by the market trend in the structured credit segment (CLNs). The decrease in trading activity led to a reduction in the proportion of observable transactions and thus to the allocation of more instruments to this category.

**The table shows the development of fair value of financial instruments for which valuation models are based on non observable inputs:**

| ths. EUR | Securities available for sale | Securities at fair value through profit or loss | Derivative financial assets | Derivative financial liabilities |
|---|---|---|---|---|
| **MV as of 31 December 2009** | **42 895** | **17 363** | **1 809** | **(1 777)** |
| accrued coupon | 355 | 17 | - | - |
| **Balance as of 31 December 2009** | **43 251** | **17 380** | **1 809** | **(1 777)** |
| Total gains or losses: | | | | |
| in profit or loss | 28 | (470) | 210 | (171) |
| in other comprehensive income | 1 132 | - | - | - |
| Issues | 6 000 | - | - | - |
| Settlements | (3 891) | (6 098) | - | - |
| **MV as of 31 December 2010** | **46 164** | **10 795** | **2 019** | **(1 949)** |
| accrued coupon | 458 | 18 | - | - |
| **Balance as of 31 December 2010** | **46 622** | **10 813** | **2 019** | **(1 949)** |
| Total gains / (losses) for the period included in profit or loss for assets/liabilities held at the end of the reporting period | - | 135 | 210 | (171) |

# 44. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table shows the distribution of assets and liabilities and equity to current (due within one year) and non-current (due over one year) based on their remaining contractual maturity.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| ths. EUR | Current | Non-current | Total | Current | Non-current | Total |
| Cash and balances at the central bank | 335 352 | - | **335 352** | 322 934 | - | **322 934** |
| Loans and advances to financial institutions | 914 817 | 338 596 | **1 253 413** | 400 530 | 791 197 | **1 191 727** |
| Loans and advances to customers | 1 319 338 | 4 761 965 | **6 081 303** | 1 784 336 | 4 228 810 | **6 013 146** |
| Provisions for losses on loans and advances | - | (368 259) | **(368 259)** | - | (289 360) | **(289 360)** |
| Financial assets at fair value through profit or loss | 42 502 | 73 368 | **115 870** | 20 833 | 108 572 | **129 405** |
| Securities available for sale | 159 326 | 744 928 | **904 254** | 498 557 | 642 642 | **1 141 199** |
| Securities held to maturity | 186 089 | 2 099 174 | **2 285 263** | 430 096 | 1 989 965 | **2 420 061** |
| Investments in associates and other investments | - | 15 147 | **15 147** | - | 19 777 | **19 777** |
| Intangible assets | - | 63 075 | **63 075** | - | 79 430 | **79 430** |
| Property and equipment | - | 116 720 | **116 720** | - | 129 426 | **129 426** |
| Investment property | - | 3 455 | **3 455** | - | 3 959 | **3 959** |
| Non-current assets held for sale | - | 37 913 | **37 913** | - | 31 020 | **31 020** |
| Current income tax asset | - | - | **-** | 24 078 | - | **24 078** |
| Deferred income tax asset | - | 70 934 | **70 934** | - | 55 520 | **55 520** |
| Other assets | 17 074 | 12 520 | **29 594** | 52 485 | 8 234 | **60 719** |
| **Total assets** | **2 974 498** | **7 969 536** | **10 944 034** | **3 533 849** | **7 799 192** | **11 333 041** |
| Amounts owed to financial institutions | 1 100 792 | 25 368 | **1 126 160** | 1 956 107 | 20 711 | **1 976 818** |
| Amounts owed to customers | 6 621 359 | 1 547 696 | **8 169 055** | 6 786 332 | 1 049 376 | **7 835 708** |
| Debt securities in issue | 84 431 | 296 502 | **380 933** | 178 797 | 247 657 | **426 454** |
| Provisions for liabilities and other provisions | - | 23 059 | **23 059** | - | 22 426 | **22 426** |
| Financial liabilities at fair value through profit or loss | 8 715 | 42 993 | **51 708** | 11 039 | 46 216 | **57 255** |
| Other liabilities | 81 283 | 12 418 | **93 701** | 73 887 | 7 357 | **81 244** |
| Current income tax | 11 363 | - | **11 363** | - | - | **-** |
| Deferred income tax liability | - | - | **-** | - | - | **-** |
| Subordinated debt | 405 | 194 700 | **195 105** | 260 | 180 000 | **180 260** |
| Equity | - | 892 950 | **892 950** | - | 752 876 | **752 876** |
| **Total liabilities and equity** | **7 908 348** | **3 035 686** | **10 944 034** | **9 006 422** | **2 326 619** | **11 333 041** |

## 45. SEGMENT REPORTING

The segment reporting of the Bank follows the presentation and measurement requirements of IFRS as well as Erste Group standards.

**Segment Structure**

For the purpose of transparent presentation of the group structure, the segment reporting has been harmonised with the structure of Erste Group and is divided into the following segments:

- **Retail**
- **Local corporates**
- **Real Estate**
- **Assets and Liabilities management**
- **Group Large Corporates**
- **Group Capital Markets**
- **Corporate Center**
- **Free capital**

The segment reporting follows the rules used in the Group controlling report which is produced on a monthly basis for the Holding Board. The report is reconciled with the monthly reporting package and the same segments used in the Group Controlling report are also applied in the External segment reporting for Erste Group.

By adding up Retail. Local corporates. Real estate. ALM and the Corporate centre a core business for the Bank is defined, for which the Bank is primarily responsible from a Holding Group point of view.

For the definition of segments/business lines in the Bank, the Bank applies account manager principle, which means that each client has assigned an account manager, who is assigned to a particular business line/segment. In other words, profit/loss is allocated to an account manager and one customer can have exactly one account manager.

Within the segment report the local fully consolidated subsidiaries as well as other participations, are allocated to the respective business line (please see the definitions below).

**Retail**

The Retail segment is constituted by the branch network where SLSP sells products mainly to private, free professionals and micro customers. The Retail stream is divided into 8 regions, then to 76 areas and then 291 branches (status as of 31 December 2010). In addition the Retail segment also includes at equity results of PSS (building society).

**Local corporates**

Local corporates segment primarily consists of SME (Small and medium enterprises), the Public sector. Leasing SLSP and Factoring SLSP. Local corporates includes mainly the following client segments:

- **Small SME (up to EUR 5 mil, gross domestic product 'GDP' weighted turnover)**
- **Medium SME (up to EUR 30 mil. GDP weighted turnover)**
- **Large SME (up to EUR 175 mil. GDP weighted turnover)**
- **Non-profit Sector**
- **Public Sector (financing of public projects like highways, infrastructure, etc.)**
- **Certain MICRO clients are treated as Local Corporates (e.g. small members of a group of companies)**

**Real Estate**

Real estate segment covers all the commercial and residential projects financed by the Bank.

**Assets and Liabilities Management**

Business line Assets and Liabilities Management manages the structure of balance sheet (banking book) according to market conditions in order to cover the bank's liquidity needs and to ensure a high degree of capital utilization. ALM also contains the transformation margin as a result of the mismatch in balance sheet from a time and currency point of view. The transformation margins as well as ALM own business (HTM. AFS. FV portfolio on assets side and Bonds issued on liability side) the main part of this segment.

**Group Large Corporates**

The Group Large Corporates segment includes all group large corporate customers operating in the markets of Erste Group. The GLC client is a company which has a GDP/Head adjusted annual turnover of more than EUR 175 million in at least one of EBG core market.

**Group Capital Markets**

GCM is responsible for trading in foreign exchange and interest rate products as well as securities for all customer groups and for the development of market-oriented products. The segment Group capital markets in terms of the Bank includes divisionalised business lines like Treasury Trading and Institutional Sales. Results and positions coming from Corporate and Retail Sales are included in particular business line e.g. Retail, SME, Real Estate etc. as a result of using the account manager principle.

**Corporate Center**

Typically, corporate Centre contains the non-client business of the Bank. The Corporate Centre segment includes mainly positions and items which cannot be directly allocated to specific segment or business line like parts. Additionally, all non-allocated participations like Laned, Derop, Realitná spoločnosť SLSP, sIT Solutions, sProserv and other participations are recognised within this segment.

**Free Capital**

Free capital is not a segment but the difference between the total equity according to the balance sheet and the sum of the allocated capital of Busines lines. Under the free capital a subordinated debt as taken from the holding company is also presented.



| 2010<br>ths. EUR | Retail | Local Corporates | Real Estate | ALM | Corporate centre | Core business |
|---|---|---|---|---|---|---|
| Net interest income | 294 283 | 39 307 | 14 183 | 56 652 | 13 147 | **417 571** |
| Risk provisions for loans and advances | (82 833) | (20 421) | (19 515) | 109 | (2) | (122 661) |
| Net fee and commission income | 105 770 | 8 447 | 868 | - | (8 329) | 106 756 |
| Net trading result | 4 839 | 1 468 | 8 | (1 064) | (695) | 4 555 |
| General administrative expenses | (192 099) | (15 936) | (2 169) | (2 487) | (10 265) | (222 956) |
| Other result | (12 790) | (169) | 659 | 3 373 | (22 177) | (31 104) |
| Pre-tax profit | 117 170 | 12 695 | (5 966) | 56 582 | (28 321) | 152 161 |
| Taxes on income | (22 262) | (2 412) | 1 133 | (10 751) | 1 823 | (32 469) |
| **Net profit after minority interests** | **94 908** | **10 283** | **(4 832)** | **45 832** | **(26 498)** | **119 693** |
| Average risk-weighted assets | 2 974 411 | 1 383 066 | 530 216 | 122 954 | 219 883 | 5 230 531 |
| Average attributed equity | 253 780 | 110 896 | 42 428 | 11 208 | 19 150 | 437 462 |
| **Cost/income ratio** | **47.44%** | **32.38%** | **14.40%** | **4.47%** | **249.01%** | **42.16%** |
| **ROE based on net profit after minority interests (1)** | **37.40%** | **9.27%** | **-11.39%** | **408.90%** | **-138.37%** | **27.36%** |

| 2010<br>ths. EUR | GLC | GM | Free capital | SLSP |
|---|---|---|---|---|
| Net interest income | 14 718 | 3 248 | 8 157 | 443 695 |
| Risk provisions for loans and advances | (2 042) | - | - | (124 703) |
| Net fee and commission income | 4 284 | 3 894 | - | 114 934 |
| Net trading result | 656 | 3 982 | - | 9 193 |
| General administrative expenses | (4 838) | (3 929) | - | (231 723) |
| Other result | (18) | (0) | - | (31 122) |
| Pre-tax profit | 12 760 | 7 195 | 8 157 | 180 274 |
| Taxes on income | (2 424) | (1 367) | (1 550) | (37 810) |
| **Net profit after minority interests** | **10 336** | **5 828** | **6 608** | **142 464** |
| Average risk-weighted assets | 995 402 | 162 952 | - | 6 388 885 |
| Average attributed equity | 79 665 | 14 556 | 290 195 | 891 877 |
| **Cost/income ratio** | **24.61%** | **35.32%** | **0.00%** | **40.81%** |
| **ROE based on net profit after minority interests (1)** | **12.97%** | **40.04%** | **2.28%** | **17.33%** |

Notes:1) ROE = return on equity.

| 2009<br>ths. EUR | Retail | Local Corporates | Real Estate | ALM | Corporate centre | Core business |
|---|---|---|---|---|---|---|
| Net interest income | 282 937 | 46 417 | 13 868 | 30 214 | 2 162 | **375 597** |
| Risk provisions for loans and advances | (89 094) | (40 697) | (17 084) | (330) | 5 427 | (141 779) |
| Net fee and commission income | 100 912 | 11 497 | 643 | - | (7 788) | 105 264 |
| Net trading result | 5 496 | 3 533 | 264 | 4 787 | (4 654) | 9 426 |
| General administrative expenses | (200 972) | (18 972) | (2 214) | (445) | (24 015) | (249 618) |
| Other result | (13 191) | (183) | (24) | (11 577) | (64 595) | (89 570) |
| **Pre-tax profit** | **86 088** | **1 595** | **(4 547)** | **19 649** | **(93 464)** | **9 321** |
| Taxes on income | (16 353) | (303) | 864 | (3 733) | 3 511 | (16 015) |
| **Net profit after minority interests** | **69 734** | **1 292** | **(3 683)** | **15 916** | **(89 953)** | **(6 694)** |
| Average risk-weighted assets | 2 611 780 | 1 806 926 | 624 593 | 112 120 | 248 945 | 5 404 364 |
| Average attributed equity | 233 260 | 144 308 | 49 976 | 13 551 | 21 003 | 462 098 |
| **Cost/income ratio** | **51.62%** | **30.87%** | **14.99%** | **9.84%** | **-233.60%** | **50.91%** |
| **ROE based on net profit after minority interests [1]** | **29.90%** | **0.90%** | **-7.37%** | **117.46%** | **-428.29%** | **-1.45%** |

| 2009<br>ths. EUR | GLC | GM | Free capital | SLSP |
|---|---|---|---|---|
| Net interest income | 10 499 | 7 317 | 6 903 | 400 316 |
| Risk provisions for loans and advances | (3 987) | - | - | (145 766) |
| Net fee and commission income | 2 466 | 2 811 | - | 110 541 |
| Net trading result | 401 | 4 115 | - | 13 943 |
| General administrative expenses | (3 247) | (3 926) | - | (256 791) |
| Other result | (8) | (363) | - | (89 941) |
| **Pre-tax profit** | **6 125** | **9 953** | **6 903** | **32 302** |
| Taxes on income | (1 164) | (1 891) | (1 312) | (20 382) |
| **Net profit after minority interests** | **4 961** | **8 062** | **5 591** | **11 920** |
| Average risk-weighted assets | 698 194 | 186 259 | - | 6 288 817 |
| Average attributed equity | 56 431 | 15 888 | 243 713 | 778 130 |
| **Cost/income ratio** | **24.29%** | **27.57%** | **0.00%** | **48.93%** |
| **ROE based on net profit after minority interests [1]** | **8.79%** | **50.74%** | **2.29%** | **1.53%** |

Notes:1) ROE = return on equity.

## 46. ASSETS UNDER ADMINISTRATION

The Bank provides custody, trustee, investment management, and advisory services to third parties, which involves the Bank making allocation and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Bank accepted in custody EUR 730 million and EUR 744 million of assets as at 31 December 2010 and 2009, respectively, representing securities from customers in its custody for administration, including assets managed by Asset Management Slovenskej sporiteľne, a wholly owned subsidiary of the Bank before 2009.

## 47 . RELATED PARTY TRANSACTIONS

### (a) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Erste Group Bank, which indirectly holds 100% of the voting rights of the Bank's total shares. Related parties include subsidiaries and associates of the Bank and other members of Erste Group Bank group.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits.

### (b) Transactions with Erste Group Bank group

**Assets and liabilities include accounting balances with the parent bank and companies under its direct control, as follows:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| ths. EUR | Erste Group Bank | Companies under the control of Erste Group Bank | Erste Group Bank | Companies under the control of Erste Group Bank |
| **Assets** | | | | |
| Loans and advances to financial institutions | 1 127 414 | 112 356 | 961 004 | 645 |
| Loans and advances to customers | - | 76 679 | - | 78 009 |
| Trading assets | 13 852 | - | 14 260 | - |
| Available for sale portfolio | - | 11 278 | - | 10 662 |
| Other assets | 2 601 | 973 | 3 451 | 34 568 |
| **Total** | **1 143 867** | **201 286** | **978 715** | **123 884** |
| | | | | |
| **Liabilities** | | | | |
| Amounts owed to financial institutions | 35 431 | 69 707 | 318 363 | 112 362 |
| Amounts owed to customers | 37 | 7 554 | 926 | 8 509 |
| Debt securities in issue | - | 18 | - | 18 |
| Trading liabilities | 17 700 | - | 17 408 | - |
| AFS revaluation | - | (749) | - | (646) |
| Other liabilities | 7 960 | 1 321 | 4 695 | 1 811 |
| Subordinated debt | 180 306 | - | 180 260 | - |
| **Total** | **241 434** | **77 851** | **521 652** | **122 054** |

The Bank received a guarantee issued by its parent bank with a maximum value of EUR 50 million (2009: EUR 50 million) covering all the Group's exposures to the parent bank and its group companies. Under the agreement, the parent bank pledged securities issued or guaranteed by the Republic of Italy with a face value amounting to EUR 50 million (2009: EUR 50 million).

In 2010, the Bank received a bank guarantee provided by its parent bank in the amount of EUR 144 million covering exposures towards subsidiaries and other group members (2009: EUR 242 million).

Exposures towards corporate clients covered by the parent's bank guarantees (excluding exposures towards ERSTE Group entities) are in the amount of EUR 62.57 million (2009: EUR 63.25 million).

The Bank purchased software from companies under the control of Erste Group Bank in 2010 in the amount of EUR 2.4 million (2009: 19.7 million). In 2009 the Bank sold part of the core banking system in value of EUR 33 million to s IT Solutions SK, spol. s r.o. (see note 24).

The Bank entered into two loan contracts with its parent company Erste Group Bank in the amount of EUR 180 million subordinated loan (2009: EUR 180 million).

**Income and expenses related to the parent bank and its subsidiaries include the following:**

| ths. EUR | 2010 Erste Group Bank | 2010 Companies under the control of Erste Group Bank | 2009 Erste Group Bank | 2009 Companies under the control of Erste Group Bank |
|---|---|---|---|---|
| Interest income | 20 737 | 4 727 | 14 543 | 4 663 |
| Interest expense | (4 342) | (593) | (5 845) | (895) |
| Net fees and commissions | 2 | 4 455 | (107) | 2 433 |
| Net trading result | 2 836 | - | 3 122 | - |
| General administrative expenses | (1 083) | (7 258) | (1 585) | (15 318) |
| Other operating result | 60 | 571 | - | 272 |
| **Total** | **18 210** | **1 902** | **10 128** | **(8 845)** |

### (c) Transactions with subsidiaries and associates of the Bank

**Assets and liabilities include accounting balances with the subsidiaries and associates of the Bank as follows:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| ths. EUR | Subsidiaries | Associates | Subsidiaries | Associates |
| **Assets** | | | | |
| Loans and advances to financial institutions | - | - | - | 2 338 |
| Loans and advances to customers | 141 373 | - | 165 025 | - |
| Financial assets at fair value through profit or loss | - | 1 173 | - | 1 163 |
| Securities available for sale | 1 639 | 13 453 | 3 572 | 13 343 |
| Other assets | 130 | - | 2 474 | - |
| **Total** | **143 142** | **14 626** | **169 329** | **16 844** |
| | | | | |
| **Liabilities** | | | | |
| Amounts owed to financial institutions | - | 21 090 | - | 30 644 |
| Amounts owed to customers | 10 596 | | 37 339 | 415 |
| Other liabilities | 773 | - | 732 | - |
| **Total** | **11 369** | **21 090** | **38 071** | **31 059** |

**Income and expenses from the subsidiaries and associates of the Bank include the following:**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| ths. EUR | Subsidiaries | Associates | Subsidiaries | Associates |
| Interest income | 6 101 | 6 | 3 895 | 62 |
| Interest expense | (263) | (51) | (298) | (95) |
| Net fees and commissions | 173 | - | 859 | - |
| General administrative expenses | (14 049) | (81) | (9 634) | (281) |
| Profit / (loss) on sale of investment | 290 | - | 200 | - |
| **Total** | **(7 748)** | **(126)** | **(4 979)** | **(314)** |

### (d) Transactions with key management personnel

Liabilities to members of the Board of Directors and Supervisory Board represent EUR 3.4 million and EUR 2.1 million as at 31 December 2010 and 2009, respectively.

Remuneration of members of the Board of Directors and Supervisory Board paid during 2010 amounts to EUR 2.3 million (2009: EUR 1.4 million) which represents short-term employee benefits.

## 48. POST-BALANCE SHEET EVENTS

From 31 December 2010 up to the date of issue of these financial statements there were no such events identified that would require adjustments to or disclosure in these financial statements.

# Information on issued securities released

## under Section 20 (7) of Act No. 431/2002 Coll. on Accounting

| | ISIN | Class | Type | Form | Number of shares | Par value | The rights attached |
|---|---|---|---|---|---|---|---|
| Securities issued to date, except for bonds, including securities that were not issued via public offering | SK1110002799 | ordinary shares | na meno | book-entry shares | 212 00 | EUR 1 000 | right to participate in the company's management, to share its profits, liquidation balance, and voting rights |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ISIN | SK4120004961 series 01 | SK4120005117 series 01 | SK4120005505 series 01 | SK4120005554 series 01 | SK4120005919 series 01 | SK4120005927 series 01 | SK4120005984 series 01 |
| Class | mortgage bond | bond | mortgage bond | mortgage bond | mortgage bond | mortgage bond | bond |
| Type | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond |
| Form | book entry | book entry | book entry | book entry | book entry | book entry | book entry |
| Number of bonds | 500 | 24 310 | 250 | 300 | 100 | 250 | 55 |
| Par value | EUR 33 193.92 | EUR 331.94 | EUR 66 387.84 | EUR 66 387.84 | EUR 66 387.84 | EUR 66 387.84 | EUR 66 387.84 |
| The rights attached | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them |
| First issue date | 29 March 2006 | 1 December 2006 | 27 July 2007 | 5 September 2007 | 16 April 2008 | 16 April 2008 | 21 May 2008 |
| Par value maturity date | 29 March 2016 | 1 December 2011 | 27 July 2027 | 5 September 2012 | 16 April 2012 | 16 April 2021 | 21 May 2012 |
| Method of yield calculation | 6M E + 0.09% p.a. | combined, depending on the prices of assets used for backing | 4.95% p.a. | 6M E + 0.02% p.a. | 6M E + 0.10% p.a. | 5.00% p.a. | 4.52% p.a. |
| Redemption dates | semi-annually, 29 March and 29 September | annually, 1 December | annually, 27 July | semi-annually, 5 September and 5 March | semi-annually, 16 April and 16 October | annually, 16 April | annually, 21 May |
| Early redemption | no | no | no | no | no | no | no |
| Redemption guarantee | no | no | no | no | no | no | no |
| Guarantee accepted by: | - | - | - | - | - | - | - |
| Comp. Reg. No. (IČO) | - | - | - | - | - | - | - |
| Name of the company | - | - | - | - | - | - | - |
| Registered office | - | - | - | - | - | - | - |
| Procedure for the swap of bonds for shares, provided the bonds are convertible | - | - | - | - | - | - | - |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ISIN | SK4120006149 series 01 | SK4120006362 series 01 | SK4120006511 series 01 | SK4120006560 series 01 | SK4120006552 series 01 | SK4120006628 series 01 | SK4120006602 series 01 |
| Class | mortgage bond | mortgage bond | mortgage bond | bond | bond | bond | bond |
| Type | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond |
| Form | book entry | book entry | book entry | book entry | book entry | book entry | book entry |
| Number of bonds | 215 | 123 | 3 640 | 40 | 9 755 | 98 | 14 632 |
| Par value | EUR 66 387.84 | EUR 66 387.84 | EUR 1 000 | EUR 50 000 | EUR 1 000 | EUR 50 000 | EUR 1 000 |
| The rights attached | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them |
| First issue date | 30 July 2008 | 29 October 2008 | 16 February 2009 | 23 March 2009 | 6 April 2009 | 4 May 2009 | 15 May 2009 |
| Par value maturity date | 30 July 2011 | 29 April 2011 | 16 February 2011 | 23 March 2011 | 6 April 2011 | 6 May 2013 | 15 May 2012 |
| Method of yield calculation | 6M E + 0.20% p.a. | 6M E + 0.40% p.a. | 2.70% p.a. | 3M E + 0.80% p.a. | 2.70% p.a. | combined, depending on the 3M EURIBOR rate | 3.25% p.a. |
| Redemption dates | semi-annually, 30 July and 30 January | semi-annually, 29 April and 29 October | annually, 16 February | quarterly, 23 March, 23 June, 23 September and 23 December | annually, 6 April | quarterly, 4 May, 4 August, 4 November, 4 February, and 6 May 2013 (final payment) | annually, 15 May |
| Early redemption | no | no | no | no | no | no | no |
| Redemption guarantee | no | no | no | no | no | no | no |
| Guarantee accepted by: | - | - | - | - | - | - | - |
| Comp. Reg. No. (IČO) | - | - | - | - | - | - | - |
| Name of the company | - | - | - | - | - | - | - |
| Registered office | - | - | - | - | - | - | - |
| Procedure for the swap of bonds for shares, provided the bonds are convertible | - | - | - | - | - | - | - |

| ISIN | SK4120006685 series 01 | SK4120006701 series 01 | SK4120006727 series 01 | SK4120006735 series 01 | SK4120006792 series 01 | SK4120006867 series 01 | SK4120006834 series 01 |
|---|---|---|---|---|---|---|---|
| Class | mortgage bond | mortgage bond | mortgage bond | mortgage bond | mortgage bond | mortgage bond | bond |
| Type | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond |
| Form | book entry | book entry | book entry | book entry | book entry | book entry | book entry |
| Number of bonds | 9 781 | 9 740 | 200 | 9 741 | 12 099 | 500 | 4 986 |
| Par value | EUR 1 000 | EUR 1 000 | EUR 50 000 | EUR 1 000 | EUR 1 000 | EUR 50 000 | EUR 1 000 |
| The rights attached | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them |
| First issue date | 24 July 2009 | 14 August 2009 | 18 August 2009 | 28 August 2009 | 16 October 2009 | 11 November 2009 | 20 November 2009 |
| Par value maturity date | 24 January 2013 | 14 August 2013 | 18 August 2011 | 28 August 2013 | 16 October 2013 | 11 May 2011 | 20 November 2014 |
| Method of yield calculation | 3.50% p.a. | 3.60% p.a. | 3M E + 1.15% p.a. | 3.60% p.a. | 3.30% p.a. | 3M E + 0.64% p.a. | combined, depending on the market prices of reference shares |
| Redemption dates | semi-annually, 24 July and 24 January | semi-annually, 14 February and 14 August | quarterly, 18 May, 18 August, 18 November and 18 February | semi-annually, 28 February and 28 August | semi-annually, 16 April and 16 October | quarterly, 11 May, 1 August, 11 November and 11 February | annually, 20 November |
| Early redemption | no | no | no | no | no | no | no |
| Redemption guarantee | no | no | no | no | no | no | no |
| Guarantee accepted by: | - | - | - | - | - | - | - |
| Comp. Reg. No. (IČO) | - | - | - | - | - | - | - |
| Name of the company | - | - | - | - | - | - | - |
| Registered office | - | - | - | - | - | - | - |
| Procedure for the swap of bonds for shares, provided the bonds are convertible | - | - | - | - | - | - | - |

| ISIN | SK4120006925 series 01 | SK4120006909 series 01 | SK4120006933 series 01 | SK4120007055 series 01 | SK4120007097 series 01 | SK4120007063 series 01 | SK4120007121 series 01 |
|---|---|---|---|---|---|---|---|
| Class | mortgage bond | mortgage bond | mortgage bond | mortgage bond | mortgage bond | mortgage bond | mortgage bond |
| Type | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond |
| Form | book entry | book entry | book entry | book entry | book entry | book entry | book entry |
| Number of bonds | 5 000 | 14 867 | 5 994 | 2 095 | 400 | 10 697 | 9 759 |
| Par value | EUR 1000 | EUR 1 000 | EUR 1 000 | EUR 1 000 | EUR 50 000 | EUR 1 000 | EUR 1 000 |
| The rights attached | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them |
| First issue date | 17 December 2009 | 18 December 2009 | 22 January 2010 | 12 February 2010 | 9 March 2010 | 19 March 2010 | 21 April 2010 |
| Par value maturity date | 17 December 2013 | 18 December 2013 | 22 January 2014 | 12 February 2015 | 9 March 2015 | 19 March 2014 | 21 April 2015 |
| Method of yield calculation | 3.50% p.a. | 3.50% p.a. | 3.50% p.a. | 3.62% p.a. | 6M E + 0.95% p.a. | 3.30% p.a. | 3.50% p.a. |
| Redemption dates | semi-annually, 17 December and 17 June | semi-annually, 18 June and 18 December | semi-annually, 22 January and 22 July | annually, 12 February | semi-annually, 9 March and 9 September | semi-annually, 19 March and 19 September | semi-annually, 21 April and 21 October |
| Early redemption | no | no | no | no | no | no | no |
| Redemption guarantee | no | no | no | no | no | no | no |
| Guarantee accepted by: | - | - | - | - | - | - | - |
| Comp. Reg. No. (IČO) | - | - | - | - | - | - | - |
| Name of the company | - | - | - | - | - | - | - |
| Registered office | - | - | - | - | - | - | - |
| Procedure for the swap of bonds for shares, provided the bonds are convertible | - | - | - | - | - | - | - |

| ISIN | SK4120007238 series 01 | SK4120007246 series 01 | SK4120007360 series 01 | SK4120007378 series 01 | SK4120007287 series 01 | SK4120007402 series 01 | SK4120007410 series 01 |
|---|---|---|---|---|---|---|---|
| Class | mortgage bond | bond with a claim related to a subordinated liability | mortgage bond | mortgage bond | bond with a claim related to a subordinated liability | mortgage bond | mortgage bond |
| Type | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond | bearer bond |
| Form | book entry | book entry | book entry | book entry | book entry | book entry | book entry |
| Number of bonds | 7 749 | 500 | 300 | 200 | 10 000 | 340 | 9 975 |
| Par value | 1 000 EUR | 10 000 EUR | 50 000 EUR | 50 000 EUR | 1 000 EUR | 50 000 EUR | 1 000 EUR |
| The rights attached | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them |
| First issue date | 31 May 2010 | 23 June 2010 | 29 July 2010 | 30 July 2010 | 2 August 2010 | 25 August 2010 | 10 September 2010 |
| Par value maturity date | 30 May 2014 | 23 June 2015 | 29 July 2015 | 30 July 2015 | 2 August 2020 | 25 August 2015 | 10 September 2014 |
| Method of yield calculation | 2.80% p.a. | 3.80% p.a. | 3.10% p.a. | 6M E + 1.00% p.a. | combined, depending on the prices of assets used for backing | 3.09% p.a. | 2.80% p.a. |
| Redemption dates | semi-annually, 31 May and 30 November, last payment: 30 May 2014 | annually, 23 June | annually, 29 July | semi-annually, 30 January and 30 July | single payment, 2 August 2020 | annually, 25 August | semi-annually, 10 March and 10 September |
| Early redemption | no | no | no | no | no | no | no |
| Redemption guarantee | no | no | no | no | no | no | no |
| Guarantee accepted by: | - | - | - | - | - | - | - |
| Comp. Reg. No. (IČO) | - | - | - | - | - | - | - |
| Name of the company | - | - | - | - | - | - | - |
| Registered office | - | - | - | - | - | - | - |
| Procedure for the swap of bonds for shares, provided the bonds are convertible | - | - | - | - | - | - | - |



| ISIN | SK4120007469 series 01 | SK4120007535 series 01 | SK4120007568 series 01 |
|---|---|---|---|
| Class | mortgage bond | mortgage bond | bond |
| Type | bearer bond | bearer bond | bearer bond |
| Form | book entry | book entry | book entry |
| Number of bonds | 9 960 | 9 998 | 2 905 |
| Par value | EUR 1 000 | EUR 1 000 | EUR 1 000 |
| The rights attached | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them | the transferability of bonds is not limited; no pre-emptive right is attached to the bonds, nor a right to swap them |
| First issue date | 14 October 2010 | 11 November 2010 | 10 December 2010 |
| Par value maturity date | 14 October 2014 | 11 November 2015 | 10 December 2015 |
| Method of yield calculation | 2.35% p.a. | 2.65% p.a. | combined rate |
| Redemption dates | semi-annually, 14 April and 14 October | semi-annually, 11 May and 11 November | annually, 10 December |
| Early redemption | no | no | no |
| Repayment guarantee | no | no | no |
| Repayment accepted by: | - | - | - |
| Comp. Reg. No. (IČO) | - | - | - |
| Name of the company | - | - | - |
| Registered office | - | - | - |
| Procedure for the swap of bonds for shares, provided the bonds are convertible | - | - | - |