Annual report
2012

Prima Banka

Contents

Dear Shareholders, Dear Clients,

the year of 2012 was the first year of our activities under the new name and at the same time it was the year in which, in accordance with our long-term strategy, we have significantly invested into the development of the Bank and its future. Our long-term intention is to develop further the services for the towns and villages and at the same time to strengthen the position of Prima banka in the area of services for the citizens as well as for small and medium-sized companies. In all segments we are working towards development of long term, mutually advantageous relations with the existing as well as with the new clients. Our target is gradual increase of number of clients, who are active in banking with us and strengthening the position of the Bank in the area of loans and also permanent simplification of everything, what we are doing as well increase of efficiency.

In 2012 we have significantly increased the accessibility of our services thanks to the principal extension of our branches and ATMs. We have successfully mastered the change of the name as well as rebranding and the brand Prima banka has become one of the most known already in the first year of its existence. We have also continued in the overall simplification and increase of attractiveness of our products and services. In a principal manner we have modified the area of loans for the citizens, which resulted in significant increase of consumer loans. High interest of clients in our Personal Account has also been confirmed, for which we have offered further attractive advantages in the previous year. Thanks to further simplification of our products and services, their increased accessibility as well as marketing activities the number of new clients, in comparison with the previous year, has significantly increased. We have also confirmed our leading position in the segment of services for the towns and villages.

Thanks to the growth in the key areas, responsible pricing policy as well as overall increased efficiency and cutting of operational costs the final economic result is significantly better than we have planned in this phase of development and we have achieved all this in spite of the fact that we are burdened to a significant extent by a new banking tax.

Despite of the increasing demands of the economic, legislative and regulatory environment we are going to continue in implementing our long-term strategy in 2013. In the future we are going to strengthen our position in the area of loans and to increase accessibility of our services by further extension of our network of branches and ATMs; we are also going to increase our focus on further improvement of our services for the clients.

Thank you for your support in development of Prima banka.

Jan Rollo
Chairman of Management Board and CEO

Dear Shareholders,

on behalf of the Board of Directors of the company Prima banka Slovensko, a.s., I have the honour to present the report on activities of the Board of Directors for the previous year. Allow me first of all to inform you that in its activities the Board of Directors complied with the Bank´s Articles of Association and with the Statutes of the Board of Directors as well as with the respective laws of the Slovak republic.

In the course of the whole year 2012 the Board of Directors worked in the following composition:
- Iain Child – Chairman
- Marián Slivovič – Vice Chairman
- Jozef Oravkin – Member
- Michal Sýkora – Member
- Pierre Vérot – Member

4 sessions of the Board of Directors were held in the previous year. The Board of Directors supervised the activities of the Bank also through the Audit Committee and the Credit Board. The mentioned committees worked with participation of the members of the Board of Directors as well as with the invited members of the Management Board of the Bank. The members of the Board of Directors used their right to inspect the activities of the Management Board as well as their right to propose and recommend the procedures and solutions for problems to the Management Board of the Bank.

With the aim of efficient management of Bank activities the members of the Management Board regularly attended the meetings of the Board of Directors.

At these meetings the members of the Management Board regularly informed about the activities and about the results of the Bank, as well as about the development of risks connected with the loan portfolio.

The Board of Directors also regularly checked the financial results of the Bank, fulfilling of the business plan, as well as meeting of tasks assigned to the Management Board of the Bank.

In accordance with its statutory obligations the Board of Directors examined and discussed the regular financial statement for the year 2012, proposal for distribution of profits/ covering loss, financial plan for the year 2013 as well as plan of activities of the internal audit department.

The Board of Directors has stated that conducting of business of the Bank and execution of powers of the Management Board of the Bank are in accordance with the laws in force and with the Articles of Association of the Bank as well as with the guidelines of the general meeting. At the same time the Board of Directors has stated that financial records of the Bank are properly kept and in accordance with the real facts.

Iain Child

Iain Child
The Chairman of the Board of Directors

After successful stabilisation of the Bank and after the change of the shareholder in 2011 the Bank focused on fulfilling its new strategy in 2012 – mainly on the extension of branch and ATMs network, on rebranding and on strengthening of its position in the area of retail. At the same time the Bank maintained a very strong position in the area of liquidity as well as in the area of capital.

In 2012 a new trade mark was introduced as well as a new name in all branches and banking materials. In the same way new branches have been introduced with new appearance.

In the course of the year 2012 the availability of services has been significantly strengthened mainly by the growing number of new branches and ATMs. During the six months we have opened 27 new branches mainly in the district towns and the number of ATMs has been increased by 45 new ATMs. Quality increase and growth of branch network belongs to the long term priorities of the Bank. We have also focused on granting loans to retail clients.

Selected financial results of the Bank

The total balance amount of the Bank reached the value of almost 2 billion EUR. The loans provided to the clients continued also to be the most significant component of assets, where in accordance with the bank strategy the increase from 24 % to 28 % of retail loans share took place. The biggest growth has been recorded mainly by consumer loans.
On the liabilities side of the balance the most significant component are still deposits of the clients, in spite of the fact that their total amount decreased year on year by not more than 6 % to the level of almost 1.5 billion EUR. The share of retail deposits of the total deposits of the clients increased from 61 % to 65 % year on year, mainly thanks to the increase of retail accounts and decrease of corporate and municipal deposits, which was in particular connected with end of financing of some big clients in these two segments.

Maintaining of positive structure of balance was reflected in the loans/deposits ratio, which reached the level of 81.3 % and in this way remained on the sound level of 2011, and then it was also reflected in further improvement of capital appropriateness of the Bank from 13.7 % to 16.3 %. The appropriateness of own basic sources (Tier 1) increased from 9.5 % to 11 %.

The business loss for the year of 2012 is mainly the result of newly introduced banking tax and provisions, which have been created with a high degree of cautiousness. The permanent concentration of the Bank on making the processes more effective and on the efficiency made it possible to decrease the operational costs of the Bank by 17 % year on year in spite of the fact that Bank significantly extended its branch and ATMs network and invested into rebranding and increasing the quality for the clients.

The economic result of the Bank for 2012 is in spite of significant unfavourable external economic factors better than expectations of the management and the majority shareholder and at the same time it is better than the economic result of the Bank for 2011 (economic result after taxes is better by 29 % year on year).

Prospects for the year 2013

Prima banka wants also in 2013 to continue in its strategic plan of increasing of availability to the clients by further extension of branch and ATMs network as well as by increasing of quality of provided services and it wants to continue in strengthening its position in the area of retail in the future. The Bank wants to continue in optimisation of costs and it is going to focus on efficiency as well as on risk management. It wants to do all this and at the same time it wants to maintain its strong liquidity and capital position.

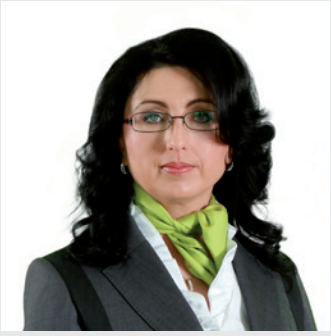
Jan Rollo

Chairman of the Management Board and CEO in charge of division of retail banking

Before Jan Rollo came to Prima banka he had the position of the Chairman of the Management Board and CEO in Slovenská sporiteľňa. Before that he had worked for ten years in the Czech GE Money Bank in the position of the director of corporate banking and later in the position of the director of retail banking and was a member of the Management Board of the Bank as well. He has worked in banking since 1994, in Bank Austria he was in charge of relations with the key customers, marketing and of electronic banking, then in Citibank he led the product management department and participated in management of small and medium-sized enterprises division. Before joining the banking sector he worked in the Delegation of the European Union in Praha and as a specialist also in the department of information technologies of the company SwissAir in Switzerland.

Jaroslava Hirschová

Member of the Management Board Chief Financial Officer



Her most recent job was in ČSOB, a.s., as a financial manager and at the same time as a Chief Financial Officer of ČSOB Pojištovna a.s. Before that she had worked in the position of a Chief Financial Officer of Česká pojištovna, a.s., where she was in charge of all companies of Generali PPF Holding in the Czech Republic. Jaroslava Hirschová worked also in the financial division of the group GE Money Oy in Finland for twelve years. Later she held the position of the manager of financial planning and analyses in the new GE acquisition - in the First National Bank London. In the Czech Republic she worked in the position of director of controlling and also in the position of director of financial planning and analyses in GE Money Bank and held the position of a Chairwoman of the Management Board in GE Capital Multiservis and was also a member of the Management Board in GE Capital Leasing.

Pavol Majer

Member of the Management Board, Chief Officer of Operations and IT Division

Pavol Majer worked in Slovenská sporiteľňa for 8 years, from this the last 5 in the position of a division director of IT organisation as well as in the position of an accountant general. Pavol Majer managed directly the Euro project and several dozens of other key projects. Before he joined Slovenská sporiteľňa he had also worked in the company ORACLE, where in addition to other things he managed the project "Year 2000" in Slovnaft. Introduction of ERP systems in Slovnaft and its subsidiaries successfully took place under the supervision of Pavol Majer and the same can be said about implementation of some IT systems in the company EuroTel.
As a project manager representing the Czech-German consulting company he implemented the main banking system in VÚB Praha.

Radovan Jenis

Member of the Management Board Chief Risk Officer

Before Radovan Jenis came to Prima banka he held the position of a member of the Management Board in OTP Banka Slovensko with the responsibility for the risk management division. His team managed credit, market and operational risks, compliance as well as legal department.
Radovan Jenis held also the office of the director of the risk management unit – loans for entrepreneurs in ČSOB and was in charge of the loan risk department of corporate clients in VÚB.

Iain Child
The Chairman of the Board of Directors

Marián Slivovič
The Vice-Chairman of the Board of Directors

Jozef Oravkin
A Member of the Board of Directors

Michal Sýkora
A Member of the Board of Directors

Pierre Marie Jacques Daniel Vérot
A Member of the Board of Directors

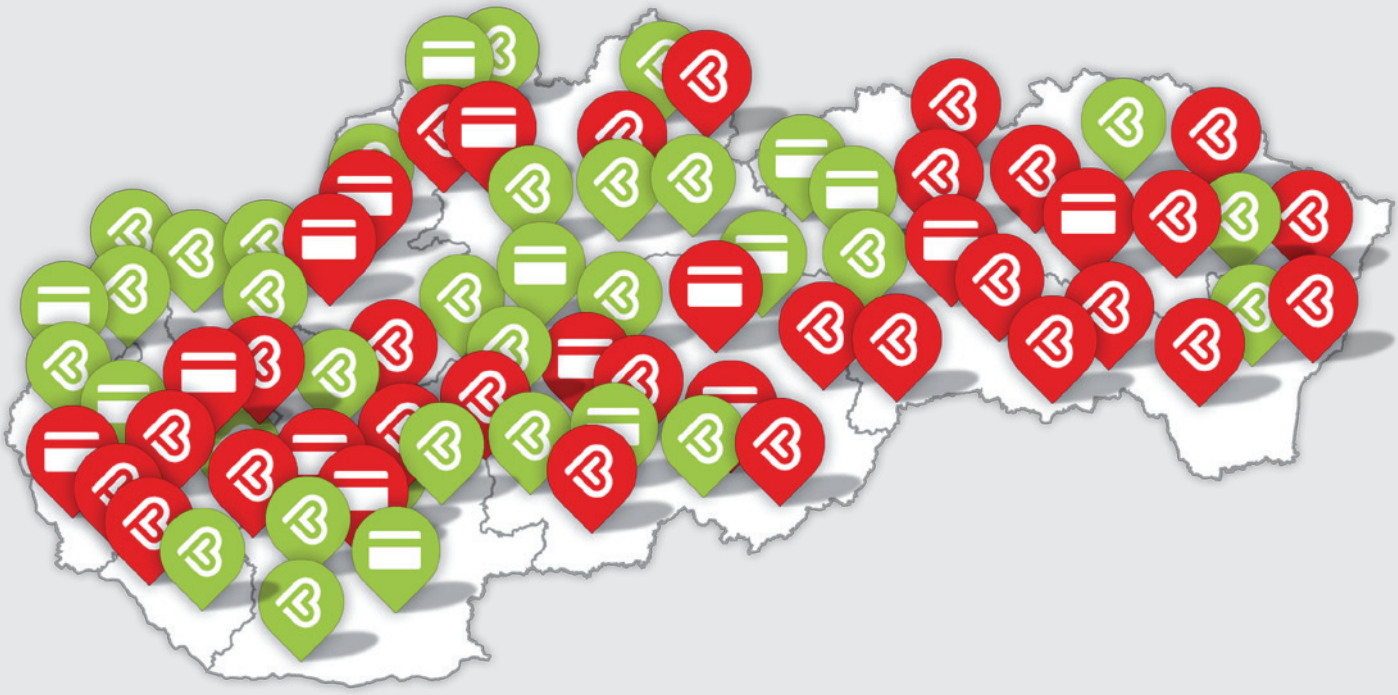
Structure of shareholders of Prima banka as at 31. 12. 2012

Shareholders of the Prima banka Slovensko, a.s.	Number of shareholders	Total stake in the registered share capital (EUR)	Stake in the registered share capital in %
Towns and villages	286	3 073 879	4,74
Legal entities	5	61 425 133	94,63
Individuals	79	407 070	0,63
Total registered capital	**370**	**64 906 082**	**100,00**

In November 2010 the group Dexia announced a sale of its 88.71 % share in Dexia banka to the investment group Penta Investments. This transaction was a part of the agreement with the European Commission reached in February 2010. In April 2011 Penta Investments became main shareholder of the Bank with its 93.88 % share.
In November 2011 the general meeting of the Bank shareholders approved rebranding to Prima banka Slovensko, a.s., effective as from 1st January 2012. This step was connected with the change of majority shareholder and it was an integral part of the planned development of the Bank in Slovakia.

Under the new name Prima banka continues in development of services for towns and villages and at the same time it invests significantly into the extension bank services for citizens inclusive extension of branch and ATMs network.

In 2012 the Bank put 27 branches and 45 ATMs into service, which resulted in 76 branches and 127 ATMs as at 31. 12. 2012. With this number of branches it is the fifth biggest bank in Slovakia. In its products and processes it is focussed in particular on simplicity, speed and advantageousness.



Bank Branch
New Bank Branch
ATM
New ATM

Business Activities – Individual Clients

In 2012 Prima banka successfully continued in the development of its retail strategy as well as in keeping its position in the municipal sector. Just as the previous year also the year of 2012 has brought further simplification of portfolio of banking products and services.

Deposits of individuals increased moderately by 1 %, whereas deposits in current accounts increased by 15 %. Already in 2011 the Bank introduced a product Personal account with a bonus for payments by a card. Their number increased by more than 2.5 times. Last year other benefits were added to this product, such as advantageous interest rates of term deposits, more advantageous fees for loans and since September it is also Saving together with the Personal account.

Within rebranding the Bank prepared also a new design of cards as well as simplified ATM screens for the current account holders. As one of the two banks it offers the possibility to choose the values of withdrawn banknotes in its ATMs. In 2012 the Bank significantly extended the number of ATMs and its branches, which resulted in improved availability of its services.

In the first half of year and in accordance with its strategy the Bank introduced a new web page as well as Internet banking. It is significantly easier, more transparent and new functionalities have been added. Year on year the number of Internet banking users increased by 18 %. The Wallet has become one of the best assessed banking applications for iPhone as well as for iPad, it is intended for the bank clients as well as for the customers, who are not clients of the Bank making possible to control the financial budget and also to use Internet banking services.

From the point of view of payment services almost as many as 95 % of all payments is carried out by electronic channels.

In the area of retail loan the Bank went through several waves of simplification and speeding up of the process of granting loans. Last year was focused mainly on the area of consumer loans, where the Bank significantly automated selling processes, whereas we have shortened the time of loan granting to the maximum extent and in this way the clients have their funds available in the course of several minutes. The volume of newly provided consumer loans has been increased by almost 3 times.

Also loans with the name Mortgage and Mortgage for young people have gone through product and process redesign. The product Mortgage can be used for purchase, construction, reconstruction, modernisation or settlement of property and also for repayment of old disadvantageous mortgages. In 2012 the volume of newly granted housing loans has almost doubled.

Business activities – Municipalities

Prima banka and Slovak municipalities cooperated closely also in 2012. The Bank is a significant financial partner of municipalities in the area of their financing as well as in the area of administration of their funds. Providing of bank services for the municipalities is a significant business pillar of Prima banka.

From the total number of towns, town districts, villages and self-governing regions in Slovakia 86 % of them are Prima banka clients. The clients of the Bank are almost all municipalities with the number of inhabitants above 2000. The Bank provides its services to more than 1200 budget and contribution organisation with legal entity the incorporators of which are municipalities.

Market shares of Prima banka in financing of Slovak municipalities and in administration of their funds reached more than 40 %. In the area of financing of municipalities the biggest part of all newly granted loans consisted in loans for financing of investment projects of municipalities, which were supported by the EU funds and from the state budget of the Slovak Republic. In 2012 Prima banka confirmed its position as a leader in the area of administration of financial means and shared tax revenues of municipalities, which confirms that Prima banka is perceived as their bank by the municipalities.

The cooperation between Prima banka and municipalities continued also in the area of issuing of bank guaranties for loans, which have been granted to the municipalities by the State Housing Development Fund and also in the area of bank guarantees in favour of the Agricultural Paying Agency in order to ensure prepayments for the villages, beneficiaries of irrecoverable financial contributions from the EU funds.

The cooperation of the Bank with the associations of municipalities continued also in 2012. The Bank was a general partner of congresses of the Association of the Slovak Towns and Villages and of the Union of the Cities of Slovakia. The Bank was a traditional main partner of the conferences organised by the Association of Municipal Economists of the Slovak Republic, Association of Municipal Offices Heads in the Slovak Republic and by the Union of the Cities of Slovakia.

The intention of Prima banka is to carry on in providing high quality banking services for the municipalities in the area funding and administration of their funds. It is the interest of the Bank to participate in the development of Slovak municipalities.

Prima banka Slovensko, a.s. (hereinafter also "the Company" or "the Bank") observes the Code of Company governance and Management in Slovakia, arising within its activities from the OECD principles.
The Code is publicly available on the web page of the Bratislava Stock Exchange. Information related to the Bank´s management methods is published in the issuer prospectus on the Bank´s website and in the Commercial Registry. The Bank varies in several provisions from the Code of Company governance and Management in Slovakia. In order to ensure simpler and flexible management of the Company, the Board of Directors executes the function of the appointment, remuneration and audit committees. Thus the Board of Directors eliminates possible conflict of interest due to its independence. One of five members of the Board of Directors is independent. In line with the decision of the Bank´s shareholders and the Article of the Bank, the Board of Directors convenes at least twice a year. One third of its members is elected by the employees. All the members of the Board of Directors are elected for three years. Issues regarding remuneration, paid to the members of the Company´s bodies have been stated in the final accounts, which are part of the annual report.
As at 31. 12. 2012 PENTA INVESTMENTS LIMITED a PENTA INVESTMENTS LIMITED (Jersey) and PENTA HOLDING LIMITED (indirectly through a stake in the registered capital of PENTA INVESTMENTS LIMITED) are the companies with the qualified stake in the registered capital of the Bank.

1. The Company Management Structure

1.1 The General Meeting

Position

The general meeting shall be the supreme body of the Company. The scope of power of the general meeting shall include: approval and amendment of the Articles of Association, decisions on the increase and decrease of the share capital and issue of bonds, appointment and dismissal of the Board of Directors members excluding the members of the Board of Directors, selected by the employees of the Company, approval of a regular individual annual and extraordinary close of accounts, decision on the profit distribution of coverage of losses and stipulation of royalties, decision on other issues, which according to laws or the Articles of Association, shall be subject to the competence of the general meeting, decision on the company winding up and approval of the agreement on transfer of the enterprise or an agreement on the transfer of one part of the enterprise.

Convening

The general meeting shall be held at least once a year. The annual general meeting shall be held by 30. 6. of a calendar year. An extraordinary general meeting shall be subject to the right of the Board of Directors, if required by the urgent interest of the Company. The general meetings shall be convened by the Management upon an invitation in writing sent to the shareholders at least 30 days before holding the general meeting. Notice on holding the general meeting shall be published in nationwide dailies publishing stock exchange news.

Course and Decision-Taking

The general meeting shall discuss and decide on the matters stated in the invitation to the general meeting. General meeting shall take decisions by the majority of votes of the present shareholders, excluding matters where the Commercial code or these Articles of Association require a higher number of votes for a decision. Voting rights of a shareholder shall be governed by a number of his shares and their face value. The minutes of the general meeting shall be signed by the minutes secretary, the chairman of the general meeting and two elected verifiers.

1.2 Board of Directors

Powers

The Board of Directors shall be the highest control body of the Company entrusted with the supervision

over the activities of the Board of Directors and business activity of the Bank.

Membership in the Board of Directors

The Board of Directors shall have three to six members with the term of their office for three years. Five members have been elected now - two thirds of the Board of Directors shall be elected by the general meeting from the shareholders and other natural persons and one third of the Board of Directors shall be elected from all its employees and other individuals.

Composition of the Board of Directors as at 31. 12. 2012

Iain Child - Chairman of the Board of Directors
Marián Slivovič - Vice chairman Board of Directors
Jozef Oravkin - Member of the Board of Directors
Pierre Marie Jacques Daniel Vérot
– Member of the Board of Directors
Michal Sýkora - Member of the Board of Directors

Activity and Decision-Taking

The activity of the Board of Directors shall be managed by the chairman of the Board of Directors. In case of his absence he shall be substituted by a vice chairman of the Management Board, if he has been elected or by a member delegated by the chairman of the Board of Directors. Meetings of the Board of Directors shall be convened by its chairman at least once during the six months period. Extraordinary meetings of the Board of Directors shall be convened by its Chairman upon the written request of any member of the Board of Directors, or the Management Board or shareholders, holding shares whose face value exceeds 5% of the Company share capital with the aim to examine the execution of powers of the Management in a certain area. The meeting has a quorum if majority of all members of the Board of Directors are present. The equality of votes shall be in force at voting, each member of the Board of Directors shall have 1 vote. Decisions shall be adopted by the majority of votes unless generally binding legal regulations, the Articles of Association or rules of procedure of the Board of Directors stipulate other method of decision taking. The minutes of the Board of Directors meetings and of its resolutions shall be made and signed by the chairman of the Board of Directors.

Conflict of Interests

A member of the Board of Directors shall not:
- conclude transactions in his own name, or on his own account, if these transactions are related to the object of the business activity of the Company,
- act as an intermediary for other persons in business transactions of the Company,
- participate in business activity of another entity as a partner with unlimited liability,
- perform activities as a statutory body or a member of a statutory body or another body of legal entity with similar line of business, unless it is a company, in business of which the Bank participates in case that the Banking Act does not provide otherwise.

The liability of the member of the Board of Directors cannot be excluded or limited by the agreement with the Company. In accordance with the Accounting Act, the Board of Directors shall carry out activities of the Audit Committee. Whereas the chairman of the Board of Directors cannot carry out activities of the Audit Committee, for the purposes of execution of powers of the Audit Committee he shall not be deemed to be its member with eligibility to vote. The chairman of the Board of Directors shall be entitled to take part in the meetings of the Board of Directors, when carrying out its activities as the Audit Committee, as an invited member. In case of carrying out the activities of the Audit Committee, its meetings shall be managed by the chairman of the Board of Directors or by the member of the Board of Directors delegated by him. The regulations on the meetings of the Board of Directors shall appropriately apply to the meeting of the Board of Directors as the Audit Committee, except for the powers of the chairman of the Board of Directors.

The Board of Directors, within carrying out its powers as the Audit Committee, shall:

a) follow a preparation of final accounts and observance of special legislation, related mainly to the regulations of the European Parliament, the Council and the Commission,
b) follow efficiency of internal control system and the systems of risk management in the Company,
c) follow audit of individual final accounts and audit of consolidate final accounts,
d) examine and follow auditor´s independence, mainly services rendered by auditor under Act No. 540/2007 Coll. on Audit, Auditors and Supervision over Audit Performance,
e) recommend auditor to be approved and to carry out audit for the Company,
f) determine a deadline for an auditor to submit statutory declaration (declaration of word of honour) on its independence.

1.3 Management Board

Membership in the Management Board

The Management Board shall have three to six members. Currently 5 members of the Management Board have been elected.
A member of the Management Board cannot be simultaneously the member of the Board of Directors. Prior approval of the National Bank of Slovakia is required for changes and election of the respective members of the Management Board, otherwise such a change or election shall be null and void.

The members of the Management Board as at 31. 12. 2012:

Jan Rollo – Chairman of the Management Board
Jaroslava Hirschová – Member of the Management Board
Pavol Majer – Member of the Management Board
Radovan Jenis – Member of the Management Board

Amendment of the Articles of Association

The Management Board or a shareholder of the Company shall be authorised to draw up amendment of the Articles of Association.
The respective proposals shall be put forward to the Management Board.
The Management Board shall be obliged to ensure that the Articles of Association are in compliance with generally binding legal regulations. In case of any discrepancy it shall inform the person proposing the amendment and ask him/her to change the proposal. The Management Board shall be authorised to complete the proposal, whereas it shall inform shareholders in the general meeting on the amendment adopted by it.
In case that counterproposals or amendments of the original proposal are submitted at the general meeting, first, there shall be voting on these counterproposals and amendments individually, according to the order, in which they have been put forward.
A two-third majority of votes of the present shareholders shall be necessary for the approval of a counterproposal or for its amendment. Should the proposal have been adopted, there shall be no voting on other counterproposal on the same matter. A two-third majority of votes of the present shareholders shall be necessary for the approval of amendment of the Articles of Association.
A record shall be made in the form of notarial minutes, when taking the decision on the amendment of Articles of Association. The precondition of force and efficiency of the amendment of the Articles of Association of the Bank or of new Articles of Association of the Bank shall be the granted approval of the National Bank of Slovakia.
After each amendment of Articles the Management Board shall be obliged to produce, without undue delay, the full wording of the Articles of Association and they shall also be responsible for the correct wording of the Articles of Association. The precondition of force and efficiency of the amendment of the Articles of Association of the Bank is the granted approval of the National Bank of Slovakia. Each amendment of the Articles of Association and the full wording of the Articles of Association have to deposited in the Collection of Deeds in the National Bank of Slovakia and with other persons as stipulated by generally binding legal regulations.

After submitting the proposal annexed with all the necessary documents, the Management Board shall send the proposal to the National Bank of Slovakia for their opinion. After having obtained all the necessary approvals, it shall submit the completed proposal to the Board of Directors.

Election and recalling of a member or member of the Management Board

The Management Board members shall be elected by the Board of Directors from the company´s management and other individuals and term of office of the Management Board shall be five years. The Board of Directors may recall a member of the Management Board. The chairman of the Management Board shall be appointed and recalled by the Board of Directors. The Board of Directors may make a proposal for an election of a member of the Management Board or make the proposal for a recall of the member of the Management Board. The proposal for an election of the member of the Management Board and its annex shall contain consent of the proposed person and all the documents required by the applicable legal regulations in force and by the National Bank of Slovakia for deliberations for granting their prior approval. In case the number of the Management Board is complete and no member shall finish his election period, together with the proposal for the election of the member of the Management Board a proposal for the recall of a member of the Management Board shall have to be submitted. The Board of Directors shall submit such a proposal to the Management Board and the Board shall arrange a prior approval of the National Bank of Slovakia.

The election process of a member or members of the Management Board shall be organised in the following way:

a) the chairman of the Board of Directors shall state how many members of the Management Board shall be elected,
b) the chairman of the Board of Directors shall put individual proposed candidates to vote in the order, which he has specified,
c) the candidates, who received the highest number of votes of the present members of the Board of Directors, shall be elected the members of the Management Board,

Should two or more candidates to be the members in the Management Board receive the equal number of votes then the vote of the chair-person shall be decisive.

Only a person that fulfils the criteria laid down by the applicable provisions of the Banking Act and possibly also of the Act on Securities and Investment Services, may be elected a member of the Management Board, mainly the criterion of no criminal record, education, length of experience and managing experience in banking or other financial area and conflict of positions. The prior approval of the National Bank of Slovakia shall be necessary for changes in members and election of new members of the Management Board, otherwise such a change or election shall be null and void.

Powers of the Management Board

The Management Board shall in particular:

a) convenes and organises the general meeting,
b) executes the resolution of the general meeting,
c) submits to the Board of Directors and subsequently to the general meeting:
   1. regular individual annual and extraordinary individual close of accounts,
   2. proposal for profit distribution or coverage of losses,
   3. report on business activities and on the state of the property as an integral part of the annual report,
   4. annual report,
d) submits to the Board of Directors for approval:
   1. Information on basic objectives of business management of the Company for the future period inclusive expected state of assets, finances and revenues of the Company,
   2. information on all the facts that can significantly influence the development of business activity, assets and in particular its liquidity,

3. written report on status of business activities and on company assets in comparison with expected development within the time limits specified by the Board of Directors,
4. appointment and recall of director of internal audit and control department and other employees, should this be provided by general binding legal regulations or by internal regulations of the Company,

e) delegates and recalls full powers to the company´s representatives for acting in particular cases, after prior approval of the Board of Directors it appoints and recalls authorised officers of the Company and after the approval of the Board of Directors it delegates and recalls general powers of attorney,
f) manages and coordinates management staff provided by internal regulations of the Company,
g) as Bank´s top management, the Management Board shall be liable for the performance of the Bank´s obligations under the provisions of the Securities Act No. 566/2001 Coll. or other laws.
h) regularly adopts and examines the general principles of remuneration.

The Board of Directors is the statutory body of the company, which manages the activity of the company and acts in its name. At least two members of the Management Board shall act together on behalf of the Company.
The Management Board shall manage the Company in accordance with the valid legal regulations and interests of the shareholders.
It shall decide on all matters of the Company unless they are subject to the competence of the general meeting or the Board of Directors. The Management Board shall ensure mainly keeping the prescribed accounting and business books of the Company, measures taken to use tools of economic management, mainly in the area of financing, pricing, remuneration and funds, creation of the system of social - economic information and processing, provision of financial statements of the Company under the generally binding regulations of the National Bank of Slovakia and state authorities. The Management Board is liable for the Articles of Association of the company to be in compliance with the generally binding legal regulations. In addition to the Management Board a proposal for an amendment of the Articles of Association may be submitted by any shareholder.
According to the provision of section 210 of the Commercial Code the Management Board has been delegated to increase the Company share capital in the method of the subscription of new shares by monetary funds based on its decision on the conditions stipulated by the general meeting. On 19.11.2009 the general meeting decided on the Management Boards´s delegation to make a decision on increase of the share capital of the Company up to the amount of 100,400,400 EUR after the prior approval of the Board of Directors.

Activity and Decision-Taking

The activity of the Management Board shall be managed by the chairman of the Management Board. In case of his absence he shall be substituted by a member delegated by the Chairman of the Management Board.
Meetings of the Management Board shall be convened by the chairman when necessary, at least once in the course of three months.
Extraordinary meetings of the Management Board shall be convened by its chairman in cases upon the request of at least one member of the Management Board.
The meeting has a quorum, if at least the majority of the members of the Management Board are present. Each member of the Management Board shall have one vote with equal weight.
The exceptional situation is when the result of voting represents the equality of the votes. In such a case the chairman of the Management Board has a decisive vote. The minutes shall be recorded on the course of the meeting of the Management Board and on its decisions.

Conflict of interests

Member of the Management Board shall not:
- conclude transactions in his own name, or on his own account, if these transactions are related to the object of the business activity of the Company,
- act as an intermediary for other persons in business transactions of the Company,
- participate in business activity of another entity as a partner with unlimited liability,
- act as, or be a member of, the statutory body of another legal entity with an identical or similar line of business as the Company, unless such legal entity is a controlled person of the company.

The liability of the member of the Management Board cannot be excluded or limited by the agreement with the Company.

Advisory Bodies

Special purpose committees shall carry out advisory activities for the Management Board. They shall comprise internal bank employees. They have been established for a solution and passing judgement on issues, requiring collective decision-taking. Only members of the Management Board have decision-taking powers. The Bank has established the following advisory bodies:

Credit Board, Credit Committee and Credit Council

They take decisions on Bank´s credits, namely in the area of their approval, provision of guarantees, letters of credit ex financial coverage and securities trading on the Bank´s account. Credit Board discusses credit cases approved by the Credit Committee and approves credit cases exceeding the internally set limits. Information on approved credits are provided to the Board of Directors. Credit Committee decides in selected areas, unless the decision taking is subject to the competence of the Credit Board.

The Credit Council approves credit cases in line with the powers delegated by the Credit Committee.

ALCO Committee (Assets Liabilities Committee)

The task of ALCO Committee is managing liquidity, capital and financial risks with the aim to reach optimum structure of assets and liabilities at acceptable degree of profit and risk.

Bad Loan Committee

It is in charge of the Bank´s problem receivables, decision-taking on their categorization, outlining of the Bank´s procedures when tackling the problem receivables, adopting measures to eliminate possible devaluation of receivables, decision on writing off of receivables, generation and use of provisions.

Damage Committee

It is an advisory body of the Bank´s Chief Executive Officer with the purpose to assess items of damage and losses and proposals for their liquidation and settlement and at the same time it keeps records of these items of damage.

Operational Risk Committee

Operational Risk Committee is an executive and decision-taking body aimed at IT and physical security policy, at implementation of security and the strategy of operational risk in the whole Bank.
The aim and purpose of its activities is to reach and maintain an appropriate degree of the Bank´s security as well as an adequate level of operational risk.

Product & Pricing Committee

The reason of establishing of the Product & Pricing Committee to create within the Company a body in charge of approval of:

- new banking products provided by the Bank,
- changes of products provided by the Bank,
- price strategy of the Bank (interest rates, charges and other prices) with products that are provided by the Bank,
- changes of interest rates for products provided by the Bank.

Advisory Committee

The Advisory Committee is a special body aimed to provide consulting on banking products and services for municipal customers. Decisions of the Advisory Committee shall be made exclusively for consulting purpose. The Bank shall no be bound by such decisions in any way. The Advisory Committee shall comprise four regular members, appointed by the Board of Directors for the term of office of 4 years.
The regular members of the Advisory Committee shall not be the Bank´s internal employees, but rather representatives of local governments and regions.

2. The Share Capital and Shareholders of the Company

Capital

The share capital of the company as at 31. 12. 2012 is 64,906,082 EUR and is divided into 15,607,682 registered shares, whereas:

- 100,200 shares in the face value of 399 EUR;
- 100,200 shares in the face value of 67 EUR;
- 701,400 shares in the face value of 5 EUR;
- 14,705,882 shares in the face value of 1 EUR;

The majority shareholder of the company is PENTA INVESTMENTS LIMITED, which as at 31. 12. 2012 holds 94,594% of shares.

Shares

The company may issue only registered shares. Their transfer shall be done under the Securities Act at the Central Securities Depository, who keeps the list of shareholders. The transferability of shares shall not be limited.

The Shareholder Rights - the Description and Procedure of their Performance

The shareholders have all the rights in accordance with the Commercial Code and the Company´s Articles of Association:

1) A shareholder shall have the right to share the company´s profit (dividend) stipulated by the general meeting for the distribution according to the economic result. This share shall be stipulated as the proportion of the face value of his shares to the face value of the shares of all the shareholders.
2) The right to inspect the minutes of the Board of Directors meetings.
3) After winding up the Company with a liquidation a shareholder shall have the right to the share in the liquidation balance,
4) A shareholder shall be entitled to take part in the general meeting, vote in this meeting, ask for information and explanation on the Company matters or persons controlled by the Company, connected with the agenda and submit proposals,
5) A shareholder may request complete and true information and explanation, related to the subject of the general meeting, from the Management Board. Should the Management Board not be able to provide the shareholder with the complete and true information in the general meeting, or if he asks for it, the Management Board shall be obliged to provide the shareholder with such information in writing, not later than 30 days from the held general meeting.
   The information in writing shall be sent by the Management Board to the shareholder´s address stated by him. Otherwise it shall be provided in the company´s registered office.
6) The shareholders holding shares with the face value exceeding at least 5% of the share capital may ask for convening an extraordinary general meeting giving the reasons in writing to discuss their proposals.

At the request of such shareholders:

a) The Management Board shall include issues requested by them in the agenda of the general meeting; The general meeting shall be obliged to discuss this issue,
b) The Board of Directors shall examine the performance of the competence of the Management Board in the stated matters,
c) The Management Board shall apply, on behalf of the Company, claims for the repayment of issue rate of the shares to the shareholders, who are delayed with the repayment or shall apply claims to shareholders who were paid in contrary to the Commercial Code,
d) The Board of Directors shall apply claims on behalf of the Company to compensate a damage or other claims that the company has against the members of the Management Board,
e) The Board of Directors shall apply for claims on behalf of the company for repayment of the issue rate of shares if the company subscribed shares representing its share capital contrary to law,
f) The Board of Directors shall apply claims on behalf of the Company that the Company has against the members of the Management Board, as the guarantors under this law,

7) A shareholder, who took part in the general meeting, may ask the court to pronounce the general meeting resolution to be null and void if he made his protest and it was included in the minutes of the general meeting,
8) A shareholder may inspect deeds in the registered office of the Company, which are deposited in the collection of deeds under the special law and request copies of such deeds or their sending to the address, stated by him, namely at his costs and at his risk.

The procedure of performance of these rights has been regulated by the Company´s Articles of Association and by the applicable legal regulations.
The voting rights of the shareholders are not limited. The Company has no knowledge on agreements among the holders of the shares which may lead to the restriction of transferability of securities and voting rights.

3. Description of Internal Control and Risk Management Systems

A. Internal Control System Internal Audit and Controls
The Internal Control System is a sum of inspection activities taking place on all levels of organisational structure and on work positions of the Bank and includes direct and indirect process control as well as off-process control.

The components of internal control system of the Bank are control environment, risk assessment processes, control activities, information systems and monitoring activities. Internal Control System of the Bank helps to secure in particular:

- effectiveness and efficiency of banking processes
- consistency, accuracy, punctuality and reliability of information,
- observance of the laws, directives and internal procedures,
- protection of sources and bank assets against misuse and inefficient utilisation,
- protection against misuse of powers and against frauds

The Management Board of the Bank is responsible for introduction of efficient internal control system, for monitoring of its efficiency and for its improvement. A respective management employee is within its own organisational unit responsible for creation, practical implementation and maintaining of reasonable and effective internal control system. The employees are responsible for high quality performance of their work in accordance with the valid laws, internal bank procedures a with the principles of internal control system.

An independent part of internal control system is the internal audit department, the rights of obligations of which, in addition to those defined by the law, are determined by the Board of Directors. The internal audit department provides independent and objective assessment of appropriateness and effectiveness of internal control system, its activities are performed in all organisational unit and processes of the Bank.

The internal audit department is independent and separate in performance of its inspection activities and its activities are reported to the Management Board and the Board of Directors of the Bank.

External Audit

In line with the valid legal regulations, the Bank is obliged to ensure audit of annual final accounts by an auditor and produce auditor reports under the requirements of the National Bank of Slovakia. The Bank is at the same time obliged to inform the National Bank of Slovakia about the selection of the auditor, approved by the Board of Directors of the Bank. The audit for 2012 was carried out by the company Deloitte Audit, s.r.o., based in Digital Park II, Einsteinova č. 23, Bratislava, company identification number: 31 343 414.

B. The Risk Management System

Under the Articles of Association in force, the separation of the risk management from Bank activities within the Bank´s organisational structure shall be ensured via separation of the credit from the investment business within separate organisational units, managed by different persons whereas there are separate records of investment deals on the account of the company and investment deals on the account of the customer. The separated realization of loan business takes place in the competence of the Public and Commercial Division and in the Retail Banking and CEO Division.

The Treasury is responsible for investment deals. The Risk Management Division is responsible is responsible for separated risk management from banking activities. This division is an independent unit focussed in particular on management of market, credit and operational risks, including the identification system, monitoring, measurement and management of significant risks, separated from the risk monitoring to which the Bank exposed to at implementation of banking activities with the Bank´s related parties. No banking activities can be done in this division, for which the Company has the authorization.

4. Compliance

Compliance is an independent function with responsibility for introduction of internal procedures in the area of protection against legalisation of income from criminal activity and protection against terrorism financing, protection against internal fraud and prevention of conflict of interests. Compliance officer regularly informs the chairman of the Management Board on the main findings when performing inspection activities and at least once a year the Management Board and the Board of Directors are informed by him about the activities of compliance department.

5. Information on all Agreements, concluded between the Bank and the members of its Bodies or Employees on the Compensation in Case of Their Position Termination.

This part contains information on all agreements, concluded between the Bank and the members of its bodies or employees, based on which compensation shall be paid to them, if their position or the employment contract terminates by resignation, the employees dismissal or due to their recall, the employer´s notice without giving any reason or their position or employment contract terminates due to a take-over bid.

Prima banka Slovensko, a.s.

Separate Financial Statements Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union for the Period Ended 31 December 2012 and Independent Auditors' Report

Contents

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Prima banka Slovensko, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Prima banka Slovensko, a.s.:

We have audited the accompanying separate financial statements of Prima banka Slovensko, a.s. (the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Prima banka Slovensko, a.s. as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

We draw attention to Note 19 to the separate financial statements stating that the Bank is a party in a material litigation, the outcome as well as the timing of which is uncertain as at the date of this report. Our opinion is not modified in respect of this matter.

Bratislava, 15 March 2013

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

Ing. Miloš Farštiak, ACCA
Responsible Auditor
Licence UDVA No. 1044

I. FINANCIAL STATEMENTS

Separate Statement of Financial Position

	Note	31.12.2012	31.12.2011
Cash		53 227	33 230
Balances with the central banks	1	82 335	31 636
Due from banks	2	113 045	129 527
Loans and advances to customers	3	1 139 287	1 224 494
Financial assets at fair value through profit and loss	4	31 520	31 088
Available-for-sale financial assets	5	10 399	100
Financial assets held-to-maturity	6	507 960	419 381
Positive fair value of derivatives	7	576	3 901
Non-current tangible assets	8	21 163	20 882
Non-current intangible assets	9	1 940	2 978
Deferred tax asset	10	16 197	12 340
Other assets	11	1 715	2 525
Assets total		**1 979 364**	**1 912 082**
Liabilities and equity			
Loans and deposits received from the central banks	12	233 898	14 004
Due to banks	13	32 888	47 262
Customer deposits	14	1 464 156	1 551 590
Deposits measured at fair value through profit and loss	15	5 053	7 624
Debt securities	16	78 087	112 345
Negative fair value of derivatives	17	4 312	10 996
Other liabilities	18	27 238	31 643
Provisions for liabilities	19	4 908	2 272
Subordinated debt	20	46 961	47 446
Liabilities total		**1 897 501**	**1 825 182**
Equity (excluding losses for the current year)	21	90 146	98 600
Loss for the current year after tax		(8 283)	(11 700)
Equity total		**81 863**	**86 900**
Liabilities and equity total		**1 979 364**	**1 912 082**

The notes on pages 8 to 68 are an integral part of these separate financial statements. The separate financial statements were signed and approved for issue on 15 March 2013:

Ing. Jan Rollo
Chairman of Management Board
and General Director

Ing. Jaroslava Hirschová
Member of Management Board
and Director of Finance Division*

*The Director of the Finance Division is also the person responsible for the bookkeeping and the preparation of the financial statements.

Separate Statement of Comprehensive Income

	Note	31.12.2012	31.12.2011
Interest and similar income		72 201	96 261
Interest and similar expense		(34 051)	(55 736)
Net interest income	**22**	**38 150**	**40 525**
Net fee and commission income	23	13 833	13 517
Net trading income (expense)	24	1 023	(1 348)
Net income (expense) on investments	25	(497)	2 186
Other income	26	186	244
Income from other banking activities		**14 545**	**14 599**
Deposit Protection Fund and special levy on banking institutions	27	(7 151)	(2 051)
Net income from banking activities		**45 544**	**53 073**
Personnel expenses		(16 787)	(22 420)
Depreciation		(5 378)	(8 109)
Purchased output and services		(21 692)	(22 497)
General and administrative expenses	**28**	**(43 857)**	**(53 026)**
Net operating income		**1 687**	**47**
Net allocation to provisions		(11 785)	(12 059)
Net profit/(loss) on write-off of receivables		(1 994)	(2 460)
Net allocation to provisions	**29**	**(13 779)**	**(14 519)**
Profit/(loss) before tax		**(12 092)**	**(14 472)**
Current income tax expense		**0**	**(1)**
Deferred income tax benefit		3 809	2 773
Income tax	**30**	**3 809**	**2 772**
Net profit/(loss)	**31**	**(8 283)**	**(11 700)**
Net loss per share - face value of EUR 399		(51)	(72)
Net loss per share - face value of EUR 67		(9)	(12)
Net loss per share - face value of EUR 5		(1)	(1)
Net loss per share - face value of EUR 1		0	0

Other Comprehensive Income

		31.12.2012	31.12.2011
Available-for-sale financial assets		2 852	31 117
Deferred tax for available-for-sale financial assets		77	(5 912)
Cash flow hedge		346	(1 639)
Deferred tax from cash flow hedge		(29)	311
Total	**21**	**3 246**	**23 877**
Comprehensive income (expenses) total		**(5 036)**	**12 177**

Separate Statement of Cash Flows

	31.12.2012	31.12.2011
Cash flows from operating activities		
Loss before tax	(12 092)	(14 472)
Adjustment:		
Depreciation and amortisation	5 378	8 109
Loss on revaluation of financial assets and liabilities at fair value through profit and loss	(421)	(782)
Loss on revaluation of derivatives	(3 359)	(8 667)
Interest expense	34 051	55 736
Interest income	(72 201)	(96 261)
Provisions for losses, net	11 788	11 159
Net loss on written-off receivables	1 994	2 460
Net profit from assigned assets	0	(3 038)
Other non-cash transactions	2 632	209
Net cash flows from operating activities before changes in operating assets and liabilities	**(32 230)**	**(45 547)**
Changes in operating assets		
Due from banks	(39 928)	1 170
Loans and advances to customers	72 295	615 178
Financial assets at fair value revaluated through profit and loss	0	9 321
Available-for-sale financial assets	(10 140)	56 133
Other assets	810	735
Changes in operating liabilities		
Loans and deposits received from central banks	217 900	(96 000)
Due to other banks	(14 230)	(507 134)
Customer deposits	(87 625)	(114 478)
Deposits measured at fair value through profit and loss	(2 547)	(67)
Other liabilities	(4 405)	15 443
Interest paid	(38 472)	(49 198)
Interest received	68 305	94 967
Tax on income paid	0	608
Net cash flows from operating activities	**129 733**	**(18 869)**
Cash flows from investment activities		
Purchase of non-current tangible and intangible assets	(4 621)	(949)
Proceeds from sale of non-current tangible and intangible assets	0	257
Financial assets held to maturity	(83 394)	(91 670)
Net profit from assigned assets	0	3 038
Net cash flows from investment activities	**(88 015)**	**(89 324)**

Separate Statement of Cash Flows - continued

	31.12.2012	31.12.2011
Cash flows from financing activities		
Debt securities issued	(28 336)	(8 820)
Cash contribution from parent company	0	39 713
Net cash flows from financing activities	**(28 336)**	**30 893**
Net increase (decrease) in cash flows	13 382	(77 300)
Cash and cash equivalents at the beginning of year (Note 32)	183 076	260 376
Cash and cash equivalents at the end of year (Note 32)	196 458	183 076

Separate Statement of Changes in Equity

						Profit/loss from		
	Share capital	**Share premium funds**	**Legal reserve fund**	**Other capital funds**	**Revaluation reserves**	**previous years**	**current year**	**Equity total**
1.1.2011	**64 906**	**37 266**	**9 062**	**95 643**	**(39 743)**	**(93 241)**	**833**	**74 726**
Distribution of profit/loss for 2010			113			720	(833)	0
After-tax revaluation of AFS securities from 2005						(3)		(3)
Cash contribution to capital funds				39 713				39 713
Transfer of state bonds from AFS securities				(39 713)	39 713			0
Profit/loss for 2011							(11 700)	(11 700)
Other comprehensive income and expenses					(15 836)			(15 836)
31.12.2011	**64 906**	**37 266**	**9 175**	**95 643**	**(15 866)**	**(92 524)**	**(11 700)**	**86 900**
1.1.2012	**64 906**	**37 266**	**9 175**	**95 643**	**(15 866)**	**(92 524)**	**(11 700)**	**86 900**
Distribution of profit/loss for 2011						(11 700)	11 700	0
Settlement of profit/loss of prior periods from funds		(37 266)	(9 175)	(49 643)		96 084		0
Profit/loss for 2012							(8 283)	(8 283)
Other comprehensive income and expenses					3 246			3 246
31.12.2012	**64 906**	**0**	**0**	**46 000**	**(12 620)**	**(8 140)**	**(8 283)**	**81 863**

II. NOTES TO THE FINANCIAL STATEMENTS

1. General Information about Prima banka

a) Basic Information

Prima banka Slovensko, a. s. ("Prima banka" or the "Bank") is a joint-stock company with its registered seat at Hodžova 11, Žilina. The Bank was established on 14 May 1992 and incorporated in the Commercial Register on 1 January 1993. The Bank has a general banking licence, issued by the National Bank of Slovakia (the "NBS"). The identification number of the Bank is 31 575 951, the tax identification number is 202 037 2541.
Prima banka is not an unlimited guarantor in any other business entity.

Change in the Bank's Business Name

At the Extraordinary General Meeting held on 24 November 2011, the shareholders approved the change of the business name from Dexia banka Slovensko a.s. to Prima banka Slovensko, a.s. as of 1 January 2012. On 6 December 2011, the National Bank of Slovakia decided to approve the change of the Articles of Association of Dexia banka Slovensko a.s. and thereby approved the General Meeting's decision on the change of the Bank's business name to Prima banka Slovensko, a.s. The new business name was registered in the Commercial Register with effect from 1 January 2012.

b) Statutory and Management Bodies

Board of Directors

Chairman:	Iain Child
Vice-Chairman:	Ing. Marián Slivovič
Members:	Michal Sýkora
	Pierre Marie Jacques Daniel Vérot
	Mgr. Jozef Oravkin

Management Board

Chairman:	Ing. Jan Rollo
Members:	Ing. Peter Chovanec, his position terminated on 29.2.2012
	Ing. Jaroslava Hirschová
	Ing. Pavol Majer
	Ing. Radovan Jenis

Proxy :

Ing. Henrieta Gahérová

c) Scope of Activities

Prima banka is a universal bank offering a wide range of banking and financial services, which operates only in the territory of the Slovak Republic according to a banking licence granted by the NBS. Its core activities include the receipt of deposits, the provision of loans, domestic and cross-border money transfers, the provision of investment services, investment activities, and supplementary services under Act No. 566/2001 Coll. on Securities and Investment Services and on the Amendment to and Supplementation of Certain Acts etc. The valid list of all activities of the Bank is disclosed in the Commercial Register.

Prima banka does not carry out any research and development activities.

d) General Information about the Parent Company

Business Name of the Direct Parent Company Preparing the Consolidated Financial Statements:

Penta Investments Limited, Agias Fylaxeos & Polygnostou, 212 C&I CENTER, 2nd floor, P.C. 3082, Limassol, Cyprus, registered in the Commercial Registry administered by the Ministry of Industry, Trade and Tourism, Department of Registrar of Companies and Official Receiver, Nicosia, registration number.: HE 158996.

Business Name of the Ultimate Parent Company Preparing the Consolidated Financial Statements:

The consolidated financial statements are available at Penta Holding Limited. The consolidated financial statements are deposited with with the Commercial Registry administered by the Ministry of Industry, Trade and Tourism, Department of Registrar of Companies and Official Receiver, which has its registered office at Makarios Avenue, Xenios Building, PC 1427 Nicosia, Cyprus.

e) Share Capital

Share Capital Structure

Prima banka can only issue registered shares issued in book-entry form. Their transfer is made in accordance with the Securities Act in the Central Securities Depository, which maintains the list of shareholders. The transferability of shares is not limited. The Bank's ordinary shares are publicly tradable on the Bratislava Stock Exchange.

Ordinary Shares Structure

Type	Ordinary shares	Ordinary shares
ISIN	SK 1110001270	SK110013671
Kind	Registered	Registered
Form	Book-entered in the Central Securities Depository of the Slovak Republic	Book-entered in the Central Securities Depository of the Slovak Republic
Number	100 200 pcs	100 200 pcs
Face value	EUR 399	EUR 67

Type	Ordinary shares	Ordinary shares
ISIN	SK 1110014927	SK 1110015676
Kind	Registered	Registered
Form	Book-entered in the Central Securities Depository of the Slovak Republic	Book-entered in the Central Securities Depository of the Slovak Republic
Number	701 400 pcs	14 705 882 pcs
Face value	EUR 5	EUR 1

f) Shareholders Structure of Prima banka

	Stake in share capital in %	
	31.12.2012	**31.12.2011**
Penta Investments Limited, Cyprus	94.59	94.16
Shareholders under 1 % total	5.41	5.84
Total	**100.00**	**100.00**

g) Average Number of Employees

	31.12.2012	31.12.2011
Average number of employees, of which:	**620**	**668**
Number of managers	5	6

As at 31 December 2012, Prima banka provided its services through 76 branches (31 December 2011: 49 branches). The Bank opened 27 new branches in Slovakia during 2012.

2. Basis for the Preparation of Financial Statements

The key accounting principles applied for the preparation of these financial statements are outlined in the text below.

a) Purpose of Preparation

The purpose of preparing these separate financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll., as amended. Prima banka prepares its separate financial statements under special regulations - Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Financial Reporting Standards (IFRS). The financial statements are intended for general use and information, and are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly users should not rely exclusively on these financial statements when making decisions. The list of entities not consolidated in these separate financial statements is presented in Note 6 to these financial statements.

Under Article 22 (12) of Act No. 431/2002 Coll. on Accounting as amended, Prima banka does not prepare consolidated financial statements for the year ended 31 December 2012, as the subsidiary MUNICIPALIA, a.s. has no significant impact on the consolidation group of Prima banka. The opinion on the financial position, expenses, revenues, and results of the operations of Prima banka's consolidation group has not been affected by only preparing the Bank's separate financial statements.

The Bank's separate financial statements for the previous reporting period (as at 31 December 2011) were approved and authorised for issue on 29 February 2012.

b) Basis of Presentation

The separate financial statements of Prima banka for the year ended 31 December 2012 and comparatives for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") in Commission Regulation (EC) 1126/2008, and current interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Commission Regulation (EC) 1126/2008 of 3 November 2008 was issued to integrate all standards and interpretations issued by the International Accounting Standards Board ("IASB") and the IFRIC that have been fully adopted for use in the Community as at 15 October 2008, except for IAS 39 relating to the recognition and measurement of financial instruments in a single document. Commission Regulation (EC) 1126/2008 of 3 November 2008 replaces Commission Regulation (EC) 1725/2003 of 29 September 2003. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for certain requirements for portfolio hedge accounting under IAS 39, which has not been approved by the EU. Prima banka has determined that portfolio hedge accounting under IAS 39 would have no significant impact on the financial statements had it been approved by the EU at the balance sheet date.

Prima banka adopted all of the new standards and interpretations issued by the IASB and the IFRIC of the IASB as adopted for use in the European Union. It adopted all standards and interpretations that are relevant to its operations, effective for reporting periods starting 1 January 2012. The standards and interpretations are as follows:

- Amendments to IFRS 7 *"Financial Instruments: Disclosures"* - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).

The adoption of these new standards and interpretations has not led to any changes in the Bank's accounting policies that would have an impact on the amounts recognised for the current and previous reporting periods.

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

- IFRS 10 *"Consolidated Financial Statements"* (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 *"Joint Arrangements"* (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 *"Disclosures of Involvement with Other Entities"* (effective for annual periods beginning on or after 1 January 2014);
- IFRS 13 *"Fair Value Measurement"* (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (revised in 2011) *"Separate Financial Statements"* (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 (revised in 2011) *"Investments in Associates and Joint Ventures"* (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 1 *"First-time Adoption of IFRS"* - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2013);
- Amendments to IFRS 7 *"Financial Instruments: Disclosures"* - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 1 *"Presentation of Financial Statements"* - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 *"Income Taxes"* - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
- Amendments to IAS 19 *"Employee Benefits"* - Improvements to Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 *"Financial Instruments: Presentation"* - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014); and
- IFRIC 20 *"Stripping Costs in the Production Phase of a Surface Mine"* (effective for annual periods beginning on or after 1 January 2013).

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

The International Accounting Standards Board (IASB) also approved the following standards, amendments to the existing standards and interpretations that were not endorsed by the EU for use as at 31 December 2012:

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

The Bank anticipates that adopting 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. The Bank is in the process of assessing the impact that adopting IFRS 9 will have on the Bank's financial statements. As at the reporting date the Bank was not able to assess the significance of the impact on the Bank's financial statements in the period of initial application of the standard.

c) Basis for Preparation of Financial Statements

The financial statements were prepared on the accrual basis of accounting, ie the effects of transactions and other events are recognised by the Bank when they occur. Transactions and events are reported in the financial statements for the periods to which they relate.

The financial statements have been prepared on the assumption that the Bank will continue its operations as going concern for the foreseeable future. The financial statements are prepared under the historical cost convention; certain financial instruments were revalued to fair value.

The reporting currency used in these financial statements is the euro ("EUR"). Value figures are presented in thousands unless stipulated otherwise. Value figures in brackets represent negative values.

If necessary, comparative data were reclassified to ensure the comparability of presented data.

3. Significant Accounting Policies

a) Transaction Date

The transaction date with respect to the purchase and sale of financial assets and liabilities such as term deposits, securities, and derivatives is the date when the deal is arranged; on such date it is recognised in the off-balance sheet accounts. On the settlement date, the entry in the off-balance sheet accounts is reversed and recognised in the balance sheet accounts.

b) Transactions in a Foreign Currency

Transactions made in a foreign currency are translated to euros using the reference exchange rate determined and announced by the European Central Bank (ECB) on the date preceding the transaction date. Assets and liabilities denominated in a foreign currency are translated to euros as at the reporting date using the exchange rate valid as at the reporting date. Exchange rate gains/(losses) from all foreign exchange transactions are included in the Comprehensive income statement item *"Net trading income"*.

c) Cash and Deposits in Central Banks

Cash and deposits in central banks comprise cash held, and cash balances with the National Bank of Slovakia, including the compulsory minimum reserve with the National Bank of Slovakia.
The compulsory minimum reserve with the National Bank of Slovakia is a required deposit with restricted drawing to be held by all commercial banks licensed in the Slovak Republic.

d) Cash and Cash Equivalents in Statement of Cash Flows

Cash and cash equivalents consist of cash on hand, asset balances in correspondent banks' accounts and cash deposits with the NBS that are considered to be liquid, ie their maturity is up to three months. This category does not include the minimum compulsory reserves held with the NBS as its use (drawing) is restricted.

e) Sale and Repurchase Agreements (Repo Transactions)

A repo transaction is the provision of a loan secured by a security transfer.
Securities sold under selling and repurchasing contracts are recognised in the Statement of Financial Position as assets under *"Financial assets at fair value through profit and loss"* or "*Financial assets held to maturity"*. Depending on the nature of the liability, a payment received from a counterparty is recognised under *"Due to banks"* or *"Customer deposits"*.

Securities purchased under agreements to purchase and resell ("reverse repo transactions") are recognised in the statement of financial position in the account *"Due to banks"* or *"Loans and advances to customers"*, as appropriate. Received collateral, which is a security, is recognised in the off-balance sheet accounts from the settlement date until the maturity date of the deal. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

f) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank classifies financial instruments into four categories, in accordance with the Bank's intent on the acquisition of the instruments and pursuant to the Bank's investment strategy, as follows:

- Loans and receivables
- Financial assets or financial liabilities at fair value through profit or loss
  a. Held-for-trading financial assets or financial liabilities
  b. Financial assets or financial liabilities designated at fair value through profit or loss
- Financial assets held to maturity
- Available-for-sale financial assets

g) Loans and Other Receivables

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

Upon signing a loan agreement, a confirmation on the opening of a credit facility is recognised in the off-balance sheet accounts on the trade date. When the financial funds are drawn by the debtor, the loan is transferred to the statement of financial position. During the performance of their activities, the Bank records contingent liabilities with inherent credit risk. The Bank accounts for these contingent liabilities in off-balance sheet accounts, and records a provision for such liabilities that reflects the level of risk of issued guarantees, letters of credit, and unused credit limits as of the balance sheet date.

Recognition of Provisions for Impairment Losses on Loans

Prima banka classifies all receivables from customers as either individually significant or insignificant. Provisions for significant items of loans granted to customers are recognised on an individual basis. The decision on recording a provision is subject to assessment as to whether the stated item fulfils any of the conditions that demonstrate potential impairment of a receivable. These conditions mainly include: delayed payment, information that distraint proceedings are held against the debtor, the debtor is in bankruptcy or liquidation, when identified fraud is associated with the receivable, when the receivable was restructured owing to the debtor's lack of funds to repay the receivable under the original payment schedule or when the Bank, based on monitoring the customer's financial position, arrives at the conclusion that the customer will not be able repay receivables in the full amount.

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

Provisions are recorded based on the quantification of the incurred loss determined as the difference between the carrying amount of a loan receivable and the present value of estimated cash flows discounted using the original effective interest rate of the loan net of the collateral value. For restructured loans, the effective interest rate valid before the terms and conditions were changed is applied.

For items of loan receivables that do not meet conditions for specific provisioning and are not recognised at fair value, the Bank records collective portfolio provisions on a portfolio basis when using risk parameters for the relevant group of loans. Portfolio provisions cover losses that have not yet been identified on an individual basis but, based on historical experience, are inherent in individual portfolios as at the reporting date.

The calculation of collective portfolio provisions is based on the amounts receivable as disclosed on the balance sheet as receivables from customers and the amounts of off-balance sheet receivables from clients excluding defaulted exposures. The probability rates of default on receivables, a potential loss resulting from the default of a receivable, and the exposed amount are used to calculate expected losses. They are based on the analysis and back-testing of the historical experience of the Bank with regard to each portfolio. Moreover, the Bank recognised additional portfolio provisions as at 31 December 2012 attributable to the recent changes in the retail loans portfolio, which are not reflected in the historical data.

Write-off of Receivables

The existence of unrecoverable receivables is connected with business risk, which is to a various extent inherent in all banking activities performed. If a particular receivable meets the conditions for a write-off, Prima banka writes off the receivable directly into expenses in the comprehensive income statement under *"Net profit/(loss) on write-off of receivables"* and recognised impairment provisions are reversed. Receivables for which the right of collection did not expire continue to be recognised in off-balance sheet accounts. The Committee for Non-Performing Loans decides which write-off method will be applied with respect to the particular receivable. When a written-off receivable is collected, income is recognised in the comprehensive income statement under *"Net profit/(loss) on write-off of receivables"*.

h) Transactions with Securities

Securities held by Prima banka are categorised in portfolios according to the intent on their acquisition. All securities acquired into Prima banka's portfolio are recognised at cost on the financial settlement date.

Held-for-trading Financial Assets

Financial assets held for trading are acquired in order to earn profits from short-term volatility. All purchases and sales of financial assets held for trading that require delivery within the timeframe established by regulation or market convention ("standard way") are recognised as spot transactions. Transactions that do not meet the "standard way" settlement criteria are treated as financial derivatives.

Prima banka records unrealised gains and losses from the revaluation of these assets to their fair values in the comprehensive income statement line *"Net trading income (expense)"*. Interest income held for trading securities is accrued on a daily basis and recorded in the comprehensive income statement line *"Interest and similar income"*.

Financial Assets at Fair Value Through Profit or Loss

This portfolio includes financial instruments usually traded on a listed market and are used to manage position risks, mainly liquidity and currency risk exposures, to harmonise the positions of the Banking and Trading Books, whilst the original purpose of the acquisition was to make an investment in the Prima banka portfolio.

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

The Bank records unrealised gains and losses from the revaluation of these assets to their fair values in the comprehensive income statement line *"Net trading income"*. Interest income from securities at fair value through comprehensive income statement is accrued on a daily basis and recorded in the comprehensive income statement line *"Interest and similar income"*.

Available-For-Sale Financial Assets

Available-for-sale financial assets ("AFS portfolio") include securities sold by Prima banka under standard market terms and conditions or to manage risks of the Banking Book. The AFS portfolio also includes the Bank's investments in privately-held companies with a share in the share capital and voting rights of less than 20%, for which no market exists or the participation in which is compulsory (SWIFT Belgium). Prima banka does not expect to sell or otherwise dispose of such shares in the foreseeable future.

Dividend income from available-for-sale financial assets is reported as *"Dividend income"* in the comprehensive income statement. Profit or loss from the sale of financial assets available-for-sale is recognised in the comprehensive income statement as *"Net trading income (expense)"*.

Changes in the fair value of available-for-sale financial assets are credited or debited to revaluation reserves in equity.

Held-to-Maturity Financial Assets

This portfolio includes a non-derivative financial asset with fixed or floating payments and fixed maturity that the Bank intends and is able to hold to maturity. Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method less impairment. Interest income and discounts and premiums on held-to-maturity securities are accrued on a daily basis and recognised as *"Interest and similar income"* in the comprehensive income statement.

Derecognition of Financial Instruments

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 substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Bank substantially retains 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.

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

i) Financial Derivatives

Prima banka's financial derivatives include currency and interest rate swaps, forwards and options. They are held to hedge risk. In the statement of financial position, they are recognised at fair value under "*Positive fair value of derivatives"* or *"Negative fair value of derivatives"*. An underlying derivative financial instrument is recognised in off-balance sheet accounts on the transaction date. It is derecognised from the off-balance sheet accounts on the date the respective derivative is closed.

Changes in the fair value of derivatives are recognised to ensure that the positive fair values of derivatives are shown as an asset and negative fair values of derivatives are shown as a liability with a corresponding entry in revenues and expenses recognised in the comprehensive income statement under *"Net trading income (expense)"*.

The swaps and other derivatives in the Trading Book are revaluated in line with the discounted cash flows approach, using the respective market yield curves on a daily basis through profit and loss. The Banking Book instruments and hedging instruments are revaluated on a monthly basis and the same approach should be applied. In respect of embedded derivatives, they are valued separately only when they have a direct impact on the fair value of the host contract.

j) Hedging

Prima banka is hedged against the risk of volatility in the fair values ("Fair Value Hedge") of recognised assets, which relates to the risk of interest rate volatility and may affect the Bank's expenses or revenues.

Hedged items include long-term loans with a structured interest rate.

The gain or loss from the fair value valuation of a hedging instrument is recognised in revenues or expenses. The gain or loss from a hedged item attributable to the hedged risk is recognised in the profit and loss whereas the impact of changes in the fair values of hedging instruments and hedged items on the P/L is insignificant.

In June 2011, Prima banka terminated the hedging against the variability of cash flows for recognised long-term loans with a floating interest rate ("Cash Flow Hedge"). The gain or loss from the revaluation of a hedging instrument to fair value recognised in the statement of changes in equity under "*Revaluation reserves*" is amortised in the statement of comprehensive income until the maturity of the originally-hedged long-term loans.

In 2011 and 2012, Prima banka also terminated the hedging against the risk of fair-value volatility ("Fair Value Hedge") for issued mortgage bonds, received subordinated debts and AFS securities, as well as for loans provided with a structured interest rate.

These hedged financial instruments are still recorded in the Bank's portfolios and the amount of their measurement to fair value on the hedging cancellation date is amortised in the statement of comprehensive income until their maturity. Hedging instruments such as interest rate swaps were cancelled and financially settled.

k) Fair Value of Financial Instruments

The fair value of financial instruments corresponds to the quoted market price as at the reporting date, without reduction for transaction costs.

The fair values of financial instruments not quoted in active markets are determined using valuation techniques such as the theoretical price derived from the yield as read from the yield curve of government bonds and the credit margin of issuers' debt securities with comparable credit risk under generally-accepted revaluation rules. If practicable, models use only observable data; however, areas such as credit risk, volatility, and liquidity require expert estimates. Changes in the assumptions related to these factors could affect the reported fair value of the financial instruments.

When the discounted cash flows method is used, estimated future cash flows are based on the most accurate management estimates and the discount rate represents the market rate for instruments with similar conditions and maturity. When valuation models are used, input values are based on market values valid as at the reporting date.

The fair values of derivative instruments that are not traded on a stock exchange are derived from the estimated values the Bank would obtain under standard business conditions at the termination of the contract as at the reporting date after considering the market conditions and the creditworthiness of the relevant counterparty.

l) Non-Current Tangible and Intangible Assets

Non-current tangible and intangible assets are stated at historical cost less accumulated depreciation/amortisation together with accumulated impairment losses.

Prima banka applies a linear method of depreciating or amortising non-current tangible and intangible assets based on the estimated useful life.

Non-current tangible assets with a cost of up to EUR 1 700 and non-current intangible assets with a cost of up to EUR 2 400 and useful life of over one year are expensed in the year when they are placed into service.

Land and works of art are not depreciated.

Prima banka uses the following depreciation periods:

	Depreciation Period in Years
Computers, office tools, cars, etc	4 - 6
Software	up to 10
Fittings & fixtures	4 -6
Office equipment	4 -12
Buildings and structures	20*

* Buildings owned by the Bank are depreciated over 20 years, restoration works carried out in the rented buildings according to the term of the lease.

m) Impairment of Tangible and Intangible Assets

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

The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows expected to derive from the asset. If any of the amounts above exceeds the carrying amount, there is no need to estimate the other amount. If the estimated recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset shall be reduced to equal the recoverable amount. The impairment loss shall be recognised directly through the comprehensive income statement under *"Depreciation"*.

n) Income Tax

Current income tax is calculated on the tax base reported in accordance with Slovak tax legislation. The tax basis differs from the accounting profit / (loss) recognised in the statement of comprehensive income because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using the tax rates valid as of the reporting date.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rate enacted for future periods was used to determine deferred income tax, ie 23%.

A deferred tax liability related to taxable temporary differences represents tax that is to be paid in future taxation periods. A deferred tax asset is related to deductible temporary differences, the possibility of carrying forward the tax loss, and the possibility of transferring unused tax deductions and other tax claims to future periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is recognised in the income statement except for cases when the deferred tax relates to items not recognised as income or expenses but are charged and recognised in equity. In such cases, the related deferred tax is debited or credited to equity.

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

The Bank recognises the due corporate income tax and the deferred tax in the statement of financial position line *"Tax assets" or "Tax liabilities"*.

o) Securities Issued

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

p) Subordinated Debt

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

q) Accrued Interest

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

r) Provisions for Liabilities

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

s) Earnings per Share

The Bank discloses earnings per share attributable to holders of ordinary shares. The Bank calculated earnings per ordinary share as profits attributable to the holders of ordinary shares divided by the weighted average number of ordinary shares outstanding during the period.
The profit attributable to each class of share is determined based on the face value of each class of share in relation to the percentage of the total face value of all shares.

t) Interest Income and Interest Expense

Interest income and expenses, and interest-related charges arising on all interest-bearing instruments are accrued in the comprehensive income statement using the effective interest rate method.

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

u) Fees and Commissions

Fees and commissions received and paid are recognised in the comprehensive income statement under the matching principle. Fees for the provision of loans are accrued over the term of the respective loan using the effective interest rate of the loan

4. Significant Accounting Estimates

Presenting the financial statements in compliance with IFRS requires estimates and assumptions to be prepared that affect the reported amounts of assets and liabilities and estimated assets and liabilities as at the reporting date as well as disclosed expenses and revenues for the relevant reporting period. The actual results may differ from those estimates and future changes in the economic conditions, business strategies, regulatory requirements, accounting rules, and/or other factors could subsequently result in a change in estimates or other adjustments, which could have a material impact on the reported financial position and results of operations.

The effect of the change in accounting estimates is included, on a prospective basis, in the profit/loss of the period in which the estimate is changed provided that the changes only affect the given period, or also in the profit/loss of the subsequent periods if the change has an impact on the following periods.

Areas that require subjective assessment include:

- Continuing negative developments in the economic environment resulted in the adjustment to the valuation of the Bank's selected assets. When preparing prudent and reasonable estimates under the existing circumstances, the Bank's management reflected all significant facts that could have an impact on the financial statements, valuation of assets and liabilities disclosed in the financial statements, liquidity and raising of funds in relation to the present state of the economic environment. Additionally, an increased level of uncertainty persists in respect of the future economic development, which may result in material future changes in the valuation and impairment of assets.
  As discussed in Note 3 above and as described in detail in Notes 3 and 29, chapter 6 to the financial statements, the Bank recognises a provision for the impairment of loans and receivables and contingent liabilities when there is objective evidence that past events had an adverse impact on estimated future cash flows. These provisions are based on the Bank's historical experience and the latest data on loan defaults, recoverability of loans and/or time needed for a loss event to evolve into default, and from subjective judgements of the Bank's management regarding estimated future cash flows. The recognition of provisions for loan losses and identified contingent liabilities, however, includes some uncertainties regarding the outcome of the aforementioned risks and requires the Bank's management to make many subjective judgements when estimating losses. Given the existing economic conditions, the outcome of the estimates may differ from the amount of the impairment provisions recognised as at 31 December 2012.
- The utilisation of a deferred tax asset depends on the generation of sufficient future taxable profits. Moreover, rules and regulations have undergone significant changes in recent years; there are few historical precedents or interpretative rulings on a number of complex issues affecting the banking industry. Also, the tax authorities have broad powers in interpreting the application of the tax laws and regulations in the course of examining taxpayers. Accordingly, there is a high degree of uncertainty about the ultimate outcome of potential examinations by the tax authorities.
- The amounts recognised as provisions for liabilities are based on the Bank's management's judgment and represent the best estimate of the expenses required to settle a liability with uncertain timing and an uncertain amount payable.

5. Segment Reporting

The basis for classification into individual segments is the internal principle provided to the Bank's management. For internal management purposes, the Bank makes assessments of the following segments:

- Retail and commercial banking
- Financial markets and other

Retail and commercial banking includes the provision of banking products and services to towns and municipalities, businesses and individuals. The financial markets and other segments include the Bank's trading with financial instruments of money and capital markets on its own account.

From a geographical point of view, operating profit (loss) is generated/incurred mainly by the provision of banking services in the Slovak Republic. Some assets and liabilities were placed outside the Slovak Republic. An overview of major exposures of total assets and liabilities to foreign entities is disclosed in the relevant notes to these financial statements. The Bank decided not to disclose the amount of the total income from foreign entities, owing to the immateriality of the amount.

Schemes show relevant revenues and expenses allocated by causal principles, ie revenues and expenses are assigned to segments based on the place of their origin.

In the comprehensive income statement, revenues per client segment are "*Net interest income*", "*Net fee and commission income*", "*Net trading income/(expense)*", "*Net income/(expense) on investments*", and "*Other income*".

"Net allocation to provisions" includes the net allocation or release of specific and portfolio provisions resulting from credit risk, write-off of loan receivables, and revenues from written-off receivables. "*General and administrative expenses*" include direct and indirect expenses. Direct expenses (personnel costs and purchased supplies and services) are allocated by the relevant segment and indirect expenses are allocated by an approved allocation scheme.

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

	Retail and Commercial banking	**Financial markets and others**	**Total**
Net interest income	32 347	5 803	38 150
Net fee and commission income	7 073	(391)	6 682
Net trading income	797	226	1 023
Net income on investments	0	(497)	(497)
Other income	0	186	186
Net income from banking activities	**40 217**	**5 327**	**45 544**
General and administrative expenses	(27 007)	(16 850)	(43 857)
Net operating income (loss)	**13 210**	**(11 523)**	**1 687**
Net allocation to provisions	(13 783)	4	(13 779)
Profit/(loss) before tax	**(573)**	**(11 519)**	**(12 092)**
Assets total	**1 182 963**	**796 401**	**1 979 364**

In accordance with reporting segments, in 2012 the Bank changed its reporting of segments in the item net interest income and general administrative expenses in 2011.

The separate statement of comprehensive income and other indicators by segments as at 31 December 2011:

	Retail and Commercial banking	**Financial markets and others**	**Total**
Net interest income	35 815	4 710	40 525
Net fee and commission income	12 476	(1 010)	11 466
Net trading expenses	(853)	(495)	(1 348)
Net income on investments	3 038	(852)	2 186
Other income	0	244	244
Net income from banking activities	**50 476**	**2 597**	**53 073**
General and administrative expenses	(31 175)	(21 851)	(53 026)
Net operating income (loss)	**19 301**	**(19 254)**	**47**
Net allocation to provisions	(14 371)	(148)	(14 519)
Profit/loss before tax	**4 930**	**(19 402)**	**(14 472)**
Assets total	**1 263 996**	**648 086**	**1 912 082**

6. Notes to the Financial Statements

1. Balances with Central Banks

	31.12.2012	31.12.2011
Cash reserves with the NBS	82 335	31 636
Total	**82 335**	**31 636**

Cash reserves with the NBS represent compulsory minimum reserves the Bank is obliged to maintain in cash with the NBS. The system of creating and maintaining compulsory minimum reserves is regulated by the European Community and European Central Bank regulations. The Bank's ability to withdraw the reserve is restricted by statutory legislation.

2. Due from Banks

	31.12.2012	31.12.2011
Current accounts with other banks	895	399
Term deposits	112 153	126 675
Debt securities	0	2 462
Total	**113 048**	**129 536**
Provisions	(3)	(9)
Total	**113 045**	**129 527**

a) Provisions for Balances Due from Banks

Movements in provisions for balances due from banks for 2012:

	Balance 1.1.2012	Allocation	Use/Release	Balance 31.12.2012
Provisions	(9)	(21)	27	(3)
Total	**(9)**	**(21)**	**27**	**(3)**

Movements in provisions for balances due from banks for 2011:

	Balance 1.1.2011	Allocation	Use/Release	Balance 31.12.2011
Provisions	(31)	(14)	36	(9)
Total	**(31)**	**(14)**	**36**	**(9)**

b) Due from Banks by Geographical Territory

	31.12.2012	31.12.2011
Slovak Republic	35 023	65 417
European Union Member States	77 962	64 059
Other countries	60	51
Total	**113 045**	**129 527**

3. Loans and Advances to Customers

a) By Customer Group

	31.12.2012	31.12.2011
Municipalities	429 729	515 708
Other enterprises	524 074	406 609
Individuals, including:	340 108	307 890
mortgages	103 367	115 987
loans for real estate	168 321	155 816
consumer loans	52 308	24 347
other loans	16 112	11 740
Total	**1 293 911**	**1 367 499**
Specific provisions	(140 526)	(136 750)
Portfolio provisions	(14 098)	(6 255)
Total	**1 139 287**	**1 224 494**

The overview of loans and advances by their residual maturity is stated in Note 37 (2b).

b) By Geographical Territory

	31.12.2012	31.12.2011
Slovak Republic	1 091 376	1 201 437
European Union Member States	43 326	17 988
Other countries	4 585	5 069
Total	**1 139 287**	**1 224 494**

c) Provisions for Loans to Customers

Allocation and use of provisions as at 31 December 2012:

	Balance 1.1.2012	Allocation	Use/ Release	Exchange rate differences	Balance 31.12.2012
Specific provisions, of which	**(136 750)**	**(17 422)**	**13 645**	**1**	**(140 526)**
- impaired receivables	(136 750)	(17 422)	13 645	1	(140 526)
Portfolio provisions, of which	**(6 255)**	**(23 751)**	**15 912**	**(4)**	**(14 098)**
- individually-significant customers	(4 563)	(9 170)	8 948	(4)	(4 789)
- individually non-significant customers	(1 692)	(14 581)	6 964	0	(9 309)
Total	**(143 005)**	**(41 173)**	**29 557**	**(3)**	**(154 624)**

Allocation and use of provisions as at 31 December 2011:

	Balance 1.1.2011	Allocation	Use/ Release	Balance 31.12.2011
Specific provisions, of which	**(125 826)**	**(24 685)**	**13 761**	**(136 750)**
- impaired receivables	(125 826)	(24 685)	13 761	(136 750)
Portfolio provisions, of which	**(7 047)**	**(14 787)**	**15 579**	**(6 255)**
- individually-significant customers	(5 496)	(14 038)	14 971	(4 563)
- individually non-significant customers	(1 551)	(749)	608	(1 692)
Total	**(132 873)**	**(39 472)**	**29 340**	**(143 005)**

4. Financial Assets at Fair Value Through Profit or Loss

	31.12.2012	31.12.2011
Slovak government bonds	31 520	31 088
Total	**31 520**	**31 088**

5. Available-for-Sale Financial Assets

	31.12.2012	31.12.2011
Government bonds of European Union Member States	10 308	0
Ownership interests in the registered capital of subsidiaries	20	20
Other securities	71	80
Total	**10 399**	**100**

In October 2005, Prima banka established a subsidiary – MUNICIPALIA, a.s. whose share capital amounts to EUR 33 200. Prima banka owns 60%, ie EUR 19 920.

The Bank has in its AFS portfolio two shares in a total amount of EUR 71 thousand, which are the capital participations in SWIFT Belgium and RVS Bratislava. Two equity securities in the nominal value of EUR 28 thousand valuated at prices quoted on the market were sold by the Bank in 2012.

Other Securities – Shares, Trust Certificates and Other Ownership Interests

Name	Equity share			Equity share		
	Nominal Value (%)	Nominal Value (EUR´000)	Fair Value (EUR´000)	Nominal Value (%)	Nominal Value (EUR´000)	Fair Value (EUR´000)
	31.12.2012			31.12.2011		
RVS a. s. Bratislava	0,678	46	70	0,678	46	70
SWIFT, Belgium	0	0	1	0	0	1
RRA, Žilina	0	0	0	8,257	9	0
1. Garantovaná a.s., Bratislava	0	0	0	0,005	5	0
Púchovský mäsový priemysel, a. s., Púchov	0	0	0	0,885	23	9
Total	**x**	**46**	**71**	**x**	**83**	**80**

6. Held-to-Maturity Financial Assets

	31.12.2012	31.12.2011
Slovak government bonds	409 462	341 997
Government bonds of the European Union Member States	38 026	38 504
Other government bonds	8 225	0
Bonds of business and public entities	48 620	39 552
Municipal bonds	2 368	0
Bank bonds	2 101	0
Total	**508 802**	**420 053**
Provisions	(842)	(672)
Total	**507 960**	**419 381**

Allocation and use of provisions in 2012:

	Balance 1.1.2012	Allocation	Use/Release	Balance 31.12.2012
Portfolio provisions	(672)	(199)	29	(842)
Total	**(672)**	**(199)**	**29**	**(842)**

Allocation and use of provisions in 2011:

	Balance 1.1.2011	Allocation	Use/Release	Balance 31.12.2011
Portfolio provisions	(5)	(671)	4	672
Total	**(5)**	**(671)**	**4**	**672**

7. Positive Fair Value of Derivatives

	31.12.2012 Assets		31.12.2011 Assets	
	Fair Value	Nominal value	Fair Value	Nominal value
Trading derivatives, of which	**552**	**44 593**	**2 640**	**248 606**
interest rate derivatives	485	19 097	2 497	210 091
currency derivatives	67	25 496	143	38 515
Hedging derivatives, of which	**24**	**48 087**	**1 261**	**83 484**
interest rate derivatives	24	48 087	1 261	83 484
Total	**576**	**92 680**	**3901**	**332 090**

The residual maturity of derivatives at face value is stated in Note 34.

8. Non-Current Tangible Assets

Movements in non-current tangible assets as at 31 December 2012:

	31.12.2011	Increase	Decrease	31.12.2012
Land, buildings and structures	33 731	2 059	(23)	35 767
Investment technology	8 560	181	(502)	8 239
Other non-current tangible assets	17 039	2 744	(1 646)	18 137
Operating lease	666	15	(283)	398
Non-current tangible assets	**59 996**	**4 999**	**(2 454)**	**62 541**
Accumulated depreciation - buildings and structures	(16 954)	(1 821)	15	(18 760)
Accumulated depreciation - investment technologies	(6 978)	(735)	436	(7 233)
Accumulated depreciation - other non-current tangible assets	(14 707)	(960)	821	(15 156)
Accumulated depreciation - operating lease	(475)	(19)	0	(229)
Accumulated depreciation	**(39 114)**	**(3 536)**	**1 272**	**(41 378)**
Net book value	**20 882**	**1 463**	**(1 182)**	**21 163**

Movements in non-current tangible assets as at 31 December 2011:

	31.12.2010	Increase	Decrease	31.12.2011
Land, buildings and structures	33 892	306	(467)	33 731
Investment technology	9 308	279	(1 029)	8 560
Other non-current tangible assets	17 644	226	(831)	17 039
Operating lease	701	25	(58)	666
Non-current tangible assets	**61 545**	**836**	**(2 385)**	**59 996**
Accumulated depreciation - buildings and structures	(14 074)	(3 011)	131	(16 954)
Accumulated depreciation - investment technologies	(6 983)	(1 022)	1 029	(6 978)
Accumulated depreciation - other non-current tangible assets	(14 038)	(1 407)	739	(14 707)
Accumulated depreciation - operating lease	(485)	(43)	50	(475)
Accumulated depreciation	**(35 580)**	**(5 483)**	**1 949**	**(39 114)**
Net book value	**25 965**	**(4 647)**	**(436)**	**20 882**

Obligations under Contracts for the Purchase of Non-Current Tangible Assets

As at 31 December 2012 and 2011, Prima banka recorded only insignificant liabilities under agreements to purchase non-current tangible assets.

Insurance Coverage

Non-current tangible assets are insured by coverage of up to EUR 16 500 thousand against natural disaster, EUR 29 450 thousand against fire damage, EUR 150 thousand against tap water damage, and EUR 350 thousand against theft and vandalism. A set of tangible assets including electronic devices and low-value tangible assets are insured up to the maximum risk amount of EUR 25 500 thousand. Based on the effective motor hull insurance, vehicles have been insured for up to EUR 1 434 thousand.

Contingent Liabilities from Operating Lease

In off-balance sheet accounts, Prima banka recognised contingent liabilities from an irrevocable operating lease (as the lessee). Prima banka's ordinary business activities include entering into operating leases of buildings to conduct banking activities, ATMs and POS terminals.

As at 31 December 2012 and as at 31 December 2011, the total amount of future payments resulting from the irrevocable operating lease agreements was as follows:

Payables from irrevocable operating lease	31.12.2012	31.12.2011
Less than 1 year	215	118
1 year to 5 years	3 615	3 393
More than 5 years	2 837	3 632
Total	**6 667**	**7 144**
Operating lease recognised in general and administrative expenses	448	374

9. Non-Current Intangible Assets

Movements in non-current intangible assets as at 31 December 2012:

	31.12.2011	Increase	Decrease	31.12.2012
Software	5 287	401	(335)	5 353
Other non-current intangible assets	21 000	423	(85)	21 338
Non-current intangible assets	**26 287**	**824**	**(420)**	**26 691**
Accumulated depreciation – software	(4 512)	(714)	335	(4 891)
Accumulated depreciation - other non-current intangible assets	(18 797)	(1 148)	85	(19 860)
Accumulated depreciation and provisions	**(23 309)**	**(1 862)**	**420**	**(24 751)**
Net book value	**2 978**	**(1 038)**	**0**	**1 940**

Movements in non-current intangible assets as at 31 December 2011:

	31.12.2010	Increase	Decrease	31.12.2011
Software	5 008	302	(23)	5 287
Other non-current intangible assets	21 156	444	(600)	21 000
Non-current intangible assets	**26 164**	**746**	**(623)**	**26 287**
Accumulated depreciation-software	(3 651)	(876)	15	(4 512)
Accumulated depreciation - other non-current intangible assets	(17 201)	(2 004)	408	(18 797)
Accumulated **depreciation**	**(20 852)**	**(2 880)**	**423**	**(23 309)**
Net book value	**5 312**	**(2 134)**	**(200)**	**2 978**

As at 31 December 2012, Prima banka did not record any liabilities under agreements to purchase non-current intangible assets (31 December 2011: EUR 0).

10. Tax Assets

	31.12.2012	31.12.2011
Deferred tax assets	16 197	12 340
Total	**16 197**	**12 340**

11. Other Assets

	31.12.2012	31.12.2011
Accruals and deferrals	607	1 006
Other assets	1 108	1 519
Total	**1 715**	**2 525**

12. Loans and Deposits Received from Central Banks

	31.12.2012	31.12.2011
Received loans from central banks	233 898	14 004
Total	**233 898**	**14 004**

As at 31 December 2012, the Bank pledged for the benefit of the European Central Bank (ECB) government bonds held in the securities portfolio for pooling in the amount of EUR 347 353 thousand (31 December 2011: 200 072 thousand):

Name	Carrying amount of debt securities	Carrying amount of received loans	Guarantee expiration date	Pledged in favour of
Government bonds	347 353	233 898	10/2013 - 03/2021	ECB

13. Due to Banks

	31.12.2012	31.12.2011
Current accounts and amounts payable on demand	84	561
Term deposits	32 804	46 701
Total	**32 888**	**47 262**

a) By Geographical Territory

	31.12.2012	31.12.2011
European Union Member States	32 888	46 716
Other countries	0	546
Total	**32 888**	**47 262**

14. Deposits from Customers

a) By Customer Group

	31.12.2012	31.12.2011
Municipalities	244 821	257 049
States	30 989	50 354
Corporations	45 072	81 702
Other enterprises	195 126	221 449
Individuals	948 148	941 036
Total	**1 464 156**	**1 551 590**

b) By Type of Product

	31.12.2012	31.12.2011
Current accounts	582 145	622 759
Term deposits	741 726	748 898
Saving deposits	140 285	179 933
Total	**1 464 156**	**1 551 590**

c) By Currency

	31.12.2012	31.12.2011
in euro	1 454 855	1 537 522
in foreign currencies	9 301	14 068
Total	**1 464 156**	**1 551 590**

d) By Geographical Territory

	31.12.2012	31.12.2011
Slovak Republic	1 456 662	1 544 603
European Union Member States	5 265	5 238
Other countries	2 229	1 749
Total	**1 464 156**	**1 551 590**

As at 31 December 2012, some customer deposits are secured by securities included in the securities portfolios in the amount of EUR 42 893 thousand (31 December 2011: EUR 57 275 thousand) for the benefit of the following entities:

Name	Carrying amount of debt securities	Carrying amount of deposits	Guarantee expiration date	Pledged in favour of
Government bonds	41 493	30 967	11.2.2014	ŠFRB
Government bonds	1 400	1 400	7.4.2014	State treasury
Total	**42 893**	**32 367**		

15. Deposits Measured at Fair Value Through Profit and Loss

	31.12.2012	31.12.2011
Customers, of which:	5 053	7 624
Individuals	5 053	7 624
Total	**5 053**	**7 624**

Structured deposits with a two-year maturity are recognised as *"Deposits Measured at fair value through profit and loss"*. They are offered to customers through individual issues during a subscription period.

16. Debt Securities

	31.12.2012	31.12.2011
Mortgage bonds	78 087	112 345
Total	**78 087**	**112 345**

As at 31 December 2012, Prima banka issued the securities summarised in the following table:

Name	Date of issue	Maturity date	Frequency of yield payment	Interest rate	Nominal value (EUR)	Number of securities issued	Carrying amount as at 31.12.2012
MB of Prima banka 04	28.10.2009	28.10.2013	annually	4.10%	1 000.00	5 975	6 018
MB of Prima banka 05	10.3.2010	10.3.2014	annually	3.60%	1 000.00	9 623	9 962
MB of Prima banka 06	7.7.2010	7.7.2013	annually	3.30%	1 000.00	9 180	9 334
MB of Prima banka 07	13.6.2011	13.6.2015	annually	3.50%	1 000.00	7 426	7 569
MB of Prima banka 08	24.7.2012	24.7.2015	-	Zero	100 000.00	500	45 204
Total							**78 087**

As at 31 December 2011, Prima banka issued the securities summarised in the following table:

Name	Date of issue	Maturity date	Frequency of yield payment	Interest rate	Nominal value (EUR)	Number of securities issued	Carrying amount as at 31.12.2011
MB of Dexia bank II.	7.11.2005	7.11.2012	annually	3.41%	331 939.19	149	49 964
MB of Dexia bank III.	25.9.2007	25.9.2012	annually	4.75%	331 939.19	67	22 677
MB of Dexia bank IV.	10.7.2009	10.7.2012	annually	3.50%	1 000.00	5 909	6 007
MB of Dexia bank V.	28.10.2009	28.10.2013	annually	4.10%	1 000.00	5 975	6 018
MB of Dexia bank VI.	10.3.2010	10.3.2014	annually	3.60%	1 000.00	9 936	10 338
MB of Dexia bank VII.	7.7.2010	7.7.2013	annually	3.30%	1 000.00	9 590	9 766
MB of Dexia bank VIII.	13.6.2011	13.6.2015	annually	3.50%	1 000.00	7 432	7 575
Total							**112 345**

Prima banka's issued mortgage bonds are registered book-entry securities. The bonds are readily transferrable with no pre-emption or conversion right attached thereto. Some of the mortgage bonds issued by the Bank are listed on the Bratislava Stock Exchange. Section 68 of the Act on Banks requires that the amount of issued mortgage bonds be no less than 90% of the total amount of granted mortgage loans. Under the decision of the National Bank of Slovakia, since 1 January 2012 it is sufficient for Prima banka to cover 70% of the volume of mortgage loans by issued mortgage bonds. The Bank met the legal requirements in 2012 and also in 2011.

17. Negative Fair Value of Derivatives

	31.12.2012 Liabilities		31.12.2011 Liabilities	
	Fair Value	Nominal value	Fair Value	Nominal value
Trading derivatives, of which	**1 732**	**44 667**	**7 174**	**248 642**
interest rate derivatives	1 629	19 097	7 079	210 091
currency derivatives	103	25 570	95	38 551
Hedging derivatives, of which	**2 580**	**48 087**	**3 822**	**83 484**
interest rate derivatives	2 580	48 087	3 822	83 484
Total	**4 312**	**92 754**	**10 996**	**332 126**

The residual maturity of the derivatives at face value is summarised in Note 34.

18. Other Liabilities

	31.12.2012	31.12.2011
Accruals and deferrals	13	154
Estimated payables	10 058	8 599
Settlement with employees (payable)	755	797
of which: social fund	114	184
Other	15 593	21 569
State budget clearing account	819	524
Total	**27 238**	**31 643**

Estimated liabilities mainly comprise a provision for employee bonuses for 2012, provisions for unused vacation days and provisions for unbilled supplies of goods and services.

Social Fund

Prima banka has created the social fund as required by the Social Fund Act, the Income Tax Act and the higher-level collective agreement entered into between the Slovak Banking Association and the Banking and Insurance Trade Union in the Slovak Republic. The social fund is used by Prima banka to finance its own social policy.

The social fund is created during the year as the total compulsory allocations (subject to earned profit and the fulfilment of tax and social security payments) at 0.6% of the gross wages effectively paid out to employees in the current year. For tax purposes, allocations to the social fund are included in the expenses to generate, ensure and sustain taxable income. Social policy financing represents short-term employee benefits, which are recognised and disclosed as expenses in the current year.

The allocation to and drawing of the social fund as at 31 December 2012 is presented in the following table:

	31.12.2012	31.12.2011
Balance as at 1.1.	184	204
Allocation from expenses	56	132
Drawing, of which:	(127)	(152)
catering	(127)	(140)
social support	0	(12)
Balance as at 31.12.	**113**	**184**

19. Provisions for Liabilities

	31.12.2012	31.12.2011
Provision for litigation claims	2 737	1 463
Provision for off-balance sheet liabilities	814	809
Other provisions	1 357	0
Total	**4 908**	**2 272**

Movements in provisions for liabilities as at 31 December 2012:

	1.1.2012	Allocation	Release	Use	31.12.2012
Provision for litigation claims	(1 463)	(2 014)	0	740	(2 737)
Provision for off-balance sheet liabilities	(809)	(2 821)	2 816	0	(814)
Other provisions	0	(1 357)	0	0	(1 357)
Total	**(2 272)**	**(6 192)**	**2 816**	**740**	**(4 908)**

Movements in provisions for liabilities as at 31 December 2011:

	1.1.2011	Allocation	Use/ Release	Use	31.12.2011
Provision for litigation claims	(563)	(900)	0	0	(1 463)
Provision for off-balance sheet liabilities	(992)	(1 903)	2 137	0	(809)
Total	**(1 555)**	**(2 803)**	**2 137**	**0**	**(2 272)**

Provisions for Litigation Claims

In the ordinary course of business, the Bank is subject to legal actions and disputes. Each dispute is subject to special monitoring and regular re-assessment as part of the Bank's standard procedures. If it is probable that the Bank will be required to settle a claim and a reliable estimate of the amount can be made, provisions are recorded. The Bank will release the recorded provisions in the event of a final resolution of a dispute that was decided in the Bank's favour. The total provision for litigation claims as at 31 December 2012 amounts to EUR 2 737 thousand, which is the principal and default interest (31 December 2011: EUR 1 463 thousand).

On 8 June 2009, a litigation was initiated against the Bank by a former client. The subject matter of the litigation is a motion to release unjust enrichment and the settlement of damages in the total amount of EUR 162 million.

On 17 May 2010, the District Court Bratislava I issued a court decision ordering the Bank to settle EUR 138.9 million with respect to the claim made by the former client. The court dismissed any further action. On 28 June 2010, a court decision was issued ordering the Bank to settle EUR 15.2 million as a reimbursement for the plaintiff's court costs. The Bank has appealed against both non-binding first instance court decisions.

The Regional Court in Bratislava as the court of appeal has dismissed the first instance non-binding decisions of the District Court Bratislava I. The case was returned to the first instance court. The appeal court dismissed the arguments of the District Court Bratislava I. According to the appeal court, the first-instance court did not determine the facts of the case to the required extent and also failed to consider the legal merit of the case correctly. The legal opinion of the appeal court will be binding for the first instance court in further proceedings.

On 25 February 2011, the plaintiff used the institute of appellate review against the decision of the Regional Court at the Supreme Court of the Slovak Republic and also gave rise to the General Prosecution of the Slovak Republic file for an extraordinary appellate review at the Supreme Court of the Slovak Republic. On 22 August 2011, the General Prosecution refused to file for the extraordinary appellate review at the Supreme Court of the Slovak Republic as the conditions for exercising the extraordinary appellate review were not met. By the decision of 18 June 2012, the Supreme Court of the Slovak Republic rejected the appeal of the plaintiff and by another resolution dated 11 October 2012 ordered the plaintiff to pay the appellate review costs to the Bank.

The dispute in question is a complex legal issue and the outcome of the lawsuit as at the preparation date of these financial statements is uncertain; it is thus not possible to estimate the final outcome with sufficient probability. However, the Bank's management believes that it has sufficient arguments to defend its position in the dispute. Therefore, it did not create any provisions for the lawsuit as at 31 December 2012.

Provisions for Off-Balance Sheet Liabilities

The Bank recognises provisions for off-balance sheet loan commitments, granted guarantees, and contingent liabilities. The provisions are assessed by the Bank similarly to loans to customers, reflecting the existing financial situation and activities of the entity to which the Bank granted a guarantee or a loan commitment, and the value of received collateral.

Other Provisions

The Bank made provisions in the amount of EUR 1 357 thousand resulting from the restructuring of the branch network and the planned early termination of certain lease contracts.

20. Subordinated Debt

	31.12.2012	31.12.2011
Subordinated debt	46 961	47 446
Total	**46 961**	**47 446**

The summary of individual received subordinated debts is as follows:

Subordinated debt received from:	**Dexia Kommunalkredit Bank A.G., Vienna**			
Amount of loan in EUR	19 916 351.32	8 298 479.72	10 000 000	6 300 000
Total interest rate	2.53%	5.23%	7.19%	6.78%
Date of contract	29.9.2005	27.6.2007	26.9.2008	10.10.2008
Drawings	30.9.2005	29.6.2007	29.9.2008	14.10.2008
Maturity	2.1.2018	2.1.2018	2.1.2018	2.1.2018

The Bank uses subordinated debt as a tool for the management of its capital adequacy. The subordination clause complies with the wording of the Commercial Code whereby both parties agree and undertake that a creditor's receivable under the contract will be settled only after other creditors' receivables are satisfied in the event of the debtor's bankruptcy or liquidation.

Under the Share Purchase Agreement made between Penta Investments Limited and Dexia Kommunalkredit Bank AG Vienna, it was agreed that Penta Investments Limited assumes 50% of the subordinated debt, including interest, on the first business day in 2013. Dexia Kommunalkredit Bank AG Vienna remains the creditor of the remaining 50% of the subordinated debt, including interest, until 2 January 2018.

21. Equity

	31.12.2012	31.12.2011
Share capital	64 906	64 906
Share premium funds	0	37 266
Legal reserve fund	0	9 175
Other capital funds	46 000	95 643
Revaluation reserves	(12 620)	(15 866)
Profit/loss from the previous years	(8 140)	(92 524)
Profit/loss from the current year	(8 283)	(11 700)
Total	**81 863**	**86 900**

In accordance with the valid Articles of Association, the Management Board of Prima Banka decided in December 2012 to use share premium funds, the legal reserve fund and other capital funds to cover losses from previous years in the total amount of EUR 96 084 thousand.

Share Capital

	31.12.2012		31.12.2011	
Face value of shares	**No. of shares**	**in EUR´000**	**No. of shares**	**in EUR´000**
Face value of EUR 399 per share	100 200	39 980	100 200	39 980
Face value of EUR 67 per share	100 200	6 713	100 200	6 713
Face value of EUR 5 per share	701 400	3 507	701 400	3 507
Face value of EUR 1 per share	14 705 882	14 706	14 705 882	14 706
	15 607 682	**64 906**	**15 607 682**	**64 906**

Legal Reserve Fund

In accordance with the valid Articles of Association, the Management Board of Prima Banka decided in December 2012 to use the legal reserve fund in the amount of EUR 9 175 thousand to cover losses from previous years.

Other Capital Reserves

Other capital reserves include a fund to cover bank risks that was established by Prima banka in 2004 from profit distribution. The purpose of the fund is to cover bank risks arising from the Bank’s business activities. Another item included in “Other capital reserves” is a cash contribution in the amount of EUR 90 million made by the previous majority shareholder to the Bank's other capital reserves at the end of 2008.

In accordance with the valid Articles of Association, the Management Board of Prima Banka decided in December 2012 to use other capital reserves in the amount of EUR 49 643 thousand to cover losses from previous years.

Revaluation Reserves

	31.12.2012	31.12.2011
Securities available for sale	(15 462)	(18 314)
Deferred tax for securities available for sale	3 556	3 480
Cash flow hedge	(927)	(1 274)
Deferred tax from cash flow hedge	213	242
Total	**(12 620)**	**(15 866)**

The revaluation reserve includes an unrealised revaluation of financial assets available for sale including a deferred tax.

Since 2009, the revaluation reserve has also included gains (losses) on the revaluation of a hedge instrument used by Prima banka to hedge against the variability of cash flows for granted long-term loans. In June 2011, the Bank terminated the hedging against the variability of cash flows for recognised long-term loans with a floating interest rate. The reserve is gradually amortised do the statement of comprehensive income until the maturity of financial assets that were the hedging instruments. In 2012, the Bank also reduced the amount of the provision by EUR 194 thousand due to early maturity of hedged loans.

In 2011, the Bank transferred securities from the available-for-sale financial assets portfolio to the held-to-maturity financial assets portfolio in the total amount of EUR 263 602 thousand. In this regard, the Bank recognises in its revaluation reserves the revaluation amount as at the transfer date of the securities to the held-to-maturity financial assets portfolio.

The aforementioned provision is gradually amortised in the statement of comprehensive income until the maturity of the transferred securities.

Proposed Distribution of Loss for 2012

	in EUR´000
Transfer of loss into profit/loss of previous periods	(8 283)
Accumulated loss for 2012	**(8 283)**

The distribution of the 2012 loss is subject to the approval of the General Meeting of Prima banka.

22. Net Interest Income

	31.12.2012	**31.12.2011**
Interest and similar income on:	**72 201**	**96 261**
Balances with central banks	234	374
Due from banks	1 215	2 165
Loans and advances to customers	53 425	64 137
Financial assets held for trading	0	3
Financial assets at fair value through profit and loss	1 417	1 440
Financial assets available for sale	77	9 468
Financial assets held to maturity	14 536	3 873
Derivatives	1 297	14 801
Interest and similar expense for:	**(34 051)**	**(55 736)**
Loans and deposits received from central banks	(2 000)	(467)
Due to banks	(385)	(3 785)
Customer deposits	(25 049)	(27 983)
Debt securities	(2 915)	(4 710)
Derivatives	(2 071)	(16 730)
Subordinated debt	(1 631)	(2 061)
Net interest income	**38 150**	**40 525**

23. Net Fee and Commission Income

	31.12.2012	31.12.2011
Fee and commission income on:	**16 244**	**16 288**
Payment services	12 130	11 554
Lending activities	3 695	4 237
Transactions with securities	162	275
Other banking services	257	222
Fee and commission expense for:	**(2 411)**	**(2 771)**
Payment services	(1 265)	(1 579)
Lending activities	(139)	(659)
Transactions with securities	(61)	(44)
Other banking services	(946)	(489)
Net fee and commission income	**13 833**	**13 517**

24. Net Trading Income (Expense)

	31.12.2012	31.12.2011
Loans and advances to customers	447	(2 169)
Due to other banks	155	564
Financial assets held for trading	0	4
Financial assets at fair value through profit and loss	896	(2 525)
Financial assets available for sale	0	4 048
Derivatives	(1 458)	(2 141)
Deposits measured at fair value through profit or loss	(31)	131
Exchange rate differences	1 014	740
Total	**1 023**	**(1 348)**

25. Net Income (Expense) on Investments

	31.12.2012	31.12.2011
Net loss from securities	(430)	(338)
Net loss from sale of non-current assets	(66)	(61)
Net income (loss) from assigned receivables	(1)	2 585
Total	**(497)**	**2 186**

26. Other Income

	31.12.2012	31.12.2011
Income from operating lease	205	260
Other non-banking income	0	6
Expenses for other operations	(19)	(22)
	186	**244**

27. Deposit Protection Fund and Special Levy on Banking Institutions

Deposit Protection Fund	(1 044)	(2 051)
Special levy on banking institutions	(6 108)	0
Total	**(7 152)**	**(2 051)**

Since 1 January 2012, the Bank has to pay a special levy, ie a bank tax, of the amount of selected liabilities defined under Act No. 384/2011 Coll. on a Special Levy on Selected Financial Institutions and on the Supplementation of Some Acts. In connection with the change to that Act, the Bank did not pay the contribution into the Deposit Protection Fund for Q3 and Q4 as the contribution for these periods was zero.

28. General and Administrative Expenses

	31.12.2012	31.12.2011
Personnel expenses	**(16 787)**	**(22 473)**
Wages and salaries*	(12 295)	(17 111)
Social security costs	(3 905)	(4 464)
Other personnel costs	(587)	(899)
Depreciation	**(5 378)**	**(8 109)**
Depreciation of non-current tangible assets	(3 516)	(5 229)
Depreciation of non-current intangible assets	(1 862)	(2 880)
Purchased output and services	**(21 692)**	**(22 444)**
Taxes and fees	(133)	(172)
Rental and costs of investment technology	(7 425)	(9 456)
Marketing, advertising and other services	(5 966)	(3 993)
Audit costs and related services	(207)	(266)
Other purchased output and services	(4 590)	(7 657)
Use of/(allocation to) provisions on litigation claims	(2 014)	(900)
Creation of other provisions	(1 357)	0
Total	**(43 857)**	**(53 026)**

* Including salaries and bonuses to members of the Management Board and Board of Directors.

Prima banka has no pension arrangements other than the state pension system of the Slovak Republic. Pursuant to Slovak legal regulations, an employer is obliged to pay contributions to social security, health insurance, medical insurance, accident insurance, unemployment insurance, and contributions to a guarantee fund set as a percentage of the gross salary. These expenses are charged to the statement of comprehensive income in the period in which the employee was entitled to a salary.

The Bank contributes to a defined contribution supplementary pension plan administered by a private pension fund, based on the employment period of the employee. No liabilities arise to the Bank from the payment of pensions to employees in the future. Supplementary pension insurance expenses amounted to EUR 119 thousand as at 31 December 2012 (2011: EUR 161 thousand).

29. Net Allocation to Provisions

	31.12.2012	31.12.2011
Net additions to provisions for liabilities and provisions for loans to customers	**(11 785)**	**(12 059)**
Creation of specific provisions for loans to customers	(3 777)	(12 440)
(Creation)/ use of portfolio provisions for loans to customers	(7 839)	792
Reversal of portfolio provisions for loans and deposits with other banks	6	22
Creation of provisions for financial assets held to maturity	(170)	(667)
(Creation)/ use of provisions for off-balance sheet exposures	(5)	234
Net loss on write-off of receivables	**(1 994)**	**(2 460)**
Net allocation to provisions	**(13 779)**	**(14 519)**

More information on provisions for loan losses and provisions for off-balance sheet liabilities is disclosed in Note 3c) and information on provisions for off-balance sheet liabilities is disclosed in Note 19.

30. Income Tax

	31.12.2012	31.12.2011
Current income tax	0	(1)
Deferred income tax	4 082	2 773
Total	**4 082**	**2 772**

Theoretical Tax

The tax on the Bank's pre-tax result differs from the theoretical tax that would arise from the income tax rate of 19% valid in the Slovak Republic (2011: 19%):

	31.12.2012	31.12.2011
Loss before tax	**(12 092)**	**(14 472)**
Theoretical tax at tax rate of 19% (income)	**(2 297)**	**(2 750)**
Tax-exempt income	(1 289)	(466)
Tax non-deductible expenses	1 938	445
Effect of an increase of the tax rate	(2 161)	0
Total income tax expense/(income)	**(3 089)**	**(2 772)**
Effective tax rate	**25.50%**	**19%**

Deferred Income Tax

The treatment of the recognition of deferred tax assets and liabilities in the Bank is conservative. Deferred tax assets and liabilities are calculated on temporary differences using the tax rate applicable for the coming years – 23% (2011:19%).

The result of the recognised deferred tax asset and deferred tax liability was as follows:

	Temporary difference		Deferred tax		Impacts in 2012	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	expenses/ income	equity
Deferred tax asset, of which:	**70 422**	**64 955**	**16 197**	**12 341**	**3 808**	**48**
Receivables from loans and securities	46 122	39 655	10 608	7 534	3 074	0
Short-term payables	6 079	4 365	1 398	829	569	0
Provisions for liabilities	732	809	169	154	15	0
Non-current tangible assets	1 035	368	238	70	168	0
Short-term receivables	65	171	15	32	(17)	0
Current revaluation of hedging derivatives	927	1 273	213	242	0	(29)
Current revaluation on securities available for sale	15 462	18 314	3 556	3 480	0	77
Deferred tax liabilities, of which:	**0**	**(8)**	**0**	**(1)**	**1**	**0**
Short-term receivables	0	(8)	0	(1)	1	0
Total	**x**	**x**	**16 197**	**12 340**	**3 809**	**48**

Since 2008, the Bank has recognised a significant provision that was created as tax non-deductible. As the Bank considers it a permanent difference, it does not recognise in the financial statements as at 31 December 2012 a deferred tax asset for this provision in the amount of EUR 18 861 thousand (31 December 2011: EUR 18 861 thousand). As at 31 December 2012, the Bank also did not recognise a differed tax asset in the amount of EUR 7 200 thousand arising from the possibility of carrying forward tax losses suffered in previous periods (31 December 2011: EUR 6 364 thousand), due to their uncertain utilisation in future reporting periods.

31. Net Earnings (Loss) per Share

	31.12.2012	31.12.2011
Net profit/(loss) for current period (EUR ‘000)	(8 283)	(11 700)
Number of issued shares with face value EUR 399	100 200	100 200
Number of issued shares with face value EUR 67	100 200	100 200
Number of issued shares with face value EUR 5	701 400	701 400
Number of issued shares with face value EUR 1	14 705 882	14 705 882
Net loss per share - with face value EUR 399	(51)	(72)
Net loss per share - with face value EUR 67	(9)	(12)
Net loss per share - with face value EUR 5	(1)	(1)
Net loss per share - with face value EUR 1	0	0

32. Information on Statement of Cash Flows

In respect of the statement of cash flows, cash equivalents include the following items, whose maturity is up to three months:

	31.12.2012	31.12.2011
Cash	53 227	33 230
Balances with central banks	82 335	31 636
Current accounts in other banks	895	399
Term deposits in banks of up to 3 months	60 001	117 810
Total	**196 458**	**183 076**

33. Contingent Liabilities and Other Off-Balance Sheet Items

Off-balance Sheet Assets

	31.12.2012	31.12.2011
Receivables from spot transactions	45	40 830
Guarantees received	54 695	57 437
Loan commitments - received	500 000	680 000
Received collateral from pledge, security and other rights	827 846	904 825
Total	**1 382 586**	**1 683 092**

Off-balance Sheet Liabilities

	31.12.2012	31.12.2011
Payables from spot transactions	45	40 829
Guarantees given	24 786	55 918
Loan commitments and unused credit facilities	63 656	106 164
Given guarantees from pledge, security and other rights	501 372	488 913
Assets received in custody	27 613	56 235
Total	**617 472**	**748 059**

The risk associated with off-balance sheet loan commitments, issued guarantees and contingent liabilities is assessed similarly as loans to customers, reflecting also the financial situation and activities of the entity to which the Bank granted the guarantee as well as the value of the received collateral. As at 31 December 2012, provisions recorded for off-balance sheet exposures amounted to EUR 814 thousand (31 December 2011: EUR 809 thousand), see Note 19 in this Chapter.

Issued Guarantees
Guarantees issued to customers constitute Prima banka's obligation to make payments when its customers are not able to meet their obligations to third parties.

Issued Letters of Credit
Issued letters of credit represent a written commitment given by Prima banka, which acts based on a buyer's instructions, to pay a certain amount of money to a seller upon presentation of documents that qualify for a letter of credit.

Loan Commitments and Unused Credit Facilities
Loan commitments and unused credit facilities comprise approved but unused amounts of loans and overdraft facilities.

Assets Received in Custody
Assets received from clients in custody are not in the Bank's possession and are thus not included in the Bank's assets. Income on assets in custody is recognised in the comprehensive income statement of comprehensive income as *"Net fee and commission income"*.

34. Residual Maturity of Derivatives

All derivatives are traded on the over-the-counter market. A summary of derivatives with positive fair values is stated in Note 7 and derivatives with negative fair values are stated in Note 17 of this chapter.

The following summary shows the residual maturity of the derivatives' face value as at 31 December 2012:

	Up to 1 year	1 to 5 years	More than 5 years	Total
Interest rate transactions	**60 524**	**6 660**	**0**	**67 185**
Interest rate swaps	60 524	6 660	0	67 185
Currency transactions	**25 496**	**0**	**0**	**25 496**
Currency swaps	16 778	0	0	16 778
Currency forwards	48	0	0	48
Currency options - purchased	8 670	0	0	8 670
Total assets	**86 020**	**6 660**	**0**	**92 680**
Interest rate transactions	**60 524**	**6 660**	**0**	**67 184**
Interest rate swaps	60 524	6 660	0	67 184
Currency transactions	**25 570**	**0**	**0**	**25 570**
Currency swaps	16 852	0	0	16 852
Currency forwards	48	0	0	48
Currency options - purchased	8 670	0	0	8 670
Total liabilities	**86 094**	**6 660**	**0**	**92 754**
Net derivatives	**(74)**	**0**	**0**	**(74)**

The following summary shows the residual maturity of the derivatives' face value as at 31 December 2011:

	Up to 1 year	1 to 5 years	More than 5 years	Total
Interest rate transactions	**102 439**	**116 833**	**74 304**	**293 576**
Interest rate swaps	102 439	116 833	74 304	293 576
Currency transactions	**30 210**	**8 305**	0	**38 515**
Currency swaps	30 210	0	0	30 210
Currency options - purchased	0	8 305	0	8 305
Total assets	**132 649**	**125 138**	**74 304**	**332 091**
Interest rate transactions	**102 439**	**116 833**	**74 304**	**293 576**
Interest rate swaps	102 439	116 833	74 304	293 576
Currency transactions	**30 246**	**8 305**	0	**38 551**
Currency swaps	30 246	0	0	30 246
Currency options - purchased	0	8 305	0	8 305
Total liabilities	**132 685**	**125 138**	**74 304**	**332 127**
Net derivatives	**(36)**	**0**	**0**	**(36)**

35. Fair Value of Financial Instruments

Financial Instruments Recognised at Fair Value

The fair value of financial instruments is the amount of money for which an asset can be exchanged or a liability settled in an arm's length transaction at usual prices between informed and willing parties. If market prices are available (in this case mainly for securities and derivatives traded on stock exchange and on active markets), the estimate of fair value is derived from market prices. All other financial instruments were valued using intra-valuation models.

The following table presents an overview of the financial instruments recognised at fair value and classified in levels 1 - 3 based on the determination of their fair values as at 31 December 2012:

	Level 1*	Level 2**	Level 3***	Total
Financial assets at fair value through profit and loss	31 520	0	0	31 520
Financial assets available for sale	10 308	70	21	10 399
Net positive value of derivatives	0	493	83	576
Financial assets at fair value	**41 828**	**563**	**104**	**42 495**
Deposits measured at fair value through profit and loss	0	0	5 053	5 053
Net negative value of derivatives	0	214	4 098	4 312
Financial liabilities at fair value	**0**	**214**	**9 151**	**9 365**

The following table presents an overview of the financial instruments recognised at fair value and classified in levels 1 - 3 based on the determination of their fair values as at 31 December 2011:

	Level 1*	Level 2**	Level 3***	Total
Financial assets at fair value through profit and loss	31 088	0	0	31 088
Financial assets available for sale	9	70	21	100
Net positive value of derivatives	0	2 622	1 279	3 901
Financial assets at fair value	**31 097**	**2 692**	**1 300**	**35 089**
Deposits measured at fair value through profit and loss	0	0	7 624	7 624
Net negative value of derivatives	0	7 087	3 909	10 996
Financial liabilities at fair value	**0**	**7 087**	**11 533**	**18 620**

Note:
*Level 1 - derived from quoted prices in active markets
** Level 2 - derived from active markets other than prices for identical assets or liabilities
*** Level 3 - inputs for assets or liabilities, which are not based on observable market data (unobservable data)

Financial Instruments at Amortised Cost

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

Comparison of fair value and carrying amount of financial instruments carried at amortised cost:

	Fair value 31.12.2012	Carrying amount 31.12.2012	Difference	Fair value 31.12.2011	Carrying amount 31.12.2011	Difference
Cash	53 227	53 227	0	33 230	33 230	0
Balances with central banks	82 335	82 335	0	31 636	31 636	0
Loans and deposits with other banks	113 728	113 045	683	129 527	129 527	0
Loans and advances to customers	1 395 887	1 139 287	256 600	1 359 004	1 224 494	134 510
Financial assets held to maturity	532 142	507 960	24 182	416 251	419 381	(3 130)
Financial assets	**2 177 319**	**1 895 854**	**281 465**	**1 969 648**	**1 838 268**	**131 380**
Loans and deposits received from central banks	233 898	233 898	0	14 004	14 004	0
Due to other banks	28 383	32 888	(4 505)	48 677	47 262	1 415
Customer deposits	1 485 336	1 464 156	21 180	1 583 896	1 551 590	32 306
Issued mortgage bonds	80 168	78 087	2 081	114 869	112 345	2 524
Subordinated debt	56 066	46 961	9 105	54 104	47 446	6 658
Financial liabilities	**1 883 851**	**1 855 990**	**27 861**	**1 815 550**	**1 772 647**	**42 903**

The calculation of the fair values of assets and liabilities stated at amortised cost is based on market interest rates adjusted for credit spreads. This method is applied in the valuation of each planned cash flow pursuant to contracts concluded with counterparties. For assets for which the fair value is available, the valuation is based on such value.

The calculation takes into account current interest rates, currency exchange rates, and credit spreads. Interest rates and currency exchange rates are provided by Thomson Reuters. The curve is projected as follows: for the period of up to one year, Money Market rates are applied; for periods of over one year, swap rates are applied. Credit spreads are calculated as a product of PD (probability of default) and LGD (loss given default).

Fair values of financial instruments at amortised cost were determined for the purposes of the presentation of the financial statements for general use. Information on the fair value of these instruments cannot be used for the purpose of any specific transaction of purchase or sale or for the sale of these financial instruments. The users of the financial statements should not rely on these financial statements when assessing the fair value of financial instruments at amortised cost as the only source of information.

Average Interest Rates Per Annum

	2012	2011
Loans and deposits with other banks	0.35%	1.53%
Loans and advances to customers	4.15%	3.56%
Securities	3.03%	2.78%
Assets total	**3.45%**	**3.23%**
Loans and deposits with other banks	1.01%	1.72%
Customer deposits	1.71%	1.54%
Debt securities	3.11%	3.32%
Subordinated debt	4.76%	4.75%
Liabilities total	**1,77%**	**1,72%**

36. Capital Management

Own Funds

Regulatory capital represents Prima banka's own funds intended for covering unexpected losses resulting from financial risks to which the Bank is exposed. It is calculated in accordance with the NBS's decree in force and serves for the capital adequacy calculation in accordance with the NBS's decree. In accordance with the NBS's decree, regulatory capital must cover particular capital requirements on the credit risk of the Trading and Banking Books, the market risk of the Trading and Banking Books (the interest-rate and currency risks), and operational risk.

Capital management is aimed to monitor and simulate regulatory capital requirements over 10.5% of capital adequacy and Tier I should be at least 9% as recommended by the NBS to ensure a sufficient capital buffer for unexpected events.

Prima banka's Management Board is informed of the status and expected development of this parameter along with other capital stability parameters, which are classified in the Bank's system of risk appetite parameters, and necessary actions are taken on time to comply with the set parameters.

Prima banka's own funds represent a sum of original and additional own funds reduced by deductible items. Original own funds consist of paid-up share capital, share premiums, funds created from profit after tax, and retained earnings from previous years. Original own funds are reduced by both the net book value of immovable assets and profit/loss to be approved, provided that the loss or loss from previous years was recognised. Additional own funds consist of accepted subordinate debts. Prima banka does not create supplementary own funds.

Prima banka's own funds as at 31 December 2012 and 31 December 2011are stated in the table below:

	31.12.2012	31.12.2011
Original own funds (Tier I Capital)	**92 543**	**101 951**
Items creating the amount of original own funds	**110 906**	**206 990**
Paid-up share capital	64 906	64 906
Share premium	0	37 266
Legal reserve fund and other funds created from profit	0	14 818
Other capital funds	46 000	90 000
Items reducing the amount of original own funds	**18 363**	**105 039**
Loss for the current year	8 283	11 700
Accumulated loss of previous years	8 140	92 524
Net book value of intangible assets	1 940	776
Financial instruments from the portfolio of financial instruments available for sale measured at fair value	0	39
Additional own funds (Tier II Capital)	**44 539**	**44 534**
Items creating the value of additional own funds	**44 539**	**44 534**
Subordinated debts	44 515	44 515
Positive revaluation reserve of financial instruments from the portfolio of financial instruments available for sale measured at fair value, net of income tax	24	19
Own funds total	**137 082**	**146 485**

Prima banka complied with regulatory requirements under the NBS's decree in 2012. As at 31 December 2012 the Bank's capital adequacy reached 16.33% (2011: 13.66%).

The amount of the Bank's own funds and requirements on its regulatory capital as at 31 December 2012 and as at 31 December 2011 is stated in the table below:

	31.12.2012	31.12.2011
Own funds required to cover credit risk and risk of impairment of receivables (standardised approach)	59 610	77 925
Own funds required to cover the risk of debt financial instruments, risk of capital instruments, FX risk and commodity risk (simplified approach)	0	83
Own funds required to cover the risk of a business partner	0	51
Own funds required to cover operational risk (standardised approach)	7 530	7 757
Own funds required	**67 140**	**85 816**

37. Risk Management

1. Credit Risk

a) Information on Credit Risk Policy, Objectives and Management

The fundamental goal in defining the credit risk management strategy of Prima banka is to optimise the amount of accepted risks in line with the capital coverage amount and to maintain the sustainable profit generation over a long-term period. The Bank has established a separate organisational unit at the Risk Management Division to identify, measure, monitor, and minimize credit risk, which is independent from dealing and settlements. The whole process is subject to the approved Risk and Capital Management Strategy, which is regularly reassessed in line with changes in the Slovak banking market. Lending is subject to the rules arising from the strategy and risk parameters and limits for issuing new loans are strictly observed by members of credit approval bodies, the Bank's management, on the basis of regular reporting. Customer data are permanently monitored and assessed.

With a view to ensuring the correct monitoring, quantification, reporting and management of credit risks, customers have been assigned to risk segments. Exposure limits have been set in respect of both the defined segments and individual customers.

The following table outlines the maximum amount of credit risk without considering received collateral:

Credit risk related to balance sheet assets:	**31.12.2012**	**31.12.2011**
Balances with central banks	82 335	31 636
Loans and deposits with other banks	113 045	129 527
Loans and advances to customers	1 139 287	1 224 494
Financial assets at fair value through profit or loss	31 520	31 088
Available-for-sale financial assets	10 399	100
Financial assets held to maturity	507 960	419 381
Positive fair value of derivatives	576	3 901
Tax assets	16 197	12 340
Other assets	1 715	2 525
Total	**1 903 034**	**1 854 992**

Credit risk related to off-balance sheet items:	**31.12.2012**	**31.12.2011**
Issued guarantees	24 786	55 918
Loan commitments and unused credit facilities	63 656	106 164
Total	**88 442**	**162 082**

Summary of individual types of received collateral for financial assets in eligible amounts:

	31.12.2012	**31.12.2011**
To cover granted loans	**827 846**	**904 825**
Cash	36 524	49 882
Securities	17 895	763
Immovable assets	693 102	754 710
Movable assets	80 325	99 470
To cover debt securities	**39 518**	**39 549**
Guarantees	39 518	39 549
Collateral received for financial assets	**867 364**	**944 374**

Summary of individual types of received collateral for contingent liabilities and other off-balance sheet items in eligible amounts:

	31.12.2012	**31.12.2011**
Issued guarantees	3 110	527
Loan commitments and unused credit limits	27 183	32 037
Received collateral for contingent liabilities and other off-balance sheet items	**30 293**	**32 564**

b) Description of Credit Risk Measurement and Monitoring Methods

Credit risk is the fundamental and most significant bank risk; therefore, its management has a critical impact on Prima banka's results. In order to minimise credit risk, Prima banka uses various instruments to collateralise credit transactions and focuses on activities involved in identifying and handling risks arising in credit risk mitigation. Through its internal procedures, Prima banka defines activities to be performed in the valuation and acceptance of collateral instruments.

Prima banka uses its own rating system to assess customer creditworthiness, which is based on the assessment of the customer's financial and non-financial results. Prima banka has developed a specific system for assessing corporate, municipal, retail and sole trader customers. A customer is assigned to one of 17 risk groups based on strictly-defined critical values. The credit scores are subject to annual reassessment and revised as and when needed, based on a decision of the Credit Committee.

Characteristics of individual rating levels are provided in the following summary:

Rating scale	Characteristics
AAA	The highest rated entities with small risk and an extremely-strong capacity to meet their financial commitments.
AA+ **AA** **AA-**	Highly-rated entities with very-strong capacity to meet their financial commitments, with minor risk over long-term period. It differs from the AAA rating to a small degree.
A+ **A** **A-**	Highly-rated entities with strong capacity to meet their financial commitments, with recommended monitoring of future risk in the medium- and long-term period.
BBB+ **BBB** **BBB-**	Creditworthy entities with adequate capacity to meet their financial commitments, but susceptible to adverse economic conditions or changing circumstances.
BB+ **BB** **BB-**	Entities with sufficient capacity to meet their present liabilities, likely to be significantly affected by adverse economic conditions or changing circumstances.
B+ **B**	Entities with vulnerable capacity to meet their financial commitments, with risky future.
B- **CCC**	Highly-risky and unstable entities with very small likelihood of meeting their financial commitments.

The tools intended to minimise credit risk have been stipulated in Prima banka as follows:

1. Active monitoring
2. Early identification of non-performing loans
3. Rating scale expressing probability of a borrower's default
4. Lending procedures
5. Credit security (bank price fixing)
6. Internal review
7. Credit limits system
8. Black list, watch list and information obtained from the Credit Registry and Social Insurance Company.

Quality of loans and deposits with other banks that are not impaired and that are not overdue according to the Bank's internal rating:

	31.12.2012	31.12.2011
Loans and deposits with other banks	**113 045**	**129 527**
of which:		
Rating AA	0	2
Rating AA-	209	10 067
Rating A+	7 440	11 804
Rating A	62	20 023
Rating A-	60 013	60 018
Rating BBB+	17	27 466
Rating BBB-	4	4
Rating BB+	0	4
Rating BB	45 300	139

Quality of loans and advances to customers that are not impaired and that are not overdue according to the Bank's internal rating:

	31.12.2012	31.12.2011
Loans and advances to customers	**792 619**	**852 440**
of which: government and municipalities:	**429 132**	**514 373**
Rating AAA	0	60
Rating AA+	549	215
Rating AA	1 797	1 276
Rating AA-	4 276	2 171
Rating A+	5 922	13 537
Rating A	19 844	20 392
Rating A-	8 386	17 963
Rating BBB+	67 156	13 097
Rating BBB	17 716	19 287
Rating BBB-	49 398	32 417
Rating BB+	72 861	54 339
Rating BB	81 196	88 314
Rating BB-	60 746	50 740
Rating B+	18 576	100 418
Rating B	12 923	95 476
Rating B-	7 726	4 308
Rating CCC	60	363

Quality of loans and advances to customers that are not impaired and that are not overdue according to the Bank's internal rating - continued:

	31.12.2012	31.12.2011
of which: other enterprises:	**363 488**	**338 067**
Rating AAA	399	684
Rating AA+	1 381	1 194
Rating AA	1 879	20 110
Rating AA-	9 303	9 463
Rating A+	16 625	31 341
Rating A	38 322	12 514
Rating A-	14 445	34 031
Rating BBB+	18 331	45 298
Rating BBB	21 889	24 407
Rating BBB-	26 552	30 564
Rating BB+	10 451	15 472
Rating BB	176 308	74 514
Rating BB-	14 037	12 333
Rating B+	3 873	9 064
Rating B	4 074	8 111
Rating B-	2 994	5 838
Rating CCC	2 625	3 129

Credit risk associated with the securities portfolio is low as the majority of purchased debt securities are government bonds issued by the Slovak Republic. As at 31 December 2012, the exposure to corporate and bank debt securities amounts to EUR 53 089 thousand (31 December 2011: EUR 57 855 thousand).

Credit risk associated with transactions with derivative instruments is managed by allocating TFM credit lines based on the customer's financial standing. Credit risk is minimised by receiving cash collateral.

c) Risk Monitoring - Limit Setting

Prima banka monitors and evaluates limits for a counterparty and the use of such limits on a daily basis. The Bank reviews whether the limits have been met or exceeded and decides on further steps pursuant to internal rules. Limits are set by segment, sector, product and collateral.

The Bank is required to ensure on an on-going basis that its assets exposure net of the effects of credit risk mitigation, including the date of origin of assets exposure, does not exceed one of the higher values, ie 25% of the Bank's regulatory capital or the limit for banks or bank groups towards an entity that is an institution, and towards the group of economically-linked parties where at least one of the parties is an institution, if the sum of values of the Bank's assets exposures net of the effects of credit risk mitigation towards all other parties that are members of the group of economically-linked parties and that at the same time are not institutions, does not exceed 25% of the Bank's regulatory capital.

The share of the Bank's assets exposure to the Bank's regulatory capital towards a related party may not exceed 2% in the case of a private individual or 10% in the case of a legal entity, except for a bank with its seat in the state defined pursuant to Article 221 paragraph 1 (a) of Decree of the National Bank of Slovakia No. 4/2007. The share of the Bank's assets exposure to the Bank's regulatory capital towards all related parties is stipulated in the amount capped at 40%.

A bank limit: Prima banka monitors and evaluates compliance with limits for bank entities separately. Limits are set as an absolute maximum amount of exposure to the relevant counter party.

A country limit: Prima banka monitors and evaluates compliance with country limits separately. Limits are set as an absolute maximum amount of exposure to the relevant counter party.

d) Risk of Credit Risk Concentration – Procedures and Methods Used for Credit Risk Concentration Hedging

For the purposes of the Bank's credit risk management strategy and related banking instructions Prima banka understands concentration risk as a risk arising from concentrating the Bank's transactions (assets exposure) with an individual, group of economically-related parties, state, geographic area, or economic sector.

As credit risks are the most significant risks in the banking business, all limits of asset exposure are expressed as shares in the Bank's own funds, which limit the exposure in relation to the size of the Bank. The upper limit of the total exposure of the Banking and Trading Books corresponds with the limits stipulated by the Banking Act and NBS's Decree.

The table below provides an analysis of the credit risk exposure by industry segment as at 31 December 2012 and 31 December 2011:

	31.12.2012	**31.12.2011**
Agriculture, forestry and fishing	6 655	7 618
Mining and quarrying	1 279	1 993
Manufacturing	10 709	15 901
Electricity, gas, steam and air conditioning supply	51 579	66 725
Water supply; sewerage and waste management	64 943	77 330
Construction	15 129	21 236
Wholesale and retail trade	65 929	37 285
Transportation and storage	8 824	28 064
Accommodation and food service activities	7 075	10 653
Information and communication	545	2 156
Financial and insurance activities	12 870	3 661
Real estate activities	42 832	50 219
Professional, scientific and technical activities	36 160	14 361
Administrative and support service activities	4 438	6 486
Public administration and defence; compulsory social security	437 163	523 743
Education	628	845
Human health and social work activities	1 285	1 557
Arts, entertainment and recreation	2 320	3 266
Other service activities	12 743	13 913
Activities of households as employers	356 181	337 482
Total	**1 139 287**	**1 224 494**

e) Identification of Impaired Assets (Predominantly Receivables)

In respect of impaired assets, Prima banka has stipulated related rules and procedures in its internal regulations. The rules of identifying impaired assets are based on the rules specified in the NBS's Decree, related internal regulations, and International Financial Reporting Standards.

The summary below provides an analysis of the unimpaired loan portfolio according to days overdue as at 31 December 2012:

	Within maturity	Up to 90 days	From 91 to 180 days	More than 1 year	Received collateral to defaulted loans
Loans and deposits with other banks	113 045	0	0	0	0
Loans and advances to customers, of which:	1 105 671	18 557	0	0	10 084
municipalities	429 132	206	0	0	0
other enterprises	363 487	6 042	0	0	3 815
individuals	313 052	12 309	0	0	6 269
Total	**1 218 716**	**18 557**	**0**	**0**	**10 084**

The summary below provides an analysis of the unimpaired loan portfolio by days overdue as at 31 December 2011:

	Within maturity	Up to 90 days	From 91 to 180 days	More than 1 year	Received collateral to defaulted loans
Loans and deposits with other banks	129 527	0	0	0	0
Loans and advances to customers, of which:	1 181 346	29 030	162	303	16 903
municipalities	514 161	742	0	0	0
other enterprises	338 685	20 906	162	303	11 292
individuals	328 500	7 382	0	0	5 611
Total	**1 310 873**	**29 030**	**162**	**303**	**16 903**

The summary below provides an analysis of the unimpaired loan portfolio as at 31 December 2012, including other receivables from financial transactions:

	Municipalities	Other enterprises	Individuals	Total
Valued on an individual basis – impaired loans	391	154 544	14 747	169 682
Specific provisions	127	128 406	11 993	140 526
Eligible amount of collateral received	100	35 220	2 894	38 214
% of coverage by provisions	32%	83%	81%	83%
% of coverage by provisions and received collateral	58%	106%	101%	105%
Interest income on impaired loans	x	x	x	1 529

The summary below provides an analysis of the unimpaired loan portfolio as at 31 December 2011, including other receivables from financial transactions:

	Municipalities	Other enterprises	Individuals	Total
Valued on an individual basis – impaired loans	462	138 706	17 489	156 657
Specific provisions	120	123 358	13 271	136 749
Eligible amount of collateral received	154	28 046	4 433	32 633
% of coverage by provisions	26%	89%	76%	87%
% of coverage by provisions and received collateral	59%	109%	101%	108%
Interest income on impaired loans	x	x	x	1 915

Restructuring

The Bank can modify the repayment terms of its loan receivables if the client's financial position is weak and the client would be unable to repay, within a specified period of time, its liabilities to the Bank.

For overdraft loans, the loan agreements may be transformed into instalment loans. In extraordinary circumstances, the overdraft loan can be extended but with the use of a gradual reduction. In the case of instalment loans, repayment schedules are modified due to the client's inability to keep the agreed-upon deadlines.

A carrying amount of loan receivables, whose contractual terms and conditions were amended due to their non-repayment or a customer's impaired financial standing in 2012 amounted to EUR 6 590 thousand. (31.12.2011: EUR 11 392 thousand).

The Bank sold pledged real estate received as collateral to cover its unrecovered receivables in the amount of EUR 1 680 thousand (31.12.2011: EUR 2 008 thousand). The Bank did not sell any pledge over movable objects (31.12.2011: EUR 0 thousand).

f) Description of the Procedures and Rules of Acceptable Collateral Acceptance and Valuation

The procedures and rules of collateral acceptance and valuation of received collateral have been specified in Prima banka's internal regulations. Collateral is used to minimise the Bank's credit risk and constitutes a secondary source of credit repayment. Collateral should guarantee repayment of the Bank's receivables arising from credit transactions if a borrower becomes insolvent due to the deterioration of his financial position. Collateral has both a financed and non-financed form.

Financed collateral means the right of lien (on immovable assets, movable assets, receivables, cash collateral, securities etc). The Bank accepts various forms of collateral depending on a borrower's creditworthiness and collateral quality. Prima banka determines individual acceptance values of collateral on the basis of professional experience and historical results.

Prima banka's right of lien on collateral instruments is constituted by a written agreement, which is an inseparable part of a loan agreement. The agreement contains terms and conditions, implementation process, and termination of the lien.

Non-financed collateral means a guarantee by third parties (state guarantee, bank guarantee, corporate guarantee, and personal guarantee). This collateral's effectiveness is based on a commitment of unconditional debt assumption if the primary borrower is in default. Such commitment is stipulated in a written agreement with the guarantor. Other instruments used by Prima banka to manage credit risk include a notarial deed, a promissory note, insurance, and a comfort letter.

The collateral held by Prima banka must comply with legal regulations, be enforceable in court, be of good quality, and comply with maximum liquidity requirements so that the yield from the collateral covers the highest possible amount of a customer's liabilities arising from the granted credit product. The collateral instruments held are listed in Note 33 and Note 37 (1).

When valuating collateral, Prima banka takes into consideration the collateral's general value set by a court expert in an expert opinion (immovable assets, movable assets), the book value maintained in the customer's accounting books (receivables, stock, new movable assets), and the market value (securities).

When accepting and valuing collateral, the following principles are applied:

- Collateral is always considered a secondary source of loan repayment.
- The required collateral amount/value depends on the level of accepted credit risk. Unsecured loans are typically used only for operational financing.
- Physical inspection of the collateral is performed by a front-office employee (predominantly in the case of commercial real estate) who is obligated to prepare a report on such inspection.
- A real estate collateral valuation is prepared by a court expert and revalued by a bank supervisor. The valuation of apartments and family houses is re-assessed by a bank supervisor in bulk according to selected locations.
- The real estate revaluation process depends on the development of the Slovak real estate market. Prima banka responds to significant changes in real estate market development by collateral revaluation (ie revaluates collateral held).
- The object of financing is usually required to be used as collateral.

2. Market Risk

a) Information on Market Risk Policy and Management

In Prima banka, market risk is reduced to interest and exchange rate risk. Share and commodity risk is not taken into account as Prima banka's approved strategy does not allow for purchasing such instruments for the Bank's portfolio because of the high risk.

Exposures in equities, which Prima banka includes in the Banking Book, are immaterial and are not held for capital gain purposes. When valuating these exposures, Prima banka uses an equity method or recognises them in their nominal value.

The market risk management system arises from the provisions of the Banking Act and related Decrees of the National Bank of Slovakia on bank prudent business, risk management, and bank liquidity management.

Market risk management rules in Prima banka are primarily specified in a set of internal documents that have been approved by the statutory body and contain the key targets, principles and procedures for market risk management. The responsibility for market risk management is assigned to the ALCO Committee, which makes necessary decisions based on the underlying data provided by the relevant departments.

Prima banka has adopted a uniform policy to value hedged and hedging financial instruments. The purpose of uniform valuation is to adopt the valuation of a hedging instrument and use it to revalue a hedging instrument in respect of a perfect hedge, ie the parameters of the hedging financial instrument are identical with those of a hedged financial instrument (principal, currency, term, date of origin and maturity, interest rate change, date and term of interest rate, principal and interest repayments etc).

In order to manage the Trading Book and the Banking Book and to measure and monitor market risk, Prima banka uses the Value at Risk method ("VaR"), a gap analysis and calculation of net present value ("NPV") or changes in NPV at a parallel and non-parallel shift in the yield curve. Prima banka uses a standard method as defined in the Decrees of the National Bank of Slovakia to report and calculate its regulatory capital to cover market risk.

b) Interest Risk

Prima banka manages interest risk with respect to a current and expected situation in the market by adjusting the assets and liabilities structure in terms of the type of interest rate and maturity of new transactions. Interest risk is managed separately for the Trading Book and the Banking Book.

In line with the approved strategy, the Bank does not perform transactions that would meet the conditions for including them in the Trading Book. The position in the Trading Book is zero.

When managing the interest risk of relevant financial instruments (eg securities or loans) Prima banka uses the system of micro-hedging via interest rate swaps and, at the same time, when managing the overall interest rate position the Bank purchases interest rate swaps in the financial assets portfolio at fair value revalued through profit and loss.

To measure the Banking Book's interest risk, Prima banka uses the VaR method on a weekly and monthly basis with a 99% reliability interval. The tool to measure the interest risk of the Banking Book is based on estimated changes to the Net Present Value (NPV) positions caused by changes in market interest rates. The tool is based on a gap analysis of the Banking Book positions. In addition, the instrument calculates estimated changes to NPV positions in the Banking Book at a parallel shift in the yield curves of +/- 100, +/- 200 and +/- 300 basis points, including an opportunity for a non-parallel shift of the yield curve, and particularly positions in the portfolio of financial assets at fair value through profit and loss at a parallel shift in the yield curves by +/- 100 basis points. On the basis of back testing, Prima banka compares estimated VaR with actual changes to NPV positions caused by fluctuations of

interest rates in the market on a weekly and monthly basis and evaluates the back testing results once a year.

The estimated change in the NPV positions in the Banking Book resulting from the interest rate fluctuation is quantified in the following table, assuming a negative movement of the yield curve to the detriment of the Bank by +100 basis points.

Impact of the change in the present value of assets and liabilities on the change in the interest rate for positions in euros as at 31 December 2012:

	Movement in yield curve	Bank´s loss from movement in yield curve
Banking book		
EUR	+100 BP	(7 196)
Total		**(7 196)**

Impact of the change in the present value of assets and liabilities on the change in the interest rate for positions in euros as at 31 December 2011:

	Movement in yield curve	Bank´s loss from movement in yield curve
Banking book		
EUR	+100 BP	(497)
Total		**(497)**

In terms of the Bank's overall position, the positions in other currencies are insignificant. A potential effect of movements in the yield curve on the Bank's profit/loss with respect to other currencies is immaterial.

The following table presents information on the interest rate fluctuation risk (in the balance sheet amount of financial assets and liabilities). The assets and liabilities with a fixed interest rate are classified according to the date of their maturity. The assets and liabilities with variable interest rates are listed according to the date of the anticipated closest possible change in interest rates. The assets and liabilities without a contractually agreed maturity date and those that bear no interest are classified as "Unspecified items".

Financial assets and liabilities according to the risk of interest rate fluctuations as at 31 December 2012:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 year incl.	Unspe-cified items	Total
Balances with central banks	82 335	0	0	0	0	82 335
Due from banks	67 755	0	45 293	0	(3)	113 045
Loans and advances to customers	453 429	410 546	250 871	23 952	489	1 139 287
Financial assets at fair value through profit and loss	2 596	2 979	23 077	2 868	0	31 520
Available-for-sale financial assets	10 399	0	0	0	0	10 399
Financial assets held to maturity	42 048	69 898	272 293	124 562	(841)	507 960
Net interest rate position - financial assets	**658 562**	**483 423**	**591 534**	**151 382**	**(355)**	**1 884 546**
Loans and deposits from central banks	233 898	0	0	0	0	233 898
Due to other banks	32 013	875	0	0	0	32 888
Customer deposits	805 999	213 219	443 158	1 780	0	1 464 156
Deposits measured at fair value through profit and loss	0	2 977	2 076	0	0	5 053
Debt securities	280	15 487	62 320	0	0	78 087
Subordinated debt	0	640	0	46 321	0	46 961
Net interest rate position - financial liabilities	**1 072 190**	**233 198**	**507 554**	**48 101**	**0**	**1 861 043**
Net interest rate position	**(413 628)**	**250 225**	**83 980**	**103 281**	**(355)**	**23 503**

Financial assets and liabilities according to the risk of interest rate fluctuations as at 31 December 2011:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 year incl.	Unspecified items	Total
Balances with central banks	31 636	0	0	0	0	31 636
Due from banks	127 097	2 439	0	0	(9)	129 527
Loans and advances to customers	659 636	351 670	190 280	16 900	6 008	1 224 494
Financial assets at fair value through profit and loss	1 274	213	27 114	2 487	0	31 088
Available-for-sale financial assets	0	0	0	0	100	100
Financial assets held to maturity	10 594	85 516	181 256	142 687	(672)	419 381
Net interest rate position - financial assets	**830 237**	**439 838**	**398 650**	**162 074**	**5 427**	**1 836 226**
Loans and deposits from central banks	14 004	0	0	0	0	14 004
Due to other banks	35 667	11 595	0	0	0	47 262
Customer deposits	995 587	284 102	269 829	2 076	0	1 551 594
Deposits measured at fair value through profit and loss	55	2 440	5 129	0	0	7 624
Issued debt securities	289	78 988	33 068	0	0	112 345
Subordinated debt	0	636	0	46 810	0	47 446
Net interest rate position - financial liabilities	**1 045 602**	**377 761**	**308 026**	**48 886**	**0**	**1 780 275**
Net interest rate position	**(215 365)**	**62 077**	**90 624**	**113 188**	**5 427**	**55 951**

c) Liquidity Risk

Liquidity risk is the risk of a potential loss of the ability to pay one's liabilities as they mature. It is in the interest of the Bank to maintain permanent solvency, ie the ability to settle

liabilities properly and on time, and to manage assets and liabilities to ensure permanent liquidity of the Bank.

Prima banka monitors liquidity risk via external and internal liquidity indicators and warning signals. The first of the externally defined liquidity indicators is the fixed and non-liquid assets indicator, whose value is to be lower or equal to 1. The latter is the liquid assets indicator, which must not be lower than 1.

Internal liquidity indicators include, but are not limited to:
- Seven-day liquidity indicator;
- Global indicators of short-, medium-, and long-term liquidity;
- Main currency limits (total assets in the main currency in relation to the Bank's total assets).

Liquidity warning signals include eg:
- Amount of the volatile portion of demand deposits;
- LD ratio (ratio of primary deposits to extended loans);
- Daily or weekly decrease in capital;
- Daily or weekly increase in loan receivables overdue by more than 30 days; and
- Weekly or monthly additions to loans.

The method of measuring liquidity risk is based on the measuring of net and cumulated cash flows in the relevant time bands for all balance sheet and selected off-balance sheet items.

Prima banka has prepared the basic as well as alternative and crisis liquidity management scenarios. The Bank maintains its sound and sustainable development by observing its liquidity limits and managing its balance structure.

In order to secure set liquidity limits, Prima banka has a credit facility with Dexia Crédit Local Paris in the amount of EUR 500 million as at 31 December 2012.

The table below provides an analysis of the earliest possible contractual maturity of assets and liabilities by present residual maturity as at 31 December 2012:

	Up to 3 months incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 year incl.	Unspe-cified items	Total
Cash	53 227	0	0	0	0	53 227
Balances with the NBS	82 335	0	0	0	0	82 335
Due from banks	60 980	6 857	45 208	0	0	113 045
Loans and advances to customers	44 344	183 194	424 468	487 281	0	1 139 287
Financial assets at fair value through profit and loss	2 596	2 979	23 077	2 868	0	31 520
Available-for-sale financial assets	10 308	0	0	0	91	10 399
Financial assets held to maturity	39 123	30 396	313 891	124 550	0	507 960
Net positive value of derivatives	0	150	426	0	0	576
Non-current tangible assets	0	0	0	0	21 163	21 163
Non-current intangible assets	0	0	0	0	1 940	1 940
Tax assets	0	0	0	0	16 197	16 197
Other assets	0	0	0	0	1 715	1 715
Assets total	**292 913**	**223 576**	**807 070**	**614 699**	**41 106**	**1 979 364**
Loans and deposits received from the NBS	0	0	233 898	0	0	233 898
Due to banks	104	3 529	12 803	16 452	0	32 888
Customer deposits	785 013	217 811	459 552	1 780	0	1 464 156
Deposits measured at fair value through profit and loss	0	2 977	2 076	0	0	5 053
Debt securities	280	15 554	62 253	0	0	78 087
Net negative value of derivatives	74	4 126	112	0	0	4 312
Other liabilities	16 569	0	0	0	10 669	27 238
Provisions for liabilities	0	0	0	0	4 908	4 908
Subordinated debt	0	640	0	46 321	0	46 961
Shareholders' equity	0	0	0		81 863	81 863
Liabilities and shareholders' equity total	**802 040**	**244 637**	**770 694**	**64 553**	**97 440**	**1 979 364**
Net balance sheet position	**(509 127)**	**(21 061)**	**36 376**	**550 146**	**(56 334)**	**0**

The table below provides an analysis of the earliest possible contractual maturity of assets and liabilities by present residual maturity as at 31 December 2011:

	Up to three 3 incl.	3 to 12 months incl.	1 to 5 years incl.	More than 5 year incl.	Unspecified items	Total
Cash	33 230	0	0	0	0	33 230
Balances with central banks	31 636	0	0	0	0	31 636
Due from banks	118 209	11 318	0	0	0	129 527
Loans and advances to customers	62 036	200 681	409 298	551 266	1 213	1 224 494
Financial assets for trading	0	0	0	0	0	0
Financial assets at fair value through profit and loss	1 273	212	27 115	2 488	0	31 088
Financial assets available for sale	0	0	0	0	100	100
Financial assets held to maturity	7 704	21 253	247 736	142 688	0	419 381
Net positive value of derivatives	995	0	1 666	1 240	0	3 901
Non-current tangible assets	0	0	0	0	20 882	20 882
Non-current intangible assets	0	0	0	0	2 978	2 978
Tax assets	561	0	0	0	11 779	12 340
Other assets	0	0	0	0	2 525	2 525
Assets total	**255 644**	**233 464**	**685 815**	**697 682**	**39 477**	**1 912 082**
Loans and deposits received from central banks	0	0	14 004	0	0	14 004
Due to banks	666	4 523	16 302	25 771	0	47 262
Customer deposits	968 424	291 219	289 871	2 076	0	1 551 590
Deposits measured at fair value through profit and loss	0	2 511	5 113	0	0	7 624
Debt securities	289	79 123	32 933	0	0	112 345
Net negative value of derivatives	55	16	6 107	4 818	0	10 996
Tax liabilities	0	0	0	0	0	0
Other liabilities	26 349	0	0	0	5 294	31 643
Provisions for liabilities	0	0	0	0	2 272	2 272
Subordinated debt	0	0	0	47 446	0	47 446
Shareholders' equity	0	0	0	0	86 900	86 900
Liabilities and shareholders' equity total	**995 783**	**377 392**	**364 330**	**80 111**	**94 466**	**1 912 082**
Net balance sheet position	**(740 139)**	**(143 928)**	**321 485**	**617 570**	**(54 989)**	**0**

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

	Carrying amount 2012	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Loans and deposits received from central banks	233 898	238 950	0	0	238 950	0
Due to banks	32 888	33 537	113	3 622	13 265	16 537
Customer deposits	1 464 156	1 497 943	785 332	226 001	483 042	2 226
Deposits measured at fair value through profit and loss	5 053	5 087	0	3 011	2 076	0
Debt securities	78 087	84 662	345	9 887	68 493	0
Subordinated debt	46 961	57 538	0	2 122	8 458	46 958
Other liabilities	28 422	28 422	28 422	0	0	0

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

	Carrying amount 2011	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Loans and deposits received from central banks	14 004	14 441	0	0	14 441	0
Due to banks	47 262	54 533	715	5 245	19 968	28 605
Customer deposits	1 551 590	1 582 443	969 386	297 654	312 807	2 596
Deposits measured at fair value through profit and loss	7 624	7 931	9	2 574	5 348	0
Debt securities	112 345	116 894	357	81 547	34 990	0
Subordinated debt	47 446	60 142	0	2 121	8 459	49 562
Other liabilities	31 643	31 643	31 643	0	0	0

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2012 (at non-discounted values):

	Carrying amount 2012	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.
Contingent liabilities and other off-balance sheet items:					
Contingent liabilities from guarantees	24 786	24 786	24 786	0	0
Loan commitments, of which:	63 656	63 656	63 439	186	31
irrevocable	62 498	62 344	62 344	0	0

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2011 (at non-discounted values):

	Carrying amount 2011	Contractual cash flows	Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.
Contingent liabilities and other off-balance sheet items:					
Contingent liabilities from guarantees	55 918	55 918	55 918	0	0
Loan commitments, of which:	106 164	106 164	103 380	2 784	0
irrevocable	98 367	98 367	97 587	780	0

d) Exchange Rate Risk

In 2012, the Bank continued to apply conservative exchange rate risk management in accordance with the set limits. The foreign exchange positions of the Banking Book were open to a minimal extent, and only as a result of the standard operating activities of the Bank. The Bank entered into derivative transactions only to hedge the Bank's exchange rate risk. The Bank did not enter into any speculative transactions concerning the development of exchange rates for clients or for the Bank's account, ie during 2012, the Bank did not have any positions open in its Trading Book. The Bank made only spot FX transactions with professional clients.

When measuring the exchange rate risk of the Banking Book and the Trading Book Prima banka uses VaR on a daily basis at the 99% reliability interval. As at 31 December 2012 the VaR amounted to EUR 318 (31 December 2011: EUR 438).

Besides monitoring the internal VaR limits, the Bank has defined an internal limit for an individual open position in a given currency in absolute terms.

Foreign exchange position of Prima banka as at 31 December 2012:

	EUR	CZK	USD	Other	Total
Assets	1 954 452	18 152	5 042	1 718	1 979 364
Liabilities and equity	(1 954 452)	(18 152)	(5 042)	(1 718)	(1 979 364)
Net balance sheet foreign exchange position	**0**	**0**	**0**	**0**	**0**
Off-balance sheet assets	1 389 545	159	3 106	0	1 392 810
Off-balance sheet liabilities	(610 297)	(78)	(7 035)	(62)	(617 472)
Net off-balance sheet foreign exchange position	**779 248**	**81**	**(3 929)**	**(62)**	**775 338**
Net foreign exchange position	**779 248**	**81**	**(3 929)**	**(62)**	**775 338**

Foreign exchange position of Prima banka as at 31 December 2011:

	EUR	CZK	USD	Other	Total
Assets	1 886 688	18 234	5 347	1 813	1 912 082
Liabilities and equity	(1 887 561)	(17 361)	(5 347)	(1 813)	(1 912 082)
Net balance sheet foreign exchange position	**(873)**	**873**	**0**	**0**	**0**
Off-balance sheet assets	1 682 103	534	386	69	1 683 092
Off-balance sheet liabilities	(723 842)	(15 631)	(8 075)	(511)	(748 059)
Net off-balance sheet foreign exchange position	**958 261**	**(15 097)**	**(7 689)**	**(442)**	**935 033**

Net foreign exchange position	**957 388**	**(14 224)**	**(7 689)**	**(442)**	**935 033**

Based on back testing, Prima banka compares estimated VaR with an actual change to the market value of the instruments on a daily basis and evaluates back testing results once a year. Prima banka compares the individual limit of an open position in a given currency in absolute terms with the actual open FX position on a daily basis.

The Bank performs stress testing quarterly. The Bank tests euro depreciation and appreciation scenarios against other foreign currencies by 3%, 8%, and 10%. Considering the minimum open foreign exchange positions for individual foreign currencies from the beginning of 2012, the impact of fluctuations in exchange rates on the Bank's profit/loss is immaterial.

To manage its foreign exchange position, Prima banka mainly uses spot deals in the interbank market.

e) Equity Risk

The Bank's strategy is to not active trade in shares as evidenced by the size and structure of the equity securities portfolio. The Bank has in its AFS portfolio equity securities in the total amount of EUR 91 thousand, which are only the shares in SWIFT Belgium and RVS Bratislava and a share in Municipalia (subsidiary). The Bank sold two equity securities in the total amount of EUR 28 thousand, which did not represent shares in any clearing house and were measured at a market-quoted price. Considering low exposures in equity securities, the level of equity risk is immaterial.

f) Commodity Risk

The Bank is not exposed to this risk. In terms of strategy, the Bank does not carry out transactions with commodities and has no exposure in commodities.

3. Operational Risk

Operational risk is the risk of financial and non-financial impacts resulting from inadequate or missing internal process/action of staff/system or external events. The definition includes legal risk but excludes strategy risk.

Prima banka manages operational risks in line with the operational risk management strategy approved by the Bank's Management Board. The operational risk management comprises OR identification, assessment, monitoring and selection of management/mitigation methods. The operational risk management is aimed at optimizing the Bank's risk profile at adequate costs.

Identification of an operational risk is based on the risk analyses in the process of preparing new products, new processes, non-standard transactions, implementation of new information technologies/information sources, project management, and business continuity planning. The Bank monitors and analyses the development of key risk indicators and gathers and analyses all operational risks-related events. The residual risk is identified in the process of Risk and Control Self-assessment.

In the case of an operational risk event or the identification of another operational risk, action plans are usually adopted in order to eliminate or mitigate the occurrence of such risks in the future. To mitigate the financial impact of the occurrence of events the Bank entered into numerous insurance policies that cover the main risks.

The Bank uses a standardised approach in terms of the NBS's Decrees to calculate the own funds required for operational risk.

38. Transactions with Related Parties

Under IAS 24 *"Related Party Disclosures"* a related party is a counterparty that:

a) Represents an entity that, directly or indirectly through one or more intermediaries, has control or joint control over the reporting entity (including parent companies, subsidiaries and fellow subsidiaries);
b) Is an associate;
c) Is a joint venture;
d) Is a member of key management personnel of the reporting entity or its parent company; or
e) Is a close member of the family of any individual referred to in letter a) or d).

When considering relations with each related party attention is paid to the nature of the relation, not only to its legal form. Transactions with related parties were made under standard conditions and at market prices.

Included in assets, liabilities, expenses, revenues and off-balance sheet items are the balances with the parent company PENTA INVESTMENTS LIMITED, Cyprus, the members of the Board of Directors and Management Board, and other related parties pursuant to IAS 24.

Assets and liabilities concerning related parties as at 31 December 2012:

	Penta Investments Limited	Other companies of Penta Investments	Board of Directors and Management Board	Other related parties	Total
Loans and advances to customers	0	34 468	127	0	34 595
Other assets	0	11	0	0	11
Total assets	**0**	**34 479**	**127**	**0**	**34 606**
Customer deposits	75	880	1 825	770	3 550
Other liabilities	0	64	900	0	964
Total liabilities and equity	**75**	**944**	**2 725**	**770**	**4 514**

Assets and liabilities concerning related parties as at 31 December 2011:

	Penta Investments Limited	Other companies of Penta Investments	Board of Directors and Management Board	Other related parties	Total
Loans and advances to customers	0	10 964	0	46	11 010
Total assets	**0**	**10 964**	**0**	**46**	**11 010**
Customer deposits	192	514	1 113	465	2 285
Other liabilities	0	16	900	0	916
Total liabilities and equity	**192**	**531**	**2 013**	**465**	**3 202**

Revenues and expenses concerning related parties as at 31 December 2012:

	Penta Investments Limited	Other companies of Penta Investments	Board of Directors and Management Board	Other related parties	Total
Interest and similar income	0	1 118	0	0	1 118
Interest and similar expense	0	(1)	0	0	(1)
Net fee and commission income	1	46	0	0	47
Net trading income	0	87	0	0	87
Other income	0	2	0	0	2
Personnel costs	0	(319)	(1 739)	0	(2 058)
General and administrative expenses	0	(167)	0	0	(167)

Revenues and expenses concerning related parties as at 31 December 2011:

	Penta Investments Limited	Other companies of Penta Investments	Board of Directors and Management Board	Other related parties	Total
Interest and similar income	0	71	0	0	71
Interest and similar expense	(1 086)	(77)	0	0	(1 163)
Net trading income	0	1	0	0	1
Fee income	4	104	0	0	108
Personnel costs	0	0	(1 334)	0	(1 334)
General and administrative expenses	0	(5)	0	0	(5)

Personnel costs include the salaries and bonuses paid to members of the Board of Directors and the Management Board. These costs represented current employee benefits.

Off-balance sheet assets and liabilities concerning related parties as at 31 December 2012:

	Penta Investments Limited	Other companies of Penta Investments	Board of Directors and Management Board	Other related parties	Total
Received collateral from pledge, security and other rights	0	168	135	0	**303**
Off-balance sheet assets	**0**	**168**	**135**	**0**	**303**
Guarantees - issued	0	10	0	0	10
Loan commitments and unused credit facilities	0	166	0	0	166
Off-balance sheet liabilities	**0**	**176**	**0**	**0**	**176**

Off-balance sheet assets and liabilities concerning related parties as at 31 December 2011:

	Penta Investments Limited	Other companies of Penta Investments	Board of Directors and Management Board	Other related parties	Total
Received collateral from pledge, security and other rights	0	0	23	0	23
Off-balance sheet assets	**0**	**0**	**23**	**0**	**23**

39. Events after the Balance Sheet Date

At the meeting on 21 February 2013, the Board of Directors elected Mrs Henrieta Gahérová as a new member of the Management Board of Prima Banka Slovakia, a. s., with effect with from 21 February 2013.

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