

Motto:

We are here for people who are looking for a bank that is as unique as they are.

An extraordinary and prestigious bank.

We are here for people who expect their investment demands to be met.

With diligence and excellence.

We are here for people who do not go to the bank. The bank comes to them.

In an individual and discreet fashion.

PRIVATBANKA 2005

Table of Contents	
Introduction	4
Key Indicators	5
Private Banking	7
Treasury	11
Asset Management	15
Corporate Banking	19
Risk Management	23
Management of Privatbanka	27
Auditor's Statement	30
Consolidated Financial Statements	31



Introduction

2005 was a year of substantial changes in our company. Undoubtedly the most important event was the change in the bank's name and adoption of the current commercial name Privatbanka, a. s. The commercial name change was a logical consequence of the shift in the bank's strategic and commercial focus to private banking, which took place in 2003 upon entry of the strategic shareholder – Meisl Bank AG. It was our goal to create and introduce a unique name clearly communicating the bank's core business. We believe the name Privatbanka has captured it well.

Last year was also of crucial importance for the bank in terms of human resources. January 2005 saw the start of systematic development of the bank's key division – the Private Banking division, representing the main commercial tool for attracting new private clients. It was our goal to find and hire top-quality and experienced finance professionals for the bank's private banking positions, who would take up professional contacts with potential clients, make them familiar with our products in a professional manner, and who would at the same time duly represent the bank. In the course of the year, we successfully staffed the entire division in Bratislava and covered selected regions of Slovakia.

In the first half of the year, we moved the bank's headquarters from Banská Bystrica to Bratislava in a record-breaking short time. The main reason for this step was clear – to move the bank's headquarters to the financial centre of the country in order to get closer to our current and potential clients gathering mainly in the capital, as well as to get involved in financial life and raise expert as well as general public awareness of our presence.

It was mainly after moving our headquarters that we experienced a marked influx of new employees to the bank, both managers as well as specialists. We were able to complete the staffing of middle management positions and staff managerial and specialist positions with leading professionals in the field. From an overall HR perspective, we consider the year 2005 an extraordinary success in terms of staffing completion in the individual divisions.

At present, the bank has been developing its profile as the first specialised private banking provider on the Slovak financial market. It presents itself as a unique bank in Slovakia for solvent clientele that can benefit from the bank's top-quality private finance and investment services.



PRIVATBANKA 2005

Key Indicators according to Slovak Accounting Standards

SKK '000	31/12/2005	31/12/2004	Difference	Change in %
Total Assets	5 465 341	4 496 175	969 166	22%
Amounts due from Banks	2 288 802	2 704 422	(415 620)	(15%)
Amounts due from Clients	1 199 673	529 058	670 615	127%
Securities Available for Sale, other Shares and Securities held for Trading	1 824 344	1 111 314	713 030	64%
Amounts due to Banks	30 283	307 720	(277 437)	(90%)
Amounts due to Clients	4 142 570	2 896 772	1 245 798	43%
Liabilities from debt Securities	510 486	615 630	(105 144)	(17%)
Equity	683 937	631 997	51 940	8%
After Tax Profit/Loss for the Accounting Period	42 733	40 781	1 952	5%
Capital Adequacy	31.65%	52.79%	(21.14%)	(40%)





PRIVATBANKA 2005

Private Banking



Private Banking

Privatbanka, a specialised bank on the Slovak financial market, focuses primarily on private banking. The bank addresses solvent clients and provides them with customised financial and investment services.

At present, Privatbanka’s fundamental business platform is constituted by the Private Banking division being the bank’s key division focused on the acquisition business, i.e. searching for and acquiring new private clients.

Our aim in this area is comprehensive client asset management according to their particular needs and expectations. We intend to address our target group not only via traditional banking and investment products – we would like to offer an entirely new perspective on banking and investment options, continuously searching for attractive investment opportunities in order to provide high added value to our client.

Our bank’s added value also rests upon a different view of the client’s needs, providing a tailored approach to each client, independence and a high degree of creativity, and last but not least confidentiality and conservatism as the major attributes of private banking.

PRIVATBANKA 2005

Detailed insight into the client’s needs and expectations is the basis for finding the right solution. It is this initial stage of the relationship between the client and Privatbanka that we devoted lots of time and effort to, and we plan to continue doing so in the future. We realise that a thorough knowledge of the client’s existing and target situation is the cornerstone of successful creation of a suitable investment strategy.

In 2005, the bank enriched its range of financial and investment services with "additional exclusive services" as part of its all-embracing customer care, enhancing convenience for private clients even more. The range includes, besides other services, advisory services with regard to investments into works of art. In cooperation with expert consultants, Privatbanka offers its clients advisory services in arts, mediation of purchase and sale of works of art, as well as representation at auctions. The aim of the additional exclusive services is to make the clients feel the exclusive and special care that a private bank is able to provide.





Treasury

In 2005, the treasury area developed in a harmony with the bank’s main line of business – private banking. It comprised in particular services for clients, and it contributed substantially to the bank’s overall profit, mainly from capital gains and foreign exchange transactions.

While the Private Banking division’s key focus lies in addressing and acquiring new clients, Treasury is a division via which the bank fulfils its mission of direct assistance to clients in meeting their wishes regarding appreciation of their liquid funds, or satisfying other financial needs of the clients.

The Treasury division enables our clients to access a broad selection of financial instruments, ranging from the basic ones to advanced solutions resulting from financial innovations of recent years. The bank does not only offer its own products, it also enables access to products of other institutions that considers suitable and beneficial for the client.

In order to broaden the investment opportunities for its clients, the bank has stepped up co-operation with many financial instrument issuers. This approach makes it significantly different from other banking institutions present on the Slovak financial market.

The Treasury division experts assist clients in learning about the individual financial instruments in detail, help them select those that are best suited to reaching the client’s financial goals, and procure them for the client in turn, or ensure their sale, both under the best possible conditions.

The bank also offers its clients a solution to their financial needs by ensuring securities issuing.





PRIVATBANKA 2005

Asset Management



Asset Management

In 2005, Privatbanka has continued developing its range of client portfolio management services to meet the requirements of the most demanding clientele. In managing the client's finances, the bank adopts a comprehensive approach to the client's asset needs and situation, offering all-embracing solutions composed of several banking products, be it in the investment or in the loan area.

In client asset management, the bank first tries to make a thorough inquiry into the client's present situation in order to offer the client a solution based on such information. Detailed knowledge of the client's situation enables the bank's portfolio managers to propose the most suitable solution to the client's individual investment strategy, with employment of state-of-the-art analytical tools. To achieve the best performance of the client's portfolios, the bank tries to make use of the broadest range of investment tools to ensure better-than-average profits while placing emphasis on diversification of risks.

PRIVATBANKA 2005

The portfolio management service is designed for a wide spectrum of investors, with the specifics of different investor groups being taken into consideration. Individual clientele may particularly benefit from individual and special-type portfolios enabling a high degree of flexibility while adhering to the principles of an individual approach to the client's needs. Corporate clients will appreciate the bank's expert advisory services in liquidity management, portfolio setup, risk management and portfolio performance optimization.

This year, the bank has particularly enriched the range of alternative investment opportunities that are able to fully replace some components of the non-functioning capital market in Slovakia. We are the only bank in Slovakia to provide our clients with the opportunity to participate in private sector profits via standardised financial instruments such as corporate and project bills of exchange of financial and developer companies. This issue is addressed by a team of banking specialists who assess the individual investment opportunities while maintaining a high degree of safety and convenience for the client in question.

The bank intends to keep pursuing the set trend, continuously increasing the quality of its services, as well as to introduce new client relation principles aimed at achieving maximum convenience for the client.





PRIVATBANKA 2005

Corporate Banking



Corporate Banking

The corporate business activities are closely related to the key strategic aim of the bank, i.e. the provision of private banking and investment services. Therefore, the bank’s priority focus is on funding of projects requiring a tailored approach and sophisticated solutions. The team of corporate finance specialists aims to provide clients with maximum added value, contributing to finding the optimum solution to their demands, and satisfying their expectations to the maximum degree. The entire business implementation process is based on a partner approach, where the bank’s specialists not only define the business structure for the clients, but are moreover willing to advise clients on issues related to financing and business plan implementation.

The bank also wishes to flexibly respond to its clients’ needs in the field of active credit business implementation. The target segment still comprises large and medium-sized businesses and solvent individuals, who at the same time use the bank’s private banking services. Individuals may take advantage of the bank’s affordable loan services for real estates or other investment opportunities.

Corporate clients may use the bank’s long-term financing of investment plans, as well as common short-term financing, either in the form of operating loans and factoring, as well as bill of exchange deals.

The bank also continuously enhances its product range in the field of loans in order to adapt to new market trends, in particular in developer project funding, many times interconnected with co-financing from EU structural funds.

Corporate clientele financing is connected with a range of related top-quality services in the areas of payment transactions, account management, hedging products and documentary deals. In the coming period, the bank plans to focus its corporate clientele products and services also on the field of investment banking, in particular via structuring of issuing of various security types, including their comprehensive preparation, sale and distribution to investors.

In entering into credit relationships, with every client the bank places emphasis on sticking to the rules of sound and careful business and top-quality ensuring of the deal, realising the weight of credit risk and its impact on bank health.

As the first private bank on the Slovak financial market, we consider a maximum degree of confidentiality and the effort to develop long-term mutually beneficial business relations on an above-standard level as our main business priorities. In providing deals, we take advantage of our competitive advantages following from the bank’s size and organisational structure, in particular our individual approach to clients, flexibility in searching for optimum financing solutions, and last but not least the maximum speed and diligence in closing deals.





PRIVATBANKA 2005

Risk Management



Risk Management

Privatbanka places great emphasis on the management of risks based on its portfolio positions. In 2005, the bank implemented adequate software infrastructure in this field. The systems currently used by the bank enable ongoing monitoring of its positions, and above all highly sophisticated risk measurement methods. A daily reporting system was developed in this respect, which became an integral part of the bank's day-to-day business. A system set in this way provides timely information necessary for competent and correct decision-making by the bank's top management.

The bank also continued developing high-quality database structures that form a basis for efficient management of market, credit and operational risks. The risk management processes and procedures, constituting a powerful tool for elimination of unacceptable losses, have also experienced major enhancement.



In the course of 2005, the bank also completed the system of credit limits and credit lines based on external rating by renowned world rating agencies. The internal rating system has been subject to major enhancement as well.

In the light of its primary focus on private banking, the bank also offers its risk management know-how to its clients. Our portfolio approach combined with our software infrastructure offers private clients an opportunity to not only measure the performance of their investments, but also to determine their risk profile. In this way, the clients are kept updated about the total risk they undertake, and can make qualified investment decisions.





Board of Directors

Vladimír Hrdina

Member of the Board and Executive Director

Viliam Ostrožlík

Chairman of the Board and Chief Executive Officer

Ľubomír Lorencovič

Vice-Chairman of the Board and Executive Director



Management of Privatbanka

Board of Directors

Viliam Ostrožlík

Chairman of the Board and Chief Executive Officer

Ľubomír Lorencovič

Vice-Chairman of the Board and Executive Director

Vladimír Hrdina

Member of the Board and Executive Director

Supervisory Board

Peter Weinzierl

Chairman

Alexander Waldstein

Vice-Chairman

Wolfgang Lafite

Member

Ladislav Márton

Member

Vladimír Ľupták

Member



Management

Michal Šubín
Director – Private Banking

Eva Hírešová
Director – Accounting and Back Office

Peter Machaj
Director – Asset Management

Kamil Duffek
Director – Financial Control Department

Miron Želina
Director – Treasury

Dagmar Sliacka
Director – Human Resources Department

Ladislav Koller
Director – Distribution Channels

Lenka Bartová
Director – Marketing Department

Jana Slavická
Director – Credit Risk Department

Ferdinand Funta
Director – IT Department

Pavol Šafár
Director – Payment Systems Department

Beáta Letovancová
Head of Loan Finance Department

Štefan Horváth
Director – Risk Management

Marek Magyar
Head of Law Department

Ľubica Rajtúchová
Head of Internal Control and Audit

PRIVATBANKA 2005

Associated Company

BS FIN, s.r.o. (Ltd.)
Financial Services

Viliam Ostrožlík
Statutory Representative

Ľubomír Lorencovič
Statutory Representative

Vladimír Hrdina
Statutory Representative

Head Office

Suché mýto 1, 811 03 Bratislava, Slovak Republic
Phone: +421 2 5920 6620, +421 2 5920 6621
Fax: +421 2 5443 3131

Branch Network

Bratislava, VIP Branch, Suché mýto 1, 811 03 Bratislava, Phone: +421 2 5920 6664
Branch Manager – Lucia Litvová

Bratislava, Krížna 4, 811 07 Bratislava, Phone: +421 2 5541 0647
Branch Manager – Jana Juračková

Banská Bystrica, J. Kráľa 3, 974 01 Banská Bystrica, Phone: +421 48 415 3076
Branch Manager – Kristína Kissová

Brezno, Nám.M.R. Štefánika, 977 01 Brezno, Phone: +421 48 611 6447
Branch Manager – Monika Štugnerová

Trenčín, Braneckého 7, 911 01 Trenčín, Phone: +421 32 744 2001
Branch Manager – Erik Jašš

Prešov, Hlavná 57, 080 01 Prešov, Phone: +421 51 772 0785
Branch Manager – Andrea Dostalová





Ernst & Young Slovakia, spol. s r.o.

Zachova 6 - 8

PO Box 19

810 00 Bratislava

Slovenská republika

Tel.: +421 2 5922 9111

Fax: +421 2 5922 9222

www.ey.com

**Independent Auditors' Report
to the Shareholders of Privatbanka, a.s.**

We have audited the accompanying consolidated financial statements of Privatbanka, a.s. and its subsidiary ("the Group"), which comprise the consolidated balance sheet as at 31 December 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow for the year then ended, and the notes. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Bratislava
9 February 2006



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

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Slovenskej republiky Bratislava I, sídlo: Rev. Zachova 6/8, 810 06 Bratislava a s právomocou audítora udelenou Slovenskou komorou audítora pod č. 257.

Consolidated Financial Statements

Prepared in accordance with International Financial Reporting Standards




Consolidated balance sheet as of 31 December 2005

Privatbanka, a.s.


Consolidated balance sheet as of 31 December 2005

	Note	2005 SKK '000	2004 (restated) SKK '000
Assets			
Cash and cash equivalents	3	2 320 797	2 334 231
Loans and advances to banks	5	-	397 434
Loans and advances to customers	6	1 199 673	529 058
Securities available for sale	8	1 567 909	1 131 224
Securities at fair value through profit or loss	9	256 435	-
Non-current tangible and intangible assets	10	93 469	87 676
Deferred tax asset	11	16 378	19 941
Other assets	12	10 680	18 384
Total assets		5 465 341	4 517 948
Liabilities and equity			
Deposits by banks	13	30 283	307 720
Customer accounts	14	4 142 570	2 896 772
Liabilities from debt securities	15	510 486	615 630
Provisions	16	15 950	16 856
Other liabilities	17	82 115	32 846
Total liabilities		4 781 404	3 869 824
Shareholders' equity			
Share capital	19	756 874	756 874
Capital and profit funds	20	47 180	43 102
Revaluation differences on securities available for sale, net of tax		25 698	32 618
Retained earnings / (losses)	20	(145 815)	(184 470)
Total shareholders' equity		683 937	648 124
Total liabilities and shareholders' equity		5 465 341	4 517 948
Off balance sheet items	21	275 588	400 866

The financial statements were approved by the Board of Directors on 9 February 2006 and signed on its behalf by:



Ing. Ľubomír Lorencovič
Vice-Chairman of the Board of Directors and
Executive Director



Ing. Vladimír Hrdina
Member of the Board of Directors and
Executive Director



Consolidated profit and loss account for the year ended 31 December 2005

	Note	2005 SKK '000	2004 (restated) SKK '000
Interest income and similar income		203 670	218 178
Interest expense and similar expense		(95 444)	(119 778)
Net interest income	22	108 226	98 400
Fees and commissions, net		11 079	6 100
Trading profit		57 728	28 017
Other income		3 850	22 046
Operating income	23	180 883	154 563
Administrative expenses	24	(137 704)	(115 667)
Depreciation and amortization	10	(13 083)	(15 260)
Operating expenses		(150 787)	(130 927)
Operating profit/(loss) before provisions and impairment losses		30 096	23 636
Creation and reversal of impairment losses:			
Loan and advances to customers and other assets	25	7 064	2 374
Non-current tangible and intangible assets	26	11 338	(7 848)
Creation and reversal of provisions for liabilities from main activities	16	(1 114)	4 751
Profit before tax		47 384	22 913
Tax benefit/(charge)	27	(4 651)	901
Profit after tax		42 733	23 814



Consolidated statement of changes in shareholders' equity for the year ended 31 December 2005

	Share capital	Retained earnings (restated)	Legal reserve fund	Revaluation of securities available for sale, net of tax (restated)	Total (restated)
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
At 1 January 2004	756 874	(208 284)	43 102	–	591 692
Change in accounting policies – Revaluation of securities available for sale (Note 2a)	–	–	–	16 491	16 491
Change in accounting policies – Revaluation of primary issue securities when reclassified to securities available for sale (Note 2a)	–	–	–	19 910	19 910
Change in the deferred tax charged for the securities available for sale (Note 2a)	–	–	–	(3 783)	(3 783)
Total income and expense recognised directly in equity	–	–	–	32 618	32 618
Profit for 2004 (Note 2a)	–	23 814	–	–	23 814
At 1 January 2005 (restated)	756 874	(184 470)	43 102	32 618	648 124
Securities available for sale – changes within 2005	–	–	–	(8 008)	(8 008)
Change in the deferred tax charged for the securities available for sale	–	–	–	1 088	1 088
Total income and expense recognised directly in equity	–	–	–	(6 920)	(6 920)
Creation of statutory reserve	–	(4 078)	4 078	–	–
Profit for 2005	–	42 733	–	–	42 733
At 31 December 2005	756 874	(145 815)	47 180	25 698	683 937

See also note 19 and 20 for details of movements in shareholders' equity accounts during the year.



Consolidated cash flow statement for the year ended 31 December 2005

	Note	2005 SKK '000	2004 (restated) SKK '000
Cash flow from operating activities			
Profit before changes in operating assets and liabilities	28	(65 047)	(67 781)
Increase/decrease in amounts due from banks		393 295	(374 787)
Increase/decrease in amounts due from customers		(660 956)	557 432
Increase in securities at fair value through profit and loss		(255 901)	–
Increase in securities available for sale		(443 628)	(766 452)
Increase/decrease in other assets		7 704	(6 749)
Increase/decrease in amounts due to banks		(276 759)	46 029
Increase in amounts due to customers		1 246 988	1 047 664
Decrease in payables on bills of exchange		(105 279)	(165 121)
Increase in other payables		44 404	725
Interest received		200 318	226 172
Interest paid		(97 140)	(124 233)
Net cash flow from operating activities		(12 001)	372 899
Cash flow from investment activities			
Purchase of non-current tangible and intangible assets		(15 546)	(3 965)
Sale of non-current tangible and intangible assets		14 113	–
Net cash flow from investment activities		(1 433)	(3 965)
Cash flow from financial activities			
Dividends paid		–	–
Net cash flow from financial activities		–	–
Net increase (decrease) in cash and cash equivalents		(13 434)	368 934
Cash and cash equivalents at the beginning of the year		2 334 231	1 965 297
Cash and cash equivalents at the end of the year	3	2 320 797	2 334 231



1. General information

Incorporation

Pursuant to a decision of the General Meeting, Banka Slovakia, a.s. was renamed Privatbanka, a.s. ("the Bank") on 1 November 2005. Banka Slovakia, a.s. was established and incorporated in 1995. It commenced its activities on 22 May 1996.

Principal activities

The principal activities of the Bank include a wide range of banking and financial services provided to corporate and private customers in the Slovak Republic under a bank licence.

The bank licence was granted for the following activities:

1. receipt of deposits,
2. provision of loans,
3. domestic and cross-border transfers of funds (payment and settlement),
4. provision of investment services to customers within the scope of a special licence,
5. investments into securities made on own account,
6. trading on own account
- a) with money market financial instruments in Slovak crowns and foreign currency including foreign exchange activities,
- b) with capital market financial instruments in Slovak crowns and foreign currency,
- c) with coins made of precious metal, commemorative banknotes and coins, sheets of banknotes and sets of coins for circulation,
7. administration of customer's receivables on his account including advisory services,
8. finance lease,
9. provision of guarantees, opening and confirmation of letters of credit,
10. issue and administration of means of payment,
11. provision of business advisory services,
12. issue of securities, participation in issue of securities and provision of related services,
13. financial intermediation,
14. custody of valuables,
15. safe hire,
16. provision of bank information,
17. depository according to a special regulation,
18. treatment of banknotes, coins, commemorative banknotes and coins.

Shareholders' structure

The shareholders' structure is as follows:

%	2005	2004
BASL Beteiligungsverwaltungs GmbH, Vienna	49.58	49.58
Allianz-Slovenská poisťovňa, a.s., Bratislava	19.82	19.82
Other (less than 10%)	30.60	30.60
Total	100.00	100.00

There was a change in the shareholders' structure during 2004, in which the shares of Meisl Bank, Aktiengesellschaft were transferred to BASL Beteiligungsverwaltungs GmbH and private individuals. BASL Beteiligungsverwaltungs GmbH based in Austria owns 49.58% of the Bank's basic capital. BASL Beteiligungsverwaltungs GmbH is a 100% subsidiary of Meisl Bank, based in Austria.

Privatbanka, a.s. group

The consolidated financial statements for the year ended 31 December 2005 comprise the Bank and its subsidiaries (together referred to as 'the Group') as follows:

At 31 December 2005, the Bank had the following subsidiaries:

Name	Activity	Share %
BS FIN, s.r.o.	Factoring, forfeiting, business advisory services, leasing services	100

The subsidiary does not perform activities in the significant volume.

Geographical network

In 2005, the Bank performed its activities through its network of six branches in Banská Bystrica, Brezno, Bratislava (2 branches), Trenčín and Prešov.

Members of the Board of Directors

The members of the Bank's Board of Directors are as follows:

1. Ing. Viliam Ostrožlík,	– Chairman	– appointed on 6 August 2003
2. Ing. Ľubomír Lorencovič	– Vice-Chairman	– appointed on 6 August 2003
3. Ing. Vladimír Hrdina	– Member	– appointed on 6 August 2003

Supervisory Board

The members of the Bank's Supervisory Board are as follows:

Elected at the General Meeting:		
1. MMag. Peter Weinzierl,	– Chairman	– appointed on 6 August 2003
2. Dr. Alexander Waldstein–Wartenberg	– Vice-Chairman	– appointed on 6 August 2003
3. Ing. Ladislav Márton	– Member	– appointed on 19 Sept. 2002
4. Dr. Carl Wolfgang Lafite	– Member	– appointed on 6 August 2003
Elected by employees:		
5. Ing. Vladimír Ľupták	– Member	– appointed on 19 January 2000



2. Accounting policies

The significant accounting policies applied by the Group are as follows:

(a) Basis of preparation

General

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'), and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The financial statements are reported in Slovak crowns (SKK) and all amounts are presented in thousands, except where otherwise stated. Negative balances are shown in brackets.

The financial statements have been prepared under the historical cost convention on the basis of full accrual accounting, except for certain financial instruments which are measured at fair value.

The financial statements have been prepared under the going concern assumption of the Group.

As the Group's operations do not have significantly different risks and returns, and the regulatory environment, the nature of its services, business processes and types of customers for its products and services are homogenous for all its activities, the Group operates as a single business segment unit.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 27 (revised) "Consolidated and Separate Financial Statements";
- IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement".

The principal effects of these changes in policies are discussed below.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended 2004)

Securities classified as "Primary issues" were reclassified into the portfolio "Securities available for sale". At the same time, these securities are measured at fair value with the revaluation presented in equity as "Revaluation of securities available for sale". Comparative balances for 2004 were adjusted to reflect this change in accounting policy.

Revaluation of the portfolio "Securities available for sale" is presented in equity as "Revaluation of securities available for sale". Comparative balances for 2004 were adjusted to reflect this change in accounting policy.

The effect of adoption of the new and revised standards on the corresponding figures can be summarised as follows (SKK '000):

	As previously reported	Effect of changes in accounting policies	As adjusted
Balance sheet as at 31 December 2004			
Securities available for sale	1 111 314	19 910	1 131 224
Deferred tax asset	23 724	(3 783)	19 941
Equity – Retained earnings	(167 979)	(16 491)	(184 470)
Equity – Revaluation of securities available for sale, net of tax	–	32 618	32 618
Total equity	631 997	16 127	648 124
Profit and loss account for the year ended 31 December 2004			
Trading profit/(loss)	44 508	(16 491)	28 017
Profit after tax	40 305	(16 491)	23 814

Reclassifications

Certain balances from 2004 were reclassified in accordance with their presentation in 2005.

Reclassifications relate mainly to the following:

Liabilities from debt securities were presented within the caption "Due to clients" in 2004. In the 2005 financial statements, this balance is presented as "Liabilities from debt securities".

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the companies shown in note 1.

The consolidated financial statements have been prepared using uniform accounting policies for similar transactions taking into account the following principles:

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date at which effective control commences until the date at which control ceases.

The financial statements of the Bank and its subsidiaries are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses.



In order that the consolidated financial statements present financial information about the Group as that of a single enterprise, the following steps are taken:

- The carrying amount of the Bank’s investment in each subsidiary and the Bank’s portion of equity of each subsidiary are eliminated;
- Minority interests in the net income of consolidated subsidiaries are identified and adjusted against the net income of the Group in order to arrive at the net income attributable to the shareholders of the Bank;
- Minority interests in the net assets of consolidated subsidiaries are identified and presented in the consolidated balance sheet separately from liabilities and the Group’s shareholders’ equity;
- Intra-group balances, transactions and resulting profits are eliminated in full.

(b) Transaction date

Depending on the type of transaction, the transaction date is the date of payment or collection of cash; the date of purchase or sale of foreign currency or securities; the date of payment or collection from a customer’s account; the date of the order to a correspondent to make a payment, the settlement date of the Group’s payment orders with the NBS clearing centre, the date of crediting funds according to a statement received from a correspondent bank (statement means SWIFT statement, bank notice, received media, bank statement or other documents); the settlement date of transactions with securities, foreign currency, options or other derivatives; the date of issue or receipt of a guarantee or opening credit commitment; and the date of acceptance of values into custody.

Accounting transactions involving the purchase or sale of financial assets with a standard delivery term (spot transactions) are recorded in the off-balance sheet accounts from the trade date until the settlement date. On the settlement date, the off-balance sheet entry is cancelled and balance sheet accounts are then used.

A financial asset is derecognised from the balance sheet if the Group loses control over the contractual rights to the asset or its part. The Group loses this control if it exercises the rights to the benefits defined in the contract, if these rights expire, or if the rights are waived by the Group.

(c) Debt securities, shares, units and other investments

Treasury bills, bonds and other debt securities and shares including units and other investments are classified into one of the following portfolios: securities at fair value through profit or loss and securities available for sale, based on the Group’s intention on the date of acquisition.

All securities owned by the Group are initially recognised at the settlement date. Securities are initially recognised at fair value, plus, in the case of securities not at fair value through profit or loss, directly attributable transaction costs.

For debt securities, the acquisition cost is gradually increased or decreased by interest income. Premiums and discounts on debt securities are recorded to interest income over the period from the date of purchase to the date of maturity or sale.

Securities at fair value through profit or loss

Debt and equity securities at fair value through profit or loss account are defined as securities held by the Group with the intention of their sale in order to earn profits on short-term price fluctuations and any financial assets designated as financial assets at fair value through profit or loss upon acquisition. After initial recognition, the securities are subsequently measured at fair value. Changes in the fair value of these assets are included in the profit and loss account as “Trading profit/(loss)”.

The fair value used for the valuation of securities is determined using the market price published as at the date of valuation, when the active market exists.

If a reliable market price is not available, fair value is estimated and equals the share proportion on equity as for shares, as for the mutual fund certificates the fair value equals the proportion on a fund’s net assets value and as for the debt securities, the fair value equals their present value.

Interest earned on securities at fair value through profit or loss is accrued on a daily basis using effective interest rate and reported in the profit and loss account as ‘Interest income and similar income’.

Securities available for sale

Securities available for sale are securities owned by the Group, which are not securities at fair value through profit or loss, securities held to maturity or loans and receivables. After initial recognition, the securities are subsequently measured at fair value. Changes in the fair value are recognized in equity as “Revaluation difference of securities available for sale”; while in 2004 they were included in the profit and loss account as “Trading profit/(loss)” (Note 2a).

Gains or losses from revaluation of securities available for sale are, upon their sale or maturity, included in the profit and loss account as “Trading profit/(loss)”.

Interest earned on securities available for sale is accrued on a daily basis using effective interest rate and reported in the profit and loss account as ‘Interest income and similar income’.

If an available-for-sale securities are impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from equity to the profit and loss account. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss.

(d) Repo contracts (“REPO”)

Transactions where securities are sold under a commitment to repurchase (repos) at a predetermined price or purchased under a commitment to resell (reverse repos) are treated as collateralised borrowing and lending transactions. The legal title of securities subject to resale or repurchase commitments is transferred to the lender. Securities transferred under a repurchase commitment are henceforth included in the relevant items of securities in the Bank’s balance sheet, while the borrowing is recorded in “Deposits by banks” or “Customer accounts”. Securities received under a resale commitment are recorded in the off-balance sheet accounts. A loan granted under a resale commitment is recorded in the balance sheet as “Cash and cash equivalents”, “Loans and advances to banks” or “Loans and advances to customers”. Interest on debt securities transferred under a repurchase commitment is accrued while interest on debt securities received under a resale commitment is not accrued.

Income and expenses arising from repurchase and resale commitments, being the difference between the selling and the purchase price, are accrued over the period of the transaction and recorded in the profit and loss account as “Interest income and similar income” or “Interest expense and similar expenses”.



(e) Transactions with securities for customers

Securities taken by the Group into custody, administration or deposit are stated at nominal value and recorded in the off-balance sheet account. Securities taken by the Group for management are measured at fair value and recorded in the off-balance sheet account. Amounts due to customers resulting from the cash received for the purchase of securities or the cash to be refunded to customers, etc. are disclosed in the balance sheet within liabilities.

(f) Receivables from banks and customers

Loans originated by the Group by providing money directly to a borrower are measured at amortized cost less any impairment losses. Accrued interest income is included in the carrying amount of receivables.

If the receivables' carrying amount exceeds their estimated net realizable value, the carrying amount will be reduced to the net realizable value. Receivables are reviewed individually based on the expected cash flows which are discounted by the effective interest rate contained in the receivable.

If a receivable is uncollectible, the Group, based on the decision made by the Board of Directors, writes off the uncollectible part of the receivable as an expense.

(g) Provisions

Provision is a liability of uncertain timing or amount. Provision is recognized when the following criteria are met:

- An obligation (legal or constructive) exists as a result of past events,
- It is probable that the event will occur and that it will require a cash outflow representing economic benefits,
- The amount of the obligation can be reliably estimated.

In the course of normal business, the Group enters into relations in connection with instruments included in off-balance sheet accounts, consisting mainly of guarantees, letter of credit and liabilities related to unused loans. The Group creates provisions for risks arising from off-balance sheet exposures, which exist at the balance sheet date according to the Group's management estimates.

(h) Tangible and intangible assets

Tangible and intangible assets are recognized at historical cost less accumulated depreciation and impairment losses. Acquisition cost includes the purchase price plus other costs related to acquisition such as freight, duties or commissions.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency are capitalised. Repairs and renovations are charged to the profit and loss account when the expenditure incurs.

Depreciation is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life.

The estimated useful economic lives are as follows:

Software and patents	from 4 years, according to useful life
Buildings	20 – 50 years
Other	4 – 12 years
Land	is not depreciated

Assets in progress, land and art collections are not depreciated. Depreciation of assets in progress begins when the related assets are placed in use.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to this recoverable amount. Where assets are identified as being surplus to the Group's requirements, management assess the recoverable value by reference to a net selling price based on third party valuation reports, adjusted downwards for an estimate of associated sale costs.

(i) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Slovak crowns at the official NBS rates of exchange at the balance sheet date. Income and expenses denominated in foreign currencies are reported at the NBS rates of exchange prevailing at the date of the transaction.

Difference between the contractual exchange rate of a transaction and the NBS exchange rate on the date of the transaction is included in "Trading profit/(loss)", as well as gains and losses arising from movements in exchange rates after the date of the transaction.

(j) Financial derivatives

Financial derivatives include currency and interest rate swaps, currency and interest rate forwards, FRA and currency options (call and put options) and other financial derivatives.

Financial derivatives are measured at fair value. Unrealised gains and losses are recognised as "Other assets" or "Other liabilities". Realised and unrealised gains and losses are included in the profit and loss account within "Trading profit/(loss)". The fair value of financial derivatives is based on quoted market prices or valuation models, which reflect actual market and contractual value of an underlying instrument as well as time value and yield curve or volatility factors related to the positions.

Some financial derivatives underlying in other financial instruments are recognised as individual derivatives if the related risks and their characteristics are not closely related to the risks and characteristics of the underlying contract, whilst the underlying contract is not measured at fair value with gains and losses included in income.

Certain transactions with financial derivatives, although providing an effective economic hedge in the Group's risk management, do not meet the qualification criteria for recognition of hedging according to accounting procedures. Therefore they are kept in accounts as financial derivatives held for trading and fair value gains and losses are included in the profit and loss account.

In 2005, the Group realised currency swaps to hedge the liquidity in foreign currency. Other derivative transactions were performed according to clients' requirements.

(k) Taxation

Tax non-deductible expenses are added to, and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits.

Deferred tax is calculated on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the next period. A deferred tax asset is recognised only to the extent that it is probable that there will be future taxable profits available against which the tax asset can be utilised.

(l) Finance lease

The Group does not hold assets under finance lease as lessee. In 2004, the Group leased assets to its customers under finance leases.



(m) Assets securitization

The Group has not realised any assets securitization in 2005.

(n) Interest, fees and commissions

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans.

Fees and commissions are generally recorded on an accrual basis.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with the National Bank of Slovakia, loans, deposits and other amounts due from the National Bank of Slovakia and other banks with the contractual maturity up to three months.

(p) Contingencies

Contingent liabilities are not recognised in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the balance sheet but disclosed when an inflow of economic benefits is probable.

(r) Significant accounting judgements and estimates

Judgements

In the process of applying the Group’s accounting policies, management has made judgments, apart from those involving estimations, that significantly affect the amounts recognized in the financial statements.

Estimates

The preparation of the financial statements required management to make certain estimates and assumptions which impact the carrying values of the Group’s assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses for the period then ended.

Estimates are used for, but not limited to: impairment losses on loans and advances to customers, provisions for off-balance sheet risks, depreciable lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, provisions for employee benefits and legal claims.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgement and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Group’s operating environment changes. Actual results may differ from those estimates.

The various interpretations that can be made of the tax regulations applicable to the Group’s operations might give rise to tax contingencies that are not susceptible to objective quantification. However, the Bank’s Executive considers that the tax liability which might arise in connection with this would not be material.

3. Cash and cash equivalents

	2005	2004
	SKK '000	SKK '000
Cash and balances at the central bank (note 4)	2 188 525	1 695 007
Loans and advances to banks with contractual maturity up to 3 months (note 5)	132 272	639 224
	<u>2 320 797</u>	<u>2 334 231</u>

4. Cash and balances at the central bank

	2005	2004
	SKK '000	SKK '000
Amounts due from the National Bank of Slovakia:		
Compulsory minimum reserves	83 905	79 509
Receivables from repurchase transactions	1 692 583	1 588 255
Term deposits	380 042	–
Other	212	4 075
	<u>2 156 742</u>	<u>1 671 839</u>
Cash in hand	31 783	23 168
	<u>2 188 525</u>	<u>1 695 007</u>

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

5. Loans and advances to banks

	2005	2004
	SKK '000	SKK '000
Repayable on demand	30 520	75 470
Other loans and advances by contractual maturity:		
– 3 months or less	101 752	563 754
– from 3 months to 1 year	–	397 434
– from 1 year to 5 years	–	–
– over 5 years	–	–
	<u>132 272</u>	<u>1 036 658</u>
Less amounts with contractual maturity up to 3 months (note 3)	(132 272)	(639 224)
	<u>–</u>	<u>397 434</u>



6. Loans and advances to customers

	2005	2004
	SKK '000	SKK '000
Loans and advances to	1 284 345	604 213
– Entrepreneurs and legal entities	1 212 888	593 128
– Individuals	69 678	8 424
– Receivables on finance lease	1 779	2 661
Fees and commissions	–	20 831
	1 284 345	625 044
Provisions for impairment losses on loans and advances (note 7)	(84 672)	(95 986)
	<u>1 199 673</u>	<u>529 058</u>

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

	2005	2004
	SKK '000	SKK '000
Financial services	264 340	139 999
Manufacturing companies	453 588	135 577
Trading companies	496 739	275 899
Small businesses	3 291	5 676
Private individuals	66 387	4 005
Other sectors	–	63 888
	<u>1 284 345</u>	<u>625 044</u>

7. Impairment losses

	01/01/2005	(Creation) / reversal (Note 25, 26)	Foreign exchange rate differences	Sale, transfer and write-off (Note 25, 26)	31/12/2005
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
Loans and advances to customers (Note 6)	(95 986)	(22 243)	15	33 542	(84 672)
Other assets (Note 12)	<u>(7 152)</u>	<u>1 449</u>	–	<u>3 200</u>	<u>(2 503)</u>
	(103 138)	(20 794)	15	36 742	(87 175)
Non-current tangible and intangible assets (Note 10)	(131 889)	3 573	–	41 273	(87 043)
	<u>(235 027)</u>	<u>(17 221)</u>	<u>15</u>	<u>78 015</u>	<u>(174 218)</u>

	01/01/2004	(Creation) / reversal (Note 25, 26)	Foreign exchange rate differences	Sale, transfer and write-off (Note 25, 26)	31/12/2004
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
Loans and advances to customers (Note 6)	(192 104)	6 725	5	89 388	(95 986)
Other assets (Note 12)	<u>(3 674)</u>	<u>(3 478)</u>	–	–	<u>(7 152)</u>
	(195 778)	3 247	5	89 388	(103 138)
Non-current tangible and intangible assets (Note 10)	(136 410)	4 521	–	–	(131 889)
	<u>(332 188)</u>	<u>7 768</u>	<u>5</u>	<u>89 388</u>	<u>(235 027)</u>

8. Securities available for sale

	2005	2004 (restated)
	SKK '000	SKK '000
Debt securities available for sale (a)	1 533 003	1 069 192
Mutual fund certificates available for sale (b)	32 372	59 022
Shares available for sale (c)	<u>2 534</u>	<u>3 010</u>
	<u>1 567 909</u>	<u>1 131 224</u>

(a) Debt securities available for sale

	2005	2004 (restated)
	SKK '000	SKK '000
Securities issued by the Slovak government	551 673	596 144
Securities issued by Slovak financial institutions	597 616	357 277
Securities issued by other Slovak entities	64 565	51 106
Securities issued by foreign institutions	<u>319 149</u>	<u>64 665</u>
	<u>1 533 003</u>	<u>1 069 192</u>

(b) Mutual fund certificates available for sale

	2005	2004 (restated)
	SKK '000	SKK '000
Slovak mutual funds	–	–
Foreign mutual funds	<u>32 372</u>	<u>59 022</u>
	<u>32 372</u>	<u>59 022</u>



(c) Shares available for sale

	2005	2004
		(restated)
	SKK '000	SKK '000
Shares of Slovak companies	1 561	3 010
Shares of foreign companies	973	-
	2 534	3 010

9. Securities at fair value through profit or loss

	2005	2004
	SKK '000	SKK '000
Securities issued by the Slovak government	81 308	-
Securities issued by Slovak financial institutions	30 037	-
Securities issued by foreign institutions	145 090	-
	256 435	-



10. Non-current tangible and intangible assets

	Land SKK '000	Buildings SKK '000	Furniture fittings & equipment SKK '000	Motor vehicles SKK '000	Software SKK '000	Patents and licence SKK '000	Prepayments and assets acquired SKK '000	Total SKK '000
Cost								
At 1 January 2005	2 331	230 215	100 111	7 307	90 254	1 186	2 151	433 555
Additions	–	2 628	12 069	1 354	5 980	274	22 887	45 192
Disposals	<u>(347)</u>	<u>(54 881)</u>	<u>(12 019)</u>	<u>(542)</u>	<u>(31)</u>	<u>–</u>	<u>(22 221)</u>	<u>(90 041)</u>
At 31 December 2005	<u>1 984</u>	<u>177 962</u>	<u>100 161</u>	<u>8 119</u>	<u>96 203</u>	<u>1 460</u>	<u>2 817</u>	<u>388 706</u>
Depreciation/Amortization and impairment losses								
At 1 January 2005	–	(165 918)	(86 653)	(4 355)	(87 767)	(1 186)	–	(345 879)
Depreciation/Amortization	–	(51 560)	(5 788)	(1 377)	(2 942)	(10)	–	(61 677)
Impairment losses (Note 7)	–	44 846	–	–	–	–	–	44 846
Disposals	<u>–</u>	<u>54 882</u>	<u>12 018</u>	<u>542</u>	<u>31</u>	<u>–</u>	<u>–</u>	<u>67 473</u>
At 31 December 2005	<u>–</u>	<u>(117 750)</u>	<u>(80 423)</u>	<u>(5 190)</u>	<u>(90 678)</u>	<u>(1 196)</u>	<u>–</u>	<u>(295 237)</u>
Net book value:								
At 31 December 2005	<u>1 984</u>	<u>60 212</u>	<u>19 738</u>	<u>2 929</u>	<u>5 525</u>	<u>264</u>	<u>2 817</u>	<u>93 469</u>
At 31 December 2004	<u>2 331</u>	<u>64 297</u>	<u>13 458</u>	<u>2 952</u>	<u>2 487</u>	<u>–</u>	<u>2 151</u>	<u>87 676</u>

The amount of the depreciation and amortization totals SKK 13 083 thousand in 2005 (2004: SKK 15 260 thousand)

In 2005, the Group sold tangible assets with a net book value before the impairment provisions of SKK 47,842 thousand. The revenue from sale amounted to SKK 14,333 thousand. The Bank released provisions for disposed tangible assets in the amount of SKK 41,273 thousand.



11. Deferred tax

Deferred tax asset and liabilitie are attributable to the following:

	Asset		Liability		Net	
	2005	2004	2005	2004	2005	2004
	SKK '000	SKK '000	SKK '000	(restated) SKK '000	SKK '000	(restated) SKK '000
Investments	–	–	(1 883)	(1 883)	(1 883)	(1 883)
Loans and advances to customers	5 258	7 560	–	–	5 258	7 560
Non-current tangible and intangible assets	9 511	17 991	–	–	9 511	17 991
Tax loss	6 158	–	–	–	6 158	–
Other assets	29	59	–	–	29	59
Provisions for liabilities	–	–	–	–	–	–
Securities Revaluation in equity	–	–	(2 695)	(3 783)	(2 695)	(3 783)
Other	–	–	–	(3)	–	(3)
	<u>20 956</u>	<u>25 610</u>	<u>(4 578)</u>	<u>(5 669)</u>	<u>16 378</u>	<u>19 941</u>

The deferred tax assets and liabilities have been calculated using the corporate income tax rate of 19% (2004: 19%).

The Bank's management assumes that the future taxable profits will be sufficient to utilise the deferred tax asset recognised as at 31 December 2005.

Current tax losses carried forward can by utized by the Bank by 2008. The Bank's management assumes that the tax losses carried forward will be utilized in 2006.

12. Other assets

	2005	2004
	SKK '000	SKK '000
Other debtors	6 296	12 591
Positive fair value of derivatives	368	2 093
Other assets	<u>6 519</u>	<u>10 852</u>
	13 183	25 536
Provisions for losses on other assets (Note 7)	<u>(2 503)</u>	<u>(7 152)</u>
	<u>10 680</u>	<u>18 384</u>

13. Deposits by banks

Deposits by banks by the residual maturity

	2005	2004
	SKK '000	SKK '000
Demand deposits by banks	–	96
Other deposits by banks with residual maturity:		
– up to 3 months	30 283	241 191
– from 3 months to 1 year	–	64 837
– from 1 year to 5 years	–	1 570
– over 5 years	–	–
– not specified	–	26
	<u>30 283</u>	<u>307 720</u>

Deposits by banks by type

	2005	2004
	SKK '000	SKK '000
Current accounts with banks (credit balances)	–	96
Loans received from banks	–	2 549
Term deposits of banks (1 day residual maturity date)	–	–
Term deposits of banks (other)	30 283	305 075
Other amounts due to banks	–	–
	<u>30 283</u>	<u>307 720</u>

14. Customer accounts

Customers accounts by the residual maturity

	2005	2004
	SKK '000	SKK '000
Demand deposits	636 462	195 263
Other deposits with residual maturity:		
– up to 3 months	2 695 505	1 951 588
– from 3 months to 1 year	761 402	719 828
– from 1 year to 5 years	17 415	7 067
– over 5 years	9 134	–
– not specified	<u>22 652</u>	<u>23 026</u>
	<u>4 142 570</u>	<u>2 896 772</u>

Customer accounts of SKK 150,126 thousand as at 31 December 2005 are secured with the securities in the fair value of SKK 174,350 thousand, which are presented within the balance sheet caption "Securities available for sale".



Customer accounts by type

	2005	2004
	SKK '000	SKK '000
Current accounts (credit balances)	636 462	195 147
Term deposits	2 746 236	1 762 133
Saving deposits	332 363	528 284
Certificates of deposits	291 047	288 066
Accounts of state and local government authorities and funds	13 810	116
Deposits by bearer	22 652	22 652
Loans received from customers	100 000	100 000
Loans received from customers (repo transactions)	–	–
Other	–	374
	<u>4 142 570</u>	<u>2 896 772</u>

Customer accounts by sectors

	2005	2004
	SKK '000	SKK '000
Financial institutions	257 753	103 596
Non-financial institutions	1 371 270	969 502
Mutual funds	71 513	–
Insurance companies	549 022	620 627
Government	13 810	116
Non-profit companies	1 319	8 096
Self-employed	3 482	5 582
Citizens (residents)	852 483	1 171 474
Non-residents	1 021 918	17 779
Companies without identification number	–	–
Other	–	–
	<u>4 142 570</u>	<u>2 896 772</u>

15. Liabilities from debt securities

The securities issued by the Group represent bills of exchange.

Liabilities from debt securities by sectors

	2005	2004
	SKK '000	SKK '000
Non-financial institutions	272 142	610 667
Non-profit companies	11 326	–
Citizens (residents)	225 785	4 963
Non-residents	<u>1 233</u>	<u>–</u>
	<u>510 486</u>	<u>615 630</u>

16. Provisions

	01/01/2005	(Creation)/reversal	Foreign exchange rate differences	31/12/2005
	SKK '000	SKK '000	SKK '000	SKK '000
Legal cases	(7 527)	182	–	(7 345)
Termination benefits	(400)	400	–	–
Provisions for liabilities from main activities (bonus interest, revolving loans)	(1 125)	(1 114)	17	(2 222)
Other	<u>(7 804)</u>	<u>1 464</u>	<u>(43)</u>	<u>(6 383)</u>
	<u>(16 856)</u>	<u>932</u>	<u>(26)</u>	<u>(15 950)</u>

	01/01/2004	(Creation)/reversal	Foreign exchange rate differences	31/12/2004
	SKK '000	SKK '000	SKK '000	SKK '000
Penalties	(600)	600	–	–
Legal cases	(7 186)	(341)	–	(7 527)
Termination benefits	–	(400)	–	(400)
Provisions for liabilities from main activities (bonus interest, revolving loans, guarantees)	(5 885)	4 751	9	(1 125)
Other	<u>(6 388)</u>	<u>(1 416)</u>	<u>–</u>	<u>(7 804)</u>
	<u>(20 059)</u>	<u>3 194</u>	<u>9</u>	<u>(16 856)</u>

17. Other liabilities

	2005	2004
	SKK '000	SKK '000
Payables to creditors	3 090	867
Settlement with employees	3 135	2 015
Negative fair value of derivatives	292	8
Other amounts due to customers	40 802	10 620
Other	<u>34 796</u>	<u>19 336</u>
	<u>82 115</u>	<u>32 846</u>



18. Financial derivatives

	Notional principal		Fair value		Net fair value
	Receivable	Payable	Positive	Negative	
Currency forwards	62 288	62 212	368	(292)	76
Total	62 288	62 212	368	(292)	76

All derivatives are classified as held for trading. The positive fair value of derivatives in the amount of SKK 368 thousand is reported in “Other assets” (note 12) and negative fair value of derivatives in the amount of SKK 292 thousand is recorded in “Other liabilities” (note 17).

19. Share capital

	2005	2004
	SKK '000	SKK '000
Issued and fully paid share capital:		
756,874 ordinary shares of SKK 1,000 each	756 874	756 874

Shareholders of the Bank as at 31 December 2005:

Name	Registered office	No. of shares	Share in registered capital (%)
BASL Beteiligungsverwaltungs GmbH	Vienna	375 243	49.58
Allianz Slovenská poisťovňa, a.s.	Bratislava	150 000	19.82
Others (less than 10 %)		231 631	30.60
Total		756 874	100.00

Shareholders of the Bank as at 31 December 2004:

Name	Registered office	No. of shares	Share in registered capital (%)
BASL Beteiligungsverwaltungs GmbH	Vienna	375 243	49.58
Allianz Slovenská poisťovňa, a.s.	Bratislava	150 000	19.82
Others (less than 10 %)		231 631	30.60
Total		756 874	100.00

20. Capital and profit funds, retained earnings/losses

	Legal reserve fund	Retained earnings/losses	Total
	SKK '000	SKK '000	SKK '000
At 1 January 2005	43 102	(184 470)	(141 368)
Dividend for 2005	–	–	–
Mandatory contribution	4 078	(4 078)	–
Profit for 2005	–	42 733	42 733
At 31 December 2005	47 180	(145 815)	(98 635)

21. Off balance sheet items

	2005	2004
	SKK '000	SKK '000
Derivative transactions	62 167	326 834
Confirmed credit lines	163 363	52 033
Guarantees issued	50 058	21 999
	275 588	400 866

22. Net interest income

Interest income and similar income:

	2005	2004
	SKK '000	SKK '000
Interbank transactions	81 224	114 018
Transactions with customers	48 404	66 102
Debt securities	63 477	33 488
Other	10 565	4 570
	203 670	218 178

Interest expense and similar expense:

	2005	2004
	SKK '000	SKK '000
Interbank transactions	4 743	12 331
Transactions with customers	75 902	85 523
Promissory notes	14 537	21 506
Other	262	418
	95 444	119 778



23. Operating income

Net received fees and commissions

	2005	2004
	SKK '000	SKK '000
Income from fees and commissions:		
Loans	8 876	6 934
Guarantees	1 856	633
Payments	2 077	1 085
Itemised fees	2 331	2 489
Securities trading	1 063	19
Portfolio management	421	–
Other	710	658
	17 334	11 818
Expenses for fees and commissions:		
Payments	(2 462)	(3 244)
Interbank transactions	(1 093)	(1 081)
Securities trading	(549)	(318)
Intermediation	(2 116)	(580)
Other	(35)	(495)
	(6 255)	(5 718)
Net received fees and commissions:	11 079	6 100

Trading profit

	2005	2004 (restated)
	SKK '000	SKK '000
Gains from debt securities transactions (available for sale)	29 447	20 882
Change in accounting policies (debt securities available for sale)	–	(15 345)
Loss from debt securities transactions (at fair value through profit or loss)	(152)	–
Gains from shares and units (available for sale)	2 586	14 097
Change in accounting policies (shares and units available for sale)	–	(1 146)
Gains from derivative transactions	13 514	1 727
Gains from forex transactions	12 333	7 802
	57 728	28 017

Other income

	2005	2004
	SKK '000	SKK '000
Operating lease	1 611	2 617
Other income	2 239	19 429
	3 850	22 046

24. Administrative expenses

	2005	2004
	SKK '000	SKK '000
Personnel costs		
Wages and salaries	67 779	50 421
Social insurance	12 862	8 272
	80 641	58 693
Other operating expenses	57 063	56 974
	137 704	115 667

The average number of employees during the year was 91 (2004: 80).

25. Creation/reversal of impairment losses for loans and advances to customers and other assets

	2005	2004
	SKK '000	SKK '000
(Creation)/reversal of impairment losses (Note 7)	(20 794)	3 247
Reversal of impairment losses for transferred and written-off receivables (Note 7)	36 742	89 388
Net book value of transferred receivables	(45 284)	(90 163)
Income from transferred receivables	39 632	–
Net book value of written-off receivables	(3 232)	(98)
	7 064	2 374

26. Creation/reversal of impairment losses for non-current tangible and intangible assets

	2005	2004
	SKK '000	SKK '000
Reversal of impairment losses (Note 7)	3 573	4 521
Reversal of impairment losses for disposed assets (Note 7)	41 273	–
Net book value of disposed assets (Note 10)	(47 842)	(7 157)
Income from disposed assets	14 333	592
Net book value of written-off assets	–	(5 804)
	11 338	(7 848)



27. Tax benefit/(charge)

	2005	2004
	SKK '000	SKK '000
Income tax	–	–
Deferred tax	(4 651)	901
	<u>(4 651)</u>	<u>901</u>

The Group recognised a tax expense in the profit and loss account of SKK 4,651 thousand due to the change in the deferred tax asset (2004: income of SKK 901 thousand).

At the same time, the Group's equity as at 31 December 2005 decreased as a result of the change in the deferred tax liability charged on the securities available for sale of SKK 2,695 thousand (2004: SKK 3,783 thousand).

Reconciliation of theoretical and accounted income tax:

	2005			2004		
	Balance	Tax rate	Impact on	Balance	Tax rate	Impact on
	SKK '000		theoretical tax	SKK '000		theoretical tax
Profit/(loss) before taxation	47 384	19 %	9 003	22 913	19 %	4 353
Permanent non-deductible items	38 860	19 %	7 383	27 774	19 %	5 277
Non-taxable income	(61 763)	19 %	(11 735)	(55 426)	19 %	(10 531)
Total			<u>4 651</u>			<u>(901)</u>
Effective tax			10 %			4 %

28. Profit/loss before changes in operating assets and liabilities

	2005	2004 (restated)
	SKK '000	SKK '000
Profit/(loss) before tax	47 384	22 913
Adjustment for non-cash items:		
Interest income	(203 670)	(218 178)
Interest expense	95 444	119 778
Depreciation	13 083	21 064
Release of provisions for losses on loans and advances	(7 064)	(2 427)
Release of impairment losses on non-current tangible assets	(44 847)	(4 521)
Provisions for main activities	1 114	(5 010)
Profit/loss on disposal of non-current tangible and intangible assets and write-off of assets	<u>33 509</u>	<u>(1 400)</u>
Profit before changes in operating assets and liabilities	<u>(65 047)</u>	<u>(67 781)</u>

29. Related party transactions

	2005	2005
	Balance	Expense/Income
	SKK '000	SKK '000

(a) Shareholders

Amounts due from/to shareholders and related parties were as follows:

Assets

Cash and cash equivalents	280	383
---------------------------	-----	-----

Liabilities

Deposits by banks	–	980
Customer accounts	245 037	6 780

(b) Subsidiary (BS FIN, s.r.o.)

Amounts due from/to subsidiary were as follows:

Assets

Liabilities

Customer accounts	318	4
-------------------	-----	---

c) Senior management

Amounts due from/to members of the top management and related parties were as follows:

Assets

Liabilities

Customer accounts	4 563	144	60
Debt securities	13 329	303	61
Provisions	3 916	–	
Other liabilities	510	–	

30. Financial instruments – market risk

In carrying out its activities, the Group is exposed to market risks, which depend on the extent of exposure to individual risk factors, mainly changes in interest rates, exchange rates and the price of capital and financial market instruments.

Interest rate risk

Interest rate risk is the risk of a change in the value of the Group's portfolios as a result of changes in market interest rates. To measure the interest rate sensitivity of assets and liabilities, the Group uses interest gap analysis. Assets and liabilities are classified into time segments depending on the time of revaluation of the instrument or its reinvestment. The size of the interest gap represents the extent of the risk of potential loss resulting from changes in market interest rates, represented by the value of the theoretical change of the net interest income under exactly specified restrictive conditions of the model. The Group has set a limit for the maximum interest rate exposure defined by the maximum theoretical change of net interest income within one year starting from the moment of the valuation of the Group's positions.



The average effective interest rates of financial assets and liabilities denominated in Slovak crowns as at 31 December 2005 and in the periods in which these rates are re-priced are as follows:

	Effective interest rate %	Total SKK '000	Up to 3 months SKK '000	3 months to 1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	2.78	2 176 930	2 176 930	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	5.46	1 024 183	354 736	254 402	276 493	123 807	14 745
Securities:	4.50	1 477 145	90 852	207 166	582 431	595 135	1 561
Available for sale	4.62	1 325 338	20 353	157 849	582 431	563 144	1 561
At fair value through profit or loss	3.45	<u>151 807</u>	<u>70 499</u>	<u>49 317</u>	<u>–</u>	<u>31 991</u>	<u>–</u>
		<u>4 678 258</u>	<u>2 622 518</u>	<u>461 568</u>	<u>858 924</u>	<u>718 942</u>	<u>16 306</u>
Interest bearing liabilities							
Deposits by banks	–	–	–	–	–	–	–
Customer accounts	1.80	3 724 529	3 130 602	571 275	–	–	22 652
Debt securities	2.38	<u>375 347</u>	<u>360 262</u>	<u>14 538</u>	<u>547</u>	<u>–</u>	<u>–</u>
		<u>4 099 876</u>	<u>3 490 864</u>	<u>585 813</u>	<u>547</u>	<u>–</u>	<u>22 652</u>
Off-balance sheet items difference		<u>43 049</u>	<u>43 049</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interest rate re-pricing gap		<u>621 431</u>	<u>(825 297)</u>	<u>(124 245)</u>	<u>858 377</u>	<u>718 942</u>	<u>(6 346)</u>
Cumulative interest rate re-pricing gap		<u>–</u>	<u>(825 297)</u>	<u>(949 542)</u>	<u>(91 165)</u>	<u>627 777</u>	<u>621 431</u>



The average effective interest rates of financial assets and liabilities denominated in Euro as at 31 December 2005 and in the periods in which these rates are re-priced are as follows:

	Effective interest rate %	Total SKK '000	Up to 3 months SKK '000	3 months to 1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	0.08	20 855	20 855	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	3.21	110 090	1 635	354	107 437	–	664
Securities:	1.50	51 314	–	17 963	–	6	33 345
Available for sale	1.50	51 308	–	17 963	–	–	33 345
At fair value through profit or loss	–	<u>6</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6</u>	<u>–</u>
		<u>182 259</u>	<u>22 490</u>	<u>18 317</u>	<u>107 437</u>	<u>6</u>	<u>34 009</u>
Interest bearing liabilities							
Deposits by banks	2.49	30 283	30 283	–	–	–	–
Customer accounts	0.80	38 314	37 018	1 296	–	–	–
Debt securities	2.16	<u>85 438</u>	<u>85 438</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>154 035</u>	<u>152 739</u>	<u>1 296</u>	<u>–</u>	<u>–</u>	<u>–</u>
Off-balance sheet items difference		<u>(42 973)</u>	<u>(42 973)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interest rate re-pricing gap		<u>(14 749)</u>	<u>(173 222)</u>	<u>17 021</u>	<u>107 437</u>	<u>6</u>	<u>34 009</u>
Cumulative interest rate re-pricing gap		<u>–</u>	<u>(173 222)</u>	<u>(156 201)</u>	<u>(48 764)</u>	<u>(48 758)</u>	<u>(14 749)</u>



The average effective interest rates of financial assets and liabilities denominated in USD as at 31 December 2005 and in the periods in which these rates are re-priced are as follows:

	Effective interest rate %	Total SKK '000	Up to 3 months to 3 months SKK '000	1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	2.51	16 901	16 901	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–	–
Securities:	–	–	–	–	–	–	–
Available for sale	–	–	–	–	–	–	–
At fair value through profit or loss	–	–	–	–	–	–	–
		16 901	16 901	–	–	–	–
Interest bearing liabilities							
Deposits by banks	–	–	–	–	–	–	–
Customer accounts	1.38	12 518	10 863	1 655	–	–	–
Debt securities	3.77	4 474	4 474	–	–	–	–
		16 992	15 337	1 655	–	–	–
Off-balance sheet items difference		–	–	–	–	–	–
Interest rate re-pricing gap		(91)	1 564	(1 655)	–	–	–
Cumulative interest rate re-pricing gap		–	1 564	(91)	(91)	(91)	(91)



The average effective interest rates of financial assets and liabilities denominated in CZK as at 31 December 2005 and in the periods in which these rates are re-priced are as follows:

	Effective interest rate %	Total SKK '000	Up to 3 months to 3 months SKK '000	1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	1.87	96 547	96 547	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	3.04	65 400	–	65 400	–	–	–
Securities:	2.93	250 540	183 741	66 799	–	–	–
Available for sale	3.31	145 918	79 119	66 799	–	–	–
At fair value through profit or loss	2.41	104 622	104 622	–	–	–	–
		412 487	280 288	132 199	–	–	–
Interest bearing liabilities							
Deposits by banks	–	–	–	–	–	–	–
Customer accounts	2.00	361 827	361 169	658	–	–	–
Debt securities	1.66	45 227	45 227	–	–	–	–
		407 054	406 396	658	–	–	–
Off-balance sheet items difference		–	–	–	–	–	–
Interest rate re-pricing gap		5 433	(126 108)	131 541	–	–	–
Cumulative interest rate re-pricing gap		–	(126 108)	5 433	5 433	5 433	5 433



The average effective interest rates of financial assets and liabilities denominated in Slovak crowns as at 31 December 2004 and in the periods in which these rates are re-priced are as follows (restated):

	Effective interest rate %	Total SKK '000	Up to 3 months SKK '000	3 months to 1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	3.62	2 227 825	2 213 151	–	–	–	14 674
Loans and advances to banks	7.33	397 434	–	397 434	–	–	–
Loans and advances to customers	7.62	508 223	262 919	221 015	16 372	7 917	–
Securities:	5.10	1 007 537	19 574	63 469	457 360	464 124	3 010
Available for sale	5.10	1 007 537	19 574	63 469	457 360	464 124	3 010
At fair value through profit or loss	–	–	–	–	–	–	–
		<u>4 141 019</u>	<u>2 495 644</u>	<u>681 918</u>	<u>473 732</u>	<u>472 041</u>	<u>17 684</u>
Interest bearing liabilities							
Deposits by banks	3.76	193 053	190 745	712	1 570	–	26
Customer accounts	2.81	2 820 318	2 396 863	400 429	–	–	23 026
Debt securities	2.76	<u>592 462</u>	<u>592 462</u>	–	–	–	–
		<u>3 605 833</u>	<u>3 180 070</u>	<u>401 141</u>	<u>1 570</u>	<u>–</u>	<u>23 052</u>
Off-balance sheet items difference		<u>41 095</u>	<u>41 095</u>	–	–	–	–
Interest rate re-pricing gap		<u>576 281</u>	<u>(643 331)</u>	<u>280 777</u>	<u>472 162</u>	<u>472 041</u>	<u>(5 368)</u>
Cumulative interest rate re-pricing gap		<u>–</u>	<u>(643 331)</u>	<u>(362 554)</u>	<u>109 608</u>	<u>581 649</u>	<u>576 281</u>



The average effective interest rates of financial assets and liabilities denominated in Euro as at 31 December 2004 and in the periods in which these rates are re-priced are as follows (restated):

	Effective interest rate %	Total SKK '000	Up to 3 months SKK '000	3 months to 1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	0.13	51 225	47 475	–	–	–	3 750
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	5.28	20 830	20 830	–	–	–	–
Securities:	–	59 022	–	–	–	–	59 022
Available for sale	–	59 022	–	–	–	–	59 022
At fair value through profit or loss	–	–	–	–	–	–	–
		<u>131 077</u>	<u>68 305</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>62 772</u>
Interest bearing liabilities							
Deposits by banks	2.35	50 446	50 446	–	–	–	–
Customer accounts	0.84	42 697	39 487	3 210	–	–	–
Debt securities	–	–	–	–	–	–	–
		<u>93 143</u>	<u>89 933</u>	<u>3 210</u>	<u>–</u>	<u>–</u>	<u>–</u>
Off-balance sheet items difference		<u>(38 796)</u>	<u>(38 796)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interest rate re-pricing gap		<u>(862)</u>	<u>(60 424)</u>	<u>(3 210)</u>	<u>–</u>	<u>–</u>	<u>62 772</u>
Cumulative interest rate re-pricing gap		<u>–</u>	<u>(60 424)</u>	<u>(63 634)</u>	<u>(63 634)</u>	<u>(63 634)</u>	<u>(862)</u>



The average effective interest rates of financial assets and liabilities denominated in USD as at 31 December 2004 and in the periods in which these rates are re-priced are as follows (restated):

	Effective interest rate %	Total SKK '000	Up to 3 months SKK '000	3 months to 1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	2.05	33 932	32 814	–	–	–	1 118
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–	–
Securities:	–	–	–	–	–	–	–
Available for sale	–	–	–	–	–	–	–
At fair value through profit or loss	–	–	–	–	–	–	–
		<u>33 932</u>	<u>32 814</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1 118</u>
Interest bearing liabilities							
Deposits by banks	5.00	96	96	–	–	–	–
Customer accounts	0.20	16 352	13 747	2 605	–	–	–
Debt securities	1.82	<u>23 168</u>	<u>23 168</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>39 616</u>	<u>37 011</u>	<u>2 605</u>	<u>–</u>	<u>–</u>	<u>–</u>
Off-balance sheet items difference		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interest rate re-pricing gap		<u>(5 684)</u>	<u>(4 197)</u>	<u>(2 605)</u>	<u>–</u>	<u>–</u>	<u>1 118</u>
Cumulative interest rate re-pricing gap		<u>–</u>	<u>(4 197)</u>	<u>(6 802)</u>	<u>(6 802)</u>	<u>(6 802)</u>	<u>(5 684)</u>



The average effective interest rates of financial assets and liabilities denominated in CZK as at 31 December 2004 and in the periods in which these rates are re-priced are as follows (restated):

	Effective interest rate %	Total SKK '000	Up to 3 months SKK '000	3 months to 1 year SKK '000	1 – 5 years SKK '000	Over 5 years SKK '000	Unspecified SKK '000
Interest earning assets							
Cash and cash equivalents	0.25	13 616	11 837	–	–	–	1 779
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	–	5	–	–	–	–	5
Securities:	4.09	64 665	–	64 665	–	–	–
Available for sale	4.09	64 665	–	64 665	–	–	–
At fair value through profit or loss	–	–	–	–	–	–	–
		<u>78 286</u>	<u>11 837</u>	<u>64 665</u>	<u>–</u>	<u>–</u>	<u>1 784</u>
Interest bearing liabilities							
Deposits by banks	3.01	64 125	–	64 125	–	–	–
Customer accounts	1.53	11 575	10 214	1 361	–	–	–
Debt securities	–	–	–	–	–	–	–
		<u>75 700</u>	<u>10 214</u>	<u>65 486</u>	<u>–</u>	<u>–</u>	<u>–</u>
Off-balance sheet items difference		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interest rate re-pricing gap		<u>2 586</u>	<u>1 623</u>	<u>(821)</u>	<u>–</u>	<u>–</u>	<u>1 784</u>
Cumulative interest rate re-pricing gap		<u>–</u>	<u>1 623</u>	<u>802</u>	<u>802</u>	<u>802</u>	<u>2 586</u>



Currency risk

Currency risk is the risk of a change in the value of the Group’s portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Group manages currency risk by determining and daily monitoring of maximum limits of the open positions for individual currencies. The following tables show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured currency positions for the years 2005 and 2004.

The currency position of the Group as at 31 December 2005:

	EUR	USD	Other	SKK	Total
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
Monetary assets					
Cash and cash equivalents	20 855	16 901	106 111	2 176 930	2 320 797
Loans and advances to banks	–	–	–	–	–
Loans and advances to customers	110 090	–	65 400	1 024 183	1 199 673
Securities	51 314	–	295 885	1 477 145	1 824 344
Available for sale	51 308	–	191 263	1 325 338	1 567 909
At fair value through profit or loss	6	–	104 622	151 807	256 435
Deferred tax asset	–	–	–	16 378	16 378
Other assets	<u>1 040</u>	<u>42</u>	<u>–</u>	<u>9 598</u>	<u>10 680</u>
	<u>183 299</u>	<u>16 943</u>	<u>467 396</u>	<u>4 704 234</u>	<u>5 371 872</u>
Monetary liabilities					
Deposits by banks	30 283	–	–	–	30 283
Customer accounts	38 314	12 518	367 209	3 724 529	4 142 570
Debt securities	85 438	4 474	45 227	375 347	510 486
Provisions	838	–	–	15 112	15 950
Other liabilities	<u>1 901</u>	<u>6</u>	<u>41</u>	<u>80 167</u>	<u>82 115</u>
Gap	<u>156 774</u>	<u>16 998</u>	<u>412 477</u>	<u>4 195 155</u>	<u>4 781 404</u>

The Group did not report a significant open foreign currency positions at the year-end.

The currency position of the Group as at 31 December 2004 (restated):

	EUR	USD	Ostatné	SKK	Celkom
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
Monetary assets					
Cash and cash equivalents	51 225	33 932	21 249	2 227 825	2 334 231
Loans and advances to banks	–	–	–	397 434	397 434
Loans and advances to customers	20 830	–	5	508 223	529 058
Securities	59 022	–	64 665	1 007 537	1 131 224
Available for sale	59 022	–	64 665	1 007 537	1 131 224
At fair value through profit or loss	–	–	–	–	–
Deferred tax asset	–	–	–	19 941	19 941
Other assets	<u>8 265</u>	<u>7</u>	<u>1</u>	<u>10 111</u>	<u>18 384</u>
	<u>139 342</u>	<u>33 939</u>	<u>85 920</u>	<u>4 171 071</u>	<u>4 430 272</u>
Monetary liabilities					
Deposits by banks	50 446	96	64 125	193 053	307 720
Customer accounts	42 697	16 352	17 405	2 820 318	2 896 772
Debt securities	–	23 168	–	592 462	615 630
Provisions	254	–	–	16 602	16 856
Other liabilities	<u>15 960</u>	<u>26</u>	<u>–</u>	<u>16 860</u>	<u>32 846</u>
Gap	<u>109 357</u>	<u>39 642</u>	<u>81 530</u>	<u>3 639 295</u>	<u>3 869 824</u>

The Group did not report a significant open foreign currency position at the year-end.

31. Financial instruments – capital adequacy

Institutions that have been granted a bank licence must maintain the capital adequacy of at least 8% according the Slovak National Bank’s regulations. The capital adequacy is the ratio between the Bank’s capital and the risk-weighted assets. The Bank’s capital adequacy as at 31 December 2005 and 31 December 2004 significantly exceeded the specified limit.

32. Financial instruments – liquidity

Liquidity risk is the risk in ability of the Group to fulfill its obligations towards its business partners as a result of a discrepancy in the maturity of the assets and the liabilities. The Group monitors and manages the liquidity on the basis of the expected cash flow on the assets and liabilities side of the balance sheet. To measure the liquidity exposure, the Group uses the liquidity gap method. The Group defines and manages the risk of the ability to fulfill one’s obligations by means of specified limits of discrepancy in the maturity of the assets and the liabilities in individual time segments.

The following tables contain the analyses of the cash flow of assets and liabilities in individual time segments according to the relevant remaining maturity. The assets and liabilities without a specified maturity date are included in the category “Unspecified”.



The remaining maturity of monetary assets and liabilities as at 31 December 2005:

	Up to 1 year	1-5 years	Over 5 years	Unspecified	Total
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
Monetary assets					
Cash and cash equivalents	2 320 797	–	–	–	2 320 797
Loans and advances to banks	–	–	–	–	–
Loans and advances to customers	768 354	270 586	121 068	39 665	1 199 673
Securities:	305 372	733 291	750 775	34 906	1 824 344
Available for sale	255 162	589 063	688 778	34 906	1 567 909
At fair value through profit or loss	50 210	144 228	61 997	–	256 435
Deferred tax asset	–	–	–	16 378	16 378
Other assets	–	–	–	10 680	10 680
	<u>3 394 523</u>	<u>1 003 877</u>	<u>871 843</u>	<u>101 629</u>	<u>5 371 872</u>
Monetary liabilities					
Deposits by banks	30 283	–	–	–	30 283
Customer accounts	4 093 369	17 415	9 134	22 652	4 142 570
Debt securities	509 939	547	–	–	510 486
Provisions	–	–	–	15 950	15 950
Other liabilities	–	–	–	82 115	82 115
	<u>4 633 591</u>	<u>17 962</u>	<u>9 134</u>	<u>120 717</u>	<u>4 781 404</u>

The remaining maturity of monetary assets and liabilities as at 31 December 2004 (restated):

	Up to 1 year	1-5 years	Over 5 years	Unspecified	Total
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
Monetary assets					
Cash and cash equivalents	2 334 231	–	–	–	2 334 231
Loans and advances to banks	397 434	–	–	–	397 434
Loans and advances to customers	391 820	14 082	–	123 156	529 058
Securities:	32 480	572 588	464 124	62 032	1 131 224
Available for sale	32 480	572 588	464 124	62 032	1 131 224
At fair value through profit or loss	–	–	–	–	–
Deferred tax asset	–	–	–	19 941	19 941
Other assets	–	–	–	18 384	18 384
	<u>3 155 965</u>	<u>586 670</u>	<u>464 124</u>	<u>223 513</u>	<u>4 430 272</u>
Monetary liabilities					
Deposits by banks	306 124	1 570	–	26	307 720
Customer accounts	2 866 679	7 067	–	23 026	2 896 772
Debt securities	615 630	–	–	–	615 630
Provisions	–	–	–	16 856	16 856
Other liabilities	–	–	–	32 846	32 846
	<u>3 788 433</u>	<u>8 637</u>	<u>–</u>	<u>72 754</u>	<u>3 869 824</u>



33. Financial instruments – credit risk

While conducting its activities, the Group is exposed to credit risk, i.e. the risk that the counterparty will not be able to repay the due amounts in full within the maturity period. The Group reduces the extent of credit risk by setting limits for exposures with respect to an individual debtor or a group of debtors and with respect to individual geographical areas. The actual exposure is regularly compared to the fixed limits. Credit risk is also managed by means of a regular analysis of the debtor’s and the potential debtors' ability to pay the principal and interest and by securement of the debtor's credibility.

The Group is exposed to credit risk as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

The Group monitors the credit risks of individual customers using an internal rating valuation. The rating of a customer before the realization of a loan business consists of two parts – the financial part and the trade part. The financial rating is based on an evaluation of economic results as shown in the financial statements of the customer and quantified based on the indicators of activity, profitability, indebtedness and liquidity. The customers are classified into four groups according to the results of the financial rating. The trade or non-financial rating is based on qualitative characteristics of the customer, e.g. the quality of relations between suppliers and customers, competition, management quality, cooperation with the bank and the payment discipline of the customer, sales guarantee etc. Based on the evaluation of these characteristics, the customers are classified into four groups according to the level of trade risk. The result of the rating is a combination of the financial and non-financial rating. The Group monitors the development and any changes in the rating valuation of the customers in regular quarterly intervals, when the loans control is performed in order to identify the improvement or deterioration of the economic situation of the customers, and the debtor is being analysed. The analysis consists of the evaluation of the payment discipline, the fulfillment of the business plan, contractual terms, and the re-evaluation of the quality of collateral.

The concentration of credit risk arises as a result of the accumulation of credits towards the counterparty or economically related group. An excessive concentration of credit exposure towards one entity has effect on the ability of the debtor to pay its obligations. The Group treats a receivable from a debtor or an economically related group of debtors that exceeds 5% of the Bank’s capital as a significant exposure. The Group has created a system of internal reports on significant credit exposures exceeding the specified limit with respect to debtors.

34. Operational, legal and other risks

Operational, legal and other risks are monitored within the Group’s internal control system in case of reviews made by the Department of Internal Control and Audit and by headquarters divisions.



35. Fair values

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. The estimated fair values of the Group’s financial assets and liabilities at the year-end were as follows:

	Carrying value 2005	Fair value 2005	Carrying value 2004 (restated)	Fair value 2004
	SKK '000	SKK '000	SKK '000	SKK '000
Financial assets				
Cash and cash equivalents	2 320 797	2 320 797	2 334 231	2 334 231
Loans and advances to banks	–	–	397 434	397 434
Loans and advances to customers	1 199 673	1 243 001	529 058	540 287
Securities	1 824 344	1 824 344	1 131 224	1 131 224
Available for sale	1 567 909	1 567 909	1 131 224	1 131 224
At fair value through profit or loss	256 435	256 435	–	–
Other assets	10 680	10 680	18 384	18 384
Financial liabilities				
Deposits by banks	30 283	30 283	307 720	307 720
Customer accounts	4 142 570	4 132 267	2 896 772	2 891 563
Debt securities	510 486	510 069	615 630	615 537

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

Cash and cash equivalents

The fair values of cash and cash equivalents approximate to their carrying value.

Loans and advances to banks

The fair value of current accounts with other banks approximates to their carrying value. For amounts with a remaining maturity of less than three months, it is also reasonable to use the carrying value as an approximation of their fair value. The fair values of other loans and advances to banks are calculated by discounting the future cash flows using current interbank rates.

Loans and advances to customers

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

Securities

Securities available-for-sale and securities measured at fair value through profit and loss account are stated at quoted market prices.



Other assets

Other assets are measured net of provisions for uncollectible amounts. As other assets are short-term, their fair value approximates to the carrying value.

Deposits by banks

The fair value of current accounts with other banks approximates to their carrying value. For other amounts owed by banks with a remaining maturity of less than three months, it is also reasonable to use the carrying values as an approximation of their fair value. The fair values of other deposits by banks are calculated by discounting the future cash flows using the current interbank rates.

Customer accounts and debt securities

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

36. Reconciliation to Slovak statutory financial statements

The profit after tax, shareholders' equity and total assets prepared under the Slovak accounting regulations and reported in the statutory financial statements can be reconciled to these financial statements prepared under IFRS as follows:

	Profit after tax 2005 SKK '000	Equity 2005 SKK '000	Total assets 2005 SKK '000
Reported under the Slovak accounting regulations	42 733	683 937	5 465 341
Reported under IFRS	<u>42 733</u>	<u>683 937</u>	<u>5 465 341</u>

	Profit after tax 2004 (restated) SKK '000	Equity 2004 (restated) SKK '000	Total assets 2004 (restated) SKK '000
Reported under the Slovak accounting regulations	40 781	631 997	4 496 175
Change in accounting policies (Note 2a)	(16 491)	16 127	16 127
Revaluation PL Slnko	(476)	–	–
Settlement with the State Budget	<u>–</u>	<u>–</u>	<u>5 646</u>
Reported under IFRS	<u>23 814</u>	<u>648 124</u>	<u>4 517 948</u>

37. Significant post balance sheet events

No significant subsequent events occurred after the balance sheet date that would require any disclosure or adjustment in the consolidated financial statements as of 31 December 2005.



