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Annual Report
Komerční banka Bratislava, a. s.
2003

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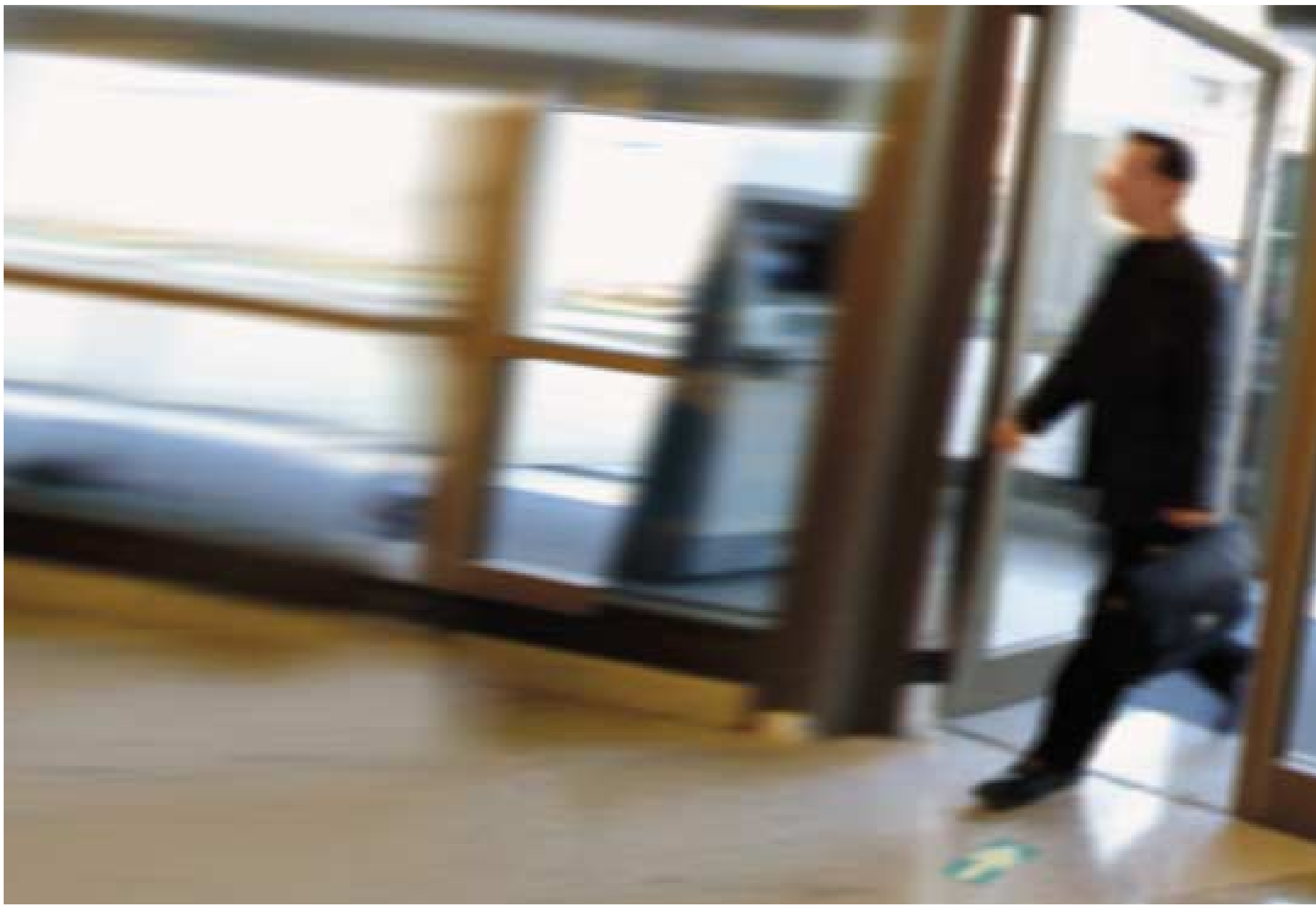
Komerční banka Bratislava, a. s.
is the Slovak daughter company of Komerční banka, a. s. –

The Trustworthiest and The Most Dynamic Bank of the Year 2003 in the Czech Republic.

3

Komerční banka Bratislava, a. s. offers products and services on the Slovak market thanks to the affiliation to KB and the Société Générale Group. Our bank provides its services to the Slovak corporations as well as to the KB clients having developed business relations in the Slovak Republic and to the international clients of the Société Générale Group considering investing in the country.



119,714

In 2003, the bank reported a net profit of SKK 119,714 thousand.

4.08%

As at 31 December 2003, the Bank's loan portfolio amounted to SKK 2,048,406 thousand, which is a year-on-year growth of 4.08%.

3

Bank offers its products through three branches located in key areas throughout the country (Bratislava, Banská Bystrica and Košice).

3,617

At the end of 2003, bank had 3,617 clients.

21.44%

The volume of clients' deposits at the end of 2003 amounted to SKK 2,267,951 thousand, i.e. a rise by 21.44% compared with 2002.

Contents

Company Profile

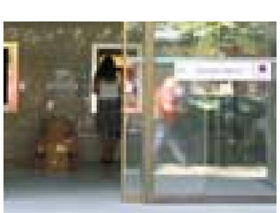
Komerční banka Bratislava, a. s. (herein “KBB” or “the Bank”) is a wholly-owned subsidiary of Komerční banka, a. s. (herein “Komerční banka” or “KB”). It has been operating in Slovakia since 1995 as a bank holding an universal banking licence. KBB was established as a natural step of business and financial activities between the Czech and Slovak Republics. For its prompt and highly competitive system of payments with the Czech Republic, KBB has acquired a firm position on the Slovak financial market. KBB conducts its business based on its banking licence and meets the criteria for all types of financial transactions, including capital market transactions (under the supervision of the Financial Market Authority).

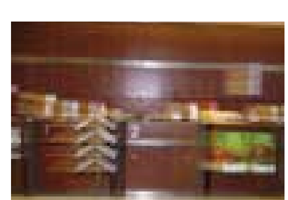
KBB is a valuable member of the Komerční banka Financial Group. As at 31 December 2003 Komerční banka’s Financial Group consisted of ten companies controlled to some extent by Komerční banka. Eight of the companies of the KB Financial Group are subsidiaries with a decisive influence of Komerční banka and two are associate companies with KB’s substantial influence.

The Bank’s mission is to support financial and capital flows arising from business activities between entities operating in Czech Republic and Slovak Republic, especially entities that are clients of the parent KB.

KBB offers its clients a full range of financial services, focusing on its corporate banking products. Well-established and strong corporations, along with special-purpose business entities which have business relations with the Czech Republic, represent the core of KBB's client base. To a limited extent, the Bank also provides its financial products and services to small- and medium-sized businesses and private clientele. KBB offers above-standard services to clients of the KB Group operating on the Slovak financial and capital markets.

A key strategic goal of the Bank for 2004 is the expansion of its corporate clients and focus on business relations given by Société Générale, the new owner of Komerční banka. The integration of Komerční banka into the Société Générale ("SG") Group in October 2001 made Komerční banka Bratislava, a. s. part of one of the largest and most profitable banking institutions in Europe. SG Group offers over 15 million clients in 3,100 branches worldwide top quality and comprehensive financial services, including retail banking, asset management, private, corporate and investment banking. Being a member of the strong Société Générale Group will contribute to the strengthening of the market position of Komerční banka and its associated undertakings. This will be achieved by ongoing quality enhancement, and the gradual expansion of the scope of products and services offered to corporate clients.

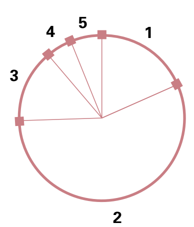




Unconsolidated data SKK thousand	IFRS 2003	2002	SAS 2003	2002
Financial Results				
Net interest income	143,119	121,985	141,326	133,179
Net fees and commissions	47,597	51,659	16,976	21,092
Trading profit/(loss)	(11,698)	26,136	19,876	51,790
Income from associated undertakings	73,721	24,685	129,178	–
Other income	336	(645)	–	–
Net banking income	**253,075**	**223,820**	**307,356**	**206,061**
Administrative expenses, depreciation, other provisions, net	(182,443)	(156,938)	(180,121)	(149,914)
Profit/(loss) before reserves and proivsions	70,632	66,882	127,235	56,147
Net provisions and reserves for loan losses, written off receivables	6,388	(28,052)	6,721	(39,983)
Profit/(loss) before tax	**77,020**	**38,830**	**133,956**	**16,164**
Income tax	(5,781)	(3,703)	(14,242)	2,560
Net profit	**71,239**	**35,127**	**119,714**	**18,724**
Market value per share as at 31 December	14	7	24	4
Balance Sheet				
Total assets	3,654,620	5,231,266	3,706,052	5,918,722
Net loans and advances to customers	2,083,199	2,196,678	2,048,406	1,968,081
Amounts owed to customers	2,374,937	1,739,952	2,267,951	1,867,496
Trading securities	548,266	615,881	548,267	1,202,476
Securities held to maturity	191,574	193,486	191,574	192,019
Total shareholders' equity	**701,434**	**630,195**	**701,462**	**573,859**
– Registered capital	500,000	500,000	500,000	500,000
– Non-distributable reserves	73,358	55,135	73,358	55,135
– Retained earnings	56,837	39,933	8,390	–
– Profit/(loss)	71,239	35,127	119,714	18,724
Ratios				
Capital adequacy	X	24.39	25.88	24.70
Expenses on total net income ratio	72.09	70.12	58.60	72.75
Fee and commission margin on total net income ratio	18.81	23.08	5.52	10.24
Total assets per share	731	1,046	741	1,184
Other Data				
Average number of employees	106.93	127.21	106.93	127.21
Number of employees	107	115	107	115
Number of sales points	3	3	3	3
Number of ATMs	2	2	2	2

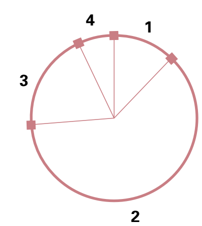
IFRS – Results according to the International Financial Reporting Standards
SAS – Results according to the Slovak Accounting Standards
Income from associated undertaking was not consolidated in SAS results.

Financial Highlights



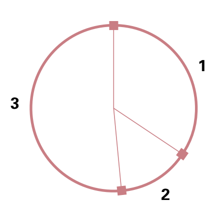
Structure of assets (SKK thousand)

1	Due from other banks	690,620	18.64%
2	Loans to clients	2,048,406	55.27%
3	Trading Securities	548,266	14.79%
4	Securities held to maturity	191,574	5.17%
5	Other assets	227,186	6.13%
	Total assets	3,706,052	100.00%



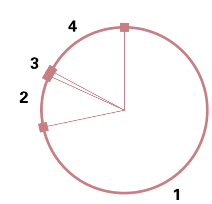
Structure of liabilities (SKK thousand)

1	Due to other banks	469,061	12.66%
2	Client deposits	2,267,951	61.20%
3	Equity	701,462	18.92%
4	Other liabilities	267,578	7.22%
	Total liabilities	3,706,052	100.00%



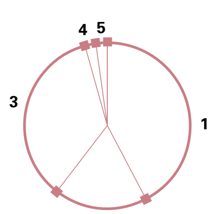
General administrative costs (SKK thousand)

1	Personnel costs	60,945	33.83%
2	Depreciation	26,007	14.44%
3	Other administrative expenses	93,169	51.73%
	Total	180,121	100.00%



Equity and capital (SKK thousand)

1	Registered capital	500,000	71.28%
2	Reserve fund	73,358	10.45%
3	Retained earnings (loss) from the last years	8,390	1.20%
4	Profit for current period	119,714	17.07%
	Total	701,462	100.00%



Structure of primary deposits (SKK thousand)

1	Current accounts	958 297	42,26%
2	Term deposits	407 628	17,97%
3	Term deposits – customer	803 866	35,44%
4	Saving deposits	48 160	2,13%
5	Loans received from clients	50 000	2,20%
	Total	2 267 951	100,00%

Foreword of the Chairman of the Board of Directors

Ladies and Gentlemen,

On behalf of the Board of Directors of Komerční banka Bratislava, a. s. I am pleased to present to you the 2003 annual report. 2003 has been the year of renewal of interests of investors for the Slovak Republic.
Another car manufacturer has selected the country to invest 700 million Euros in order to set up a car plant. This good news put the Slovak Republic as a preferred venue and somehow a star for future investments in the region.
2003, as well, has been the continuation of the transformation of the bank.
A new logo, SG corporate identity, has been implemented, showing the interest and commitment of the parent companies in Slovakia and the region.
On the other hand, KBB positioned itself as a corporate bank. It was announced through a press conference, which took place in June 2003. More products have been introduced in our global commercial offer and we have tailored our services to accommodate the needs of our clients.
Meeting the bank's 2003 objectives was not only challenging, but it has paved the way to put in place integration efforts, which have been constantly made in order to take advantage of the synergies of the parent companies. Those synergies will allow the full availability of other products and services in May 2004 at the time where the new countries among which the Slovak Republic will accede to the European Union.

In 2003, KBB positioned itself as a corporate bank. More products have been introduced in our global commercial offer and we have tailored our services to accommodate the needs of our clients.

I am sure that the integration process will benefit fully our clients and I take as well the opportunity to express my thanks to the bank's employees, who have been performing their tasks in a professional way.

Robert Kerneis
Chairman of the Board of Directors and CEO

Developments in the Macroeconomic and Competitive Environment

Key Macroeconomic Indicators in 2003

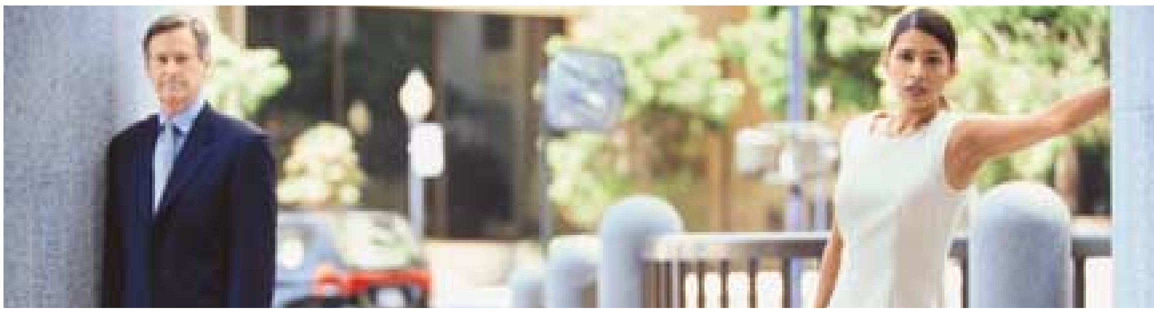
Last year the pace of increase registered by the real gross domestic product was 4.2%, which, following on from the 4.4% GDP growth rate in 2002, proves that the Slovak economy is healthily structured. GDP amounted to SKK 1,195.8 billion. In the final quarter of the year, the growth rate was 4.7%, which is 0.5% lower than in 2002. In terms of consumption, GDP growth was mainly influenced by a 26.1% surge in exports. The external trade deficit of SKK 23.6 billion was tantamount to a year-on-year reduction by 75.4% and as such was the best result in last eight years.

Consumer prices climbed by 9.3% year on year, which is a considerable leap compared with the growth reported in 2002 (3.4%). That said, a high inflation rate had been expected because the final stage of price deregulation (power, heat, water) was pushed through in 2003, and excise duty on cigarettes, spirits, and fuel was also increased.

The Slovak economy's most acute problem is its high unemployment rate. Nevertheless, the progress has been made here too, as the downward trend kick-started by the moderate fall in 2002 continued in 2003, when unemployment was pushed down by another 2.6% to an average rate of 15.2%. This reduction, however, can be ascribed to the more stringent rules implemented for unemployment benefits and social welfare rather than the widespread creation of new jobs. The nominal wage went up by 6.3% to an average of SKK 14,365 (EUR 354), but considering the sharp rise in the consumer price index wages actually slipped by 2% in real terms.

The deficit posted by the national budget in 2003 was an admirable 3.6%, or approximately SKK 43 billion, compared with the estimated 4.9%. This result can be put down to the fact that individual ministries and other state organizations were unable to exhaust their budget chapters and therefore the government, which also imposed other budgetary restrictions, unexpectedly saved SKK 16.7 billion. In consequence, the public debt fell from 43.3% of GDP to 42.8% of GDP.

Fitch Ratings upgraded Slovakia's long-term foreign currency rating from BBB- to BBB. The international ratings agency also improved Slovakia's long-term domestic currency rating from BBB+ to A-. Other top rating agencies are expected to follow suit and upgrade their ratings for Slovakia soon.



Significant Changes in Legislation

2003 was a year of reform, with the government passing a number of laws concerning changes in areas such as the economy, social security, and labour legislation. About 80% of the laws required to implement reforms in accordance with the government's agenda have been passed and will enter into effect soon.

At the beginning of 2004, a key law in the economic reform package entered into effect. This was the Income Tax Act (commonly known as the Equal Tax Act) which set an even tax rate of 19% for individuals and legal entities. The VAT rate was changed, with the previous two rates of 14% and 20% being merged into a single 19%. Excise duty was raised to the minimum level of rates in the EU. In order to prevent double taxation, the government decided to discontinue inheritance and gift tax, and as such the tax on dividends was also cancelled with definitive effect. The new tax system is more simple and more transparent, and there is every expectation that it will fuel further economic growth and generate a higher influx of foreign investments.

Parliament also passed two important pension reform laws. The Social Security Act changes the retirement age for men and women to 62 years. The Pension Savings Act introduces a second, so-called "capitalization", pillar into the Slovak pension system. In the framework of this pillar, as of January 2005 participants will be able to save and valorize 9% of their gross wage. These savings will be kept in private accounts and the savings will be inheritable. The passing of these laws was very important for the stability of public finances because the current PAYG system used to finance pension security would not be sustainable in the long term.

The new Labour Code which entered into effect in July 2003 enables employers to hire and lay off employees on a more flexible basis, and provisions on overtime work have been relaxed. The rules for the payment of benefits to the long-term unemployed have been made more stringent (they must report to labour offices more frequently). The driving idea behind the reform of the social system is that citizens must always be better off in a job than on social security from the state. In this respect, the government has introduced incentives for the unemployed to find work, such as a relocation subsidy, an 'activation' contribution, and tax bonuses for children, etc.

Parliament also passed the Privatization Act, enabling the state to sell 51% stakes in strategic enterprises (we expect to see state-held stakes gradually sold off, especially in companies such as SPP, Transpetrol, the power distribution companies ZSE, SSE, and VSE, and Slovenské elektrárne).

Interest Rates and Exchange Rates Development

At the end of the fourth quarter, the National Bank of Slovakia announced a 0.25% rate cut, reducing the key 2W repo rate to 6%. In 2004, further rate reductions are predicted as the domestic currency continues to appreciate.
In the field of exchange rates, the Slovak crown reported year-on-year appreciation against all the benchmark currencies in 2003, rising by an average of 2.9% against the euro (from 42.71 SKK per EUR to 41.49 SKK per EUR), and strengthening by as much as 23.1% against the US dollar (from 45.25 SKK per USD to 36.74 SKK per USD), a result which mainly reflects the difficulties suffered by the US currency last year. For business purposes, the SKK/CZK exchange rate is also important for Slovakia; last year the Slovak crown appreciated against its Czech counterpart by 3.5%.
The Slovak capital market registered no significant changes last year; Slovak government bonds were the most traded securities on the market. The yield curve fell in line with investor expectations linked to Slovakia's upcoming accession to the EU and improvements in macroeconomic indicators.
In the wake of the tax reform in Slovakia, bond trading will be suppressed in 2004 even though bonds will not become any less attractive. The equity market has remained fairly constant, despite a dip recorded by issues on the public market.

Projected Macroeconomic Developments in 2004

In 2004, estimates released by the NBS, the Ministry of Finance, and bank analysts indicate that the country should experience economic growth of between 4.2% and 5.0%. This growth should be driven by higher exports, especially in the sectors of automobiles and components, electronics, and steel, where current production activities are being expanded. We are also expecting an increase in domestic investments in construction and engineering services, triggered by the large-scale investments made in Slovakia (PSA, HYUNDAI/KIA, Arcelor, etc.) and the acceleration in the motorway programme. While imports of technology for these investments will have a short-term negative impact on the trade balance, there will be no pressure on the Slovak currency in this structure. The national budget deficit should amount to 3.9%, or SKK 50.4 billion.
The Ministry of Finance estimates that the CPI will rise by 8.1% in 2004, which indicates that – just as in 2002 – there will be a reduction in real wages, although this time by a mere 0.3%.
Based on the estimates of our analysts projected for 2004, we can expect average exchange rates of 39.80 SKK per EUR and 33.20 SKK per USD. The NBS will ward off pressure on the currency by cutting interest rates; we believe that the key two-week repo rate could fall by as much as 75 basis points during the year to 5.25%.
In April 2004, Slovakia will join NATO, and on 1 May the country will become a member of the European Union, which will give it a historic chance to assert its presence in a new Europe, on a common market composed of 25 Member States with 450 million inhabitants. The Ministry of Finance expects that Slovakia will accede to ERM II in 2006 and that it will introduce the single currency, the Euro, in 2009.

Report of the Board of Directors

Strategy

In June 2003, the sole shareholder and management presented to the clients and the public the Bank's new business strategy. The Bank will develop as a corporate bank. The development of the Bank's new profile will be the result of synergy and support from the Bank's Czech-based parent, KB, and the Société Générale Group. The Bank will focus on providing services to corporate clients, and its specialists will start offering improved, sophisticated products and services from the whole SG Group once they have been adapted for the Slovak market.
In accordance with the goal to be a corporate institution, the Bank will gradually reduce the number of retail clients. In the future, the Bank will only provide retail services to VIP clients and to the management of the corporations with which it maintains business relations.

Summary evaluation of the fulfilment of the Bank's plans

In 2003, Komerční banka Bratislava, a. s. continued the process of integrating into the structures of Société Générale and progressing in its global transformation.
The Bank tried to establish relations with multinational companies operating in Slovakia; the principal aim here was to win over SG clients on the Slovak market and clients who have significant business ties with the Czech Republic, and to ensure the loyalty of affluent clients, while respecting the rules of prudent business.
The Bank discontinued cooperation with clients who offered no future prospects.
In accordance with the strategy implemented by the financial group, the Bank sold its shares in CAC Leasing Slovakia.
The Bank drew up a restructuring plan, which it subsequently put into action with the aim of increasing the efficiency of its operations by optimizing banking transactions and minimizing operating costs.

The restructuring programme has the following objectives:
- optimization of the sales network and branch restructuring;
- establishment of a rational organizational structure and centralization of selected activities;
- introduction of IT support;
- reduced headcount;
- reduced operating costs.

The new strategy, the sale of capital interests, and the restructuring of the Bank had a strong impact on the results posted by Komerční banka Bratislava, a. s. in 2003.

Business Activities

Clients

At the end of 2003, the Bank had 3,617 clients, a year-on-year decline by 293 clients. In accordance with the Bank's strategy and business goals, of the clients which left the bank over the year, 240 were individuals and 53 were business entities. Of the total number of clients, 2,613 are individuals, 834 are small enterprises, 158 are medium-sized and large enterprises, and 12 are G10 companies.

Client segmentation

In order to identify client needs and requirements more accurately and to achieve sales targets, in 2003 the Bank reworked its client segments. There are now three principal client segments:

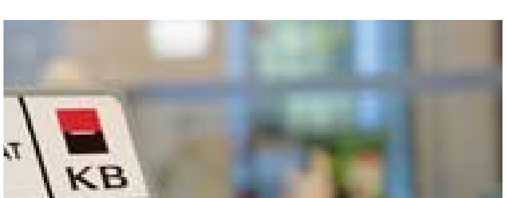
– Small enterprises with an annual turnover of less than SKK 100 million;
– Medium-sized and large enterprises with an annual turnover of more than SKK 100 million;
– International corporations from the world's 10 most developed economies (G10).

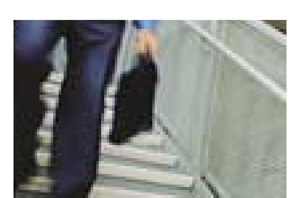
Sales Network

Komerční banka Bratislava, a. s. offers its products through three branches located in key areas throughout the country (Bratislava, Banská Bystrica and Košice) and via e-banking channels.

E-banking

The Bank's electronic banking services give it the opportunity to reach clients who do not reside in the cities where the Bank has offices. Part of the Bank's basic strategy is to develop alternative distribution channels.
The Bank offers clients Homebanking, Internetbanking, GSM banking and E-mail banking, and its corporate clients benefit from an individual approach. In 2003, the Bank made concentrated efforts to analyze requirements and draw up a plan for the development and improvement of its e-banking services. This plan will be launched in 2004.





Company Product Range

– Opening current, term and savings accounts
– Local and foreign payment system (with a special regime for payments from/to the Czech Republic)
– Cash and foreign exchange transactions
– Loans and guarantees
– Money markets products
– Financial derivatives
– Foreign currency markets products
– Capital markets products
– Payment cards

Customer Service

In its new strategy, the Bank places an emphasis on three main principles of customer service, with the aim of fostering closer relations with selected clients:
– Close cooperation – one relationship manager per client;
– Availability – access to the Bank via electronic banking and branches;
– Professionalism – relationship managers will be specially trained in customer service.

New Corporate Identity

In 2002, the parent company introduced a new corporate identity combining the global image of Sociéte Genérale with the Komerční banka brand. The most visible external manifestation of the new identity was the new logo, which combines SG's black, red, and white colours with the KB brand name.
In June 2003, KBB introduced its new logo, expressing its direct link with Komerční banka, to the public. The new logo was installed at all the Bank's branches.

Risk Management

Risk management at the Bank is carried out in accordance with the legal regulations of the National Bank of Slovakia.
In 2003, in cooperation with the parent company, the Bank started transforming its market-risk management methods in readiness for the implementation of new market-risk systems and processes and SG's risk management standards.
At the end of 2003, the process was completed with the implementation of:
– Risk machine – an instrument to track limits and evaluate risks with the aim of harmonizing the Bank's lending process with the standards of the parent company and SG;
– TRAAB – instruments to measure interest-rate risk.

Information Technology

In order to improve the quality of the Bank's system of services, harmonize KBB's IT infrastructure with the parent company, and to streamline the Bank's activities, a project was drawn up in cooperation with the parent company to invest into information technology. This plan was launched in 2003 and is due to end in 2004. SKK 86,000 thousand has been earmarked for investment into the following sub-projects:
– IT Infrastructure
– Investment Banking
– Data Communications
– Data Warehouse
– Electronic Banking
– International Payments
– Swift

In 2003, the Bank spent SKK 7,072 thousand of the total investments planned for individual IT projects on the projects IT Infrastructure, Swift, and International Payments. Further IT investments will be made in 2004.

Human Resources

In 2003, the Bank continued to work towards its target of changing the structure, number, and quality of employees and of improving the ratio of sales to service staff. These changes are connected with the introduction of new IT technology and the centralization of back office procedures.
The average adjusted number of employees fell from 127.21 in 2002 to 106.93 in 2003; the Bank reduced its headcount by eight employees.
The Bank started implementing the new procedures and rules which are in force at KB and SG, primarily in the fields of HR policy and the remuneration system. In accordance with the group's principles, in 2003 the Bank introduced a system of regular annual assessment for employees.

Restructuring Programme

In accordance with its restructuring programme aimed at operating one branch per locality, the Bank shut down its point of sale in the Prievoz district of Bratislava in March 2003 and reduced the premises leased for the branch in Košice.
The cost of closing the PoS and reducing the leased premises amounted to SKK 23,097 thousand, which included a penalty of SKK 17,500 thousand for cancelling the disadvantageous lease in Prievoz.
In 2004, the Bank will continue restructuring the Banská Bystrica branch.
In order to improve the lending process, in 2003 the Bank started centralizing the lending administration process, a task that will be completed in the next year.

Comments on the Financial Results based on Slovak Accounting Standards

Balance sheet

As at 31 December 2003, the Bank's total assets amounted to SKK 3,706,052 thousand, i.e. a year-on-year reduction by 37.38%. The share of interest-earning assets in the Bank's total assets was 94.42% at the end of the year.

Accounts receivable from clients

As at 31 December 2003, the Bank's loan portfolio (less provisions) amounted to SKK 2,048,406 thousand, which is a year-on-year growth of 4.08%.

The share of loans in the Bank's total assets was 58.25% at the year-end.

The share of classified receivables in the total volume of loans was 6.96% at the end of the year; the Bank had records of two loss loans totalling SKK 70,754 thousand.

The Bank created reserves and provisions of SKK 161,916 thousand for the whole loan portfolio, of which reserves account for SKK 51,406 thousand. The percentage of the loan portfolio covered by reserves and provisions fell as at 31 December 2003 by 0.9% to 8.1%.

In accordance with changes in Slovak legislation, the Bank cut the volume of reserves for the coverage of standard loans to 2% of standard loans at the end of 2003.

Securities

The value of the debt-security portfolio at the year-end was SKK 739,840 thousand which represents a 19.96% share of the Bank's total assets and year-on-year decline by 46.95%.

In accordance with its acquisition plan, since 1 January 2003 the Bank has divided its securities into three portfolios: trading securities, held-to-maturity securities, and available-for-sale securities.

The portfolio of trading securities amounted to SKK 548,266 thousand at 31 December 2003. The Bank only has government bonds in this category. The year-on-year decline of 54.4% reported in the value of this portfolio was caused by the different accounting procedure for repo trading in 2002.

In the portfolio of held-to-maturity securities, the Bank has government bonds totalling SKK 191,574; the difference in the year-on-year valuation can be attributed solely to the accrual of a securities discount; during the year, the Bank did not acquire any securities for this portfolio.

In 2003, the Bank sold its share in the registered capital of CAC Leasing Slovakia, a. s. representing a book value of SKK 10,000 thousand, for SKK 139,178 thousand (CZK 106 million).

Tangible and intangible assets

The Bank has records of tangible and intangible assets with a net book value of SKK 73,658 thousand, which represents a year-on-year decline by 10.75%.

The present book value of all real estate owned by the bank and building enhancements to leased properties is SKK 32,554 thousand, including land. The Bank owns a building, plus land, in Banská Bystrica with a book value of SKK 20,665 thousand and two flats in Bratislava with a net book value of SKK 6,996 thousand.

Other fixed assets are primarily office equipment, information technology and software.

Accounts payable to clients

The volume of deposits to clients at the end of 2003 amounted to SKK 2,267,951 thousand, i.e. a rise by 21.44% compared with 2002.
Funds in current accounts rose by 19.86% year on year to SKK 958,297 thousand; term deposits and savings deposits climbed by 48.71% to stand at SKK 1,259,654 thousand as at 31 December 2003.
Loans received from Eximbanka for special-purpose export financing fell by 77.37% compared with the same period in the previous year.

Equity and capital

The Bank's equity as at 31 December 2003 was SKK 701,462 thousand and consisted of (SKK thousand):

Registered capital	500,000
Reserve fund	73,358
Retained earnings (a change in accounting procedure)	8,390
Profit for current year	119,714

The Bank's own resources at 31 December 2003 amounted to 18.93% of total assets.
Capital for the purposes of capital adequacy, credit exposure, and unsecured foreign currency positions amounted to SKK 617,991 thousand at the year-end. Capital adequacy stood at 25.88%.

Reserves and provisions

The Bank created reserves and provisions totalling SKK 217,978 thousand, which was a year-on-year reduction by 12.48%. Reserves and provisions for the market value of securities and derivatives, and for deferred tax, of SKK 22,543 thousand were released as at 1 January 2003 because of a change in accounting standards in Slovakia.

Profit and Loss Account

The Bank's earnings were influenced by the following main factors:

– the sale of a capital interest in CAC Leasing Slovakia;
– the cost of restructuring the Bank;
– maximum cost efficiency in the field of operating costs;
– the release of provisions and reserves in accordance with legislative changes in Slovakia;
– the situation on the financial market, the influence of the competition, a reduction in the net interest margin.

In 2003, the bank reported a net profit of SKK 119,714 thousand.

The profit was earned as follows (SKK thousand):

Profit from financial transactions	178,178
General operating costs	(180,121)
Profit from the sale of a capital interest	129,178
Operating profit	**127,235**
Creation of reserves and provisions and revenue from written-off receivables, net	6,721
Profit for the accounting period, before tax	133,956
Income tax	**(14,242)**

The tax liability for the current period was SKK 11,208 thousand. Deferred tax is calculated from the temporary differences between the tax base of assets and liabilities and their book value for the purposes of financial reporting. Owing to the lack of certainty that deferred tax receivable would be realized in future periods, the Bank only recorded deferred tax payable of SKK 3,034 thousand.

Distribution of profit for 2003

In connection with a change in accounting policies, effective as of 1 January 2003, the Bank credited SKK 8,390 thousand to the retained earnings account as the result of the revaluation of main derivatives and securities to ascertain their real value.

Retained earnings	SKK 8,390 thousand
Current-period profit	SKK 119,714 thousand

In accordance with the Articles of Association, the Bank's Board of Directors proposed distributing the profit as follows:

Allocation to the social fund	SKK 500 thousand
Allocation to the reserve fund	SKK 12,810 thousand
Retained earnings	SKK 114,793 thousand

Robert Kerneis

Jean-Marc Mesure

Robert Beláň

Statutory Bodies and Organisation Structure

Board of Directors

Robert Kerneis (1945)
Chairman of the Board of Directors
Start of tenure: 3 April 2002
Master of Sciences in Paris. He has been working for the Société Générale Group for 16 years.

Robert Beláň (1970)
Vice-Chairman of the Board of Directors
Start of tenure: 30 July 2003
Master of civil engineering, Slovak Technical University, Bratislava and MBA-degree, University of Pittsburgh, USA. He has been working for Komerční banka Bratislava, a. s. for 2 years.

Jean-Marc Mesure (1964)
Member of the Board of Directors
Start of tenure: 11 July 2002
Economics study at the Paris Business School. He has been working for the Société Générale Group for 17 years.

Changes in the Board of Directors in 2003:

David John Lee, Member of the Board of Directors (until 30 June 2003)

Supervisory Board

Matúš Púll (1949)
Chairman of the Supervisory Board
Start of tenure: 15 February 2002
Graduate of the University of Economics, Prague. He has been working for the Société Générale Group for 21 years.

Philippe Rucheton (1948)
Vice-Chairman of the Supervisory Board
Start of tenure: 17 May 2002
Graduate of the High Military-Technical College Ecole Polytechnique, Institut Supérieur des Affaires and of the Panthéon Sorbonne University. He has been working for the Société Générale Group for 15 years.

Monika Španitzová (1957)
Member of the Supervisory Board
Start of tenure: 30 July 2003
Graduate of the University of Law, Bratislava. She has been working for Komerční banka Bratislava, a. s. for 3 years.

Changes in the Supervisory Board in 2003:
Ján Lukácik, Vice-Chairman of the Supervisory Board (until 30 June 2003)

Organisational Chart

as at 31 December 2003

- **General Meeting**
- **Supervisory Board**
- **Board of Directors**
  - Secretariat
  - Internal Audit and Control
  - **Chief Executive Officer (CEO)**
    - Operations, Finance and Administration
      - Correspondent Banking
      - Back Office Treasury
      - Back Office Payment System
      - Financial Control
      - Administration
      - Information Technology
    - Risk Management
      - Credit Risk
      - Methodology
      - Portfolio Monitoring
      - Market Risk
    - Corporate Banking
      - Branch Bratislava
      - Branch Banská Bystrica
      - Branch Košice
      - Corporate Banking
    - Units Reporting to CEO
      - Treasury
      - Legal
      - Marketing
      - Human Resources
      - Compliance

Ownership Structure

Shareholder	Proportion of share capital (%)
Komerční banka, a. s.	100.00
Total	100.00

Two General Meetings were held in 2003:
On 21 March 2003 the General Meeting of Komerční banka Bratislava, a. s. was held which adopted a decision that the sole shareholder – Komerční banka, a. s. while executing the powers of the general meeting in pursuance of the provisions of Section 190 of Act No. 513/1991 Coll., of the Commercial Code, as amended, assigned to the Company to adopt a decision that provides the CEO and the Head of Risk of the Company with approval authorities for approving financing for clients and ECG.

At the annual General Meeting of Komerční banka Bratislava, a. s. held on 24 June 2003, the sole shareholder – Komerční banka, a. s. reached the following decision: On 24 June 2003 Komerční banka, a. s. as the sole shareholder exercising the powers of the General Meeting in compliance with Article 190 of Act No. 513/1991 Coll. on Commercial Code adopted the following decisions:

- noted the Board of Directors’s report on the business activities of the Company and on the state of its assets for the year 2003;
- approved the annual financial statements for the year 2002 and decided to distribute the profit for the year 2002 in the amount of SKK 18,724 thousand as follows:

Contribution to the reserve fund	SKK 18,224 thousand
Contribution to the social fund	SKK 500 thousand

- approved the consolidated financial statements for the year 2002;
- approved the annual report of the Company for the year 2002;
- acknowledged the Report of the Supervisory Board.

Report of the Supervisory Board

Throughout 2003 the Supervisory Board of Komerční banka Bratislava, a. s. performed tasks conferred on it by law and the Articles of Association of the Bank.

Based on the information provided by the Board of Directors at its meetings, the Supervisory Board regularly learned of significant economic issues, gave recommendations to the Board, and initiated solutions concerning key issues.

The financial statements of Komerční banka Bratislava, a. s. were audited by Deloitte & Touche Slovakia spol. s r.o. in accordance with Slovak and International Accounting Standards. The Audit Report on the financial statements is part of the Annual Report of KBB for 2003.

After reviewing the financial statements of Komerční banka Bratislava, a. s. for the period from 1 January 2003 to 31 December 2003, and on the basis of the opinion of an external auditor, the Supervisory Board ascertains that the financial statements and records were maintained in supporting manner, are in compliance with generally-binding regulations as well as with the Articles of Association of the Bank, and present the financial position of the Bank from all significant aspects.

The Supervisory Board recommends to the General Meeting to approve the financial statements for 2003 as well as the distribution of the profit reached in 2003 in accordance with the conclusions made at the Supervisory Board meeting that was held on 2nd April 2004, that is, the allocation of SKK 0.5 million to the social fund and of SKK 12.8 million to the statutory reserve fund.

Bratislava, 2 April 2004

On behalf of the Supervisory Board:

Matúš Púll
Chairman of the Supervisory Board

Deloitte.
Deloitte & Touche
Slovakia spol. s r.o.
BBC, Prievozská 12
Bratislava 821 09
Slovak Republic
Tel.: +421 2 582 49 111
Fax: +421 2 582 49 222
www.deloitte.sk
Commercial Register
of District Court Bratislava 1
Section: Sro
File No.: 11922/B
Corp. ID: 35700416

Independent Auditor's Report

To the Shareholders and Board of Directors of Komerční banka Bratislava, a. s.:

We have audited the unconsolidated financial statements of Komerční banka Bratislava, a. s. ("the Bank") for the year 2003, which include the balance sheet as of 31 December 2003, the related statement of profit and loss for the year then ended and notes, prepared in accordance with the Slovak Accountancy Act and applicable regulations. We have also audited the financial statements of Komerční banka Bratislava, a. s. as at 31 December 2003 and 2002 and the related statement of profit and loss, cash flow statement, and statement of changes in equity, for the years then ended, prepared in accordance with International Financial Reporting Standards. In our Audit Reports of 19 February 2004 we expressed unqualified opinions on these financial statements and drew attention to changes in the amount of reserves and provisions reported by the Bank as at 1 January 2004. These financial statements and Audit Reports are included in this Annual Report on pages 30 through 95.
We have read other financial information included in this annual report for consistency with the aforementioned financial statements. The Board of Directors of the Bank is responsible for the completeness and accuracy of the information included in this annual report. In our opinion, other financial information included in this annual report is consistent, in all material respects, with the relevant financial statements.

Bratislava, 21 April 2004

Deloitte & Touche

SLOVENSKÁ KOMORA AUDÍTOROV
Deloitte & Touche
SLOVAKIA
evid. č. licencie 149

SLOVENSKÁ KOMORA AUDÍTOROV
licencia audítora č.
865
Ing. Zuzana Letková, ACCA

Deloitte & Touche Slovakia spol. s r.o.
Licence SKAU No. 149

Zuzana Letková
Responsible auditor
Licence SKAU No. 865

Member of
Deloitte Touche Tohmatsu

Sworn Statement

Komerční banka Bratislava, a. s. hereby declares that all information and data contained in this annual report is accurate and correct. It further confirms that this document contains all facts that may be important for decisions taken by investors. Komerční banka Bratislava, a. s. also declares that as the date on which the annual report was complied no negative changes had occurred in the financial situation, nor there any other changes which might have affected the accurate and correct assessment of the Bank's financial situation.

Bratislava, 31 March 2004

Signed on behalf of the Board of Directors:

Robert Kerneis
Chairman of the Board of Directors and CEO

Jean-Marc Mesure
Member of the Board of Directors and Deputy CEO

Financial Statements

Deloitte.

Deloitte & Touche
Slovakia spol. s r.o.
BBC, Prievozská 12
Bratislava 821 09
Slovak Republic
Tel.: +421 2 582 49 111
Fax: +421 2 582 49 222
www.deloitte.sk
Commercial Register
of District Court Bratislava 1
Section: Sro
File No.: 11922/B
Corp. ID: 35700416

Financial Statements and Notes prepared under Slovak Accounting Standards (SAS)

Auditor's Report

To the Shareholders and Board of Directors of Komerční banka Bratislava, a. s.:

We have audited the accompanying financial statements of Komerční banka Bratislava, a. s. ("the Bank") for the year 2003, which include the balance sheet as of 31 December 2003, the related statement of profit and loss for the year then ended and notes. The Board of Directors of the Bank is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of Komerční banka Bratislava, a. s. as of 31 December 2003, and the results of its operations for the year then ended in accordance with Slovak Accountancy Act.

Without qualifying our opinion, we draw attention to Note 33 to the accompanying financial statements. At 1 January 2004 the Bank has released reserves amounting to SKK 51,819 thousand to retained earnings created in the past as an expense. Subsequently, the Bank has created provisions amounting to SKK 22,260 thousand against retained earnings. The reserves that have been released were created to cover potential losses not specifically identified but which experience indicated were present in the portfolio of pass loans and advances. This treatment has been adopted by the Management of the Bank to comply with the decree No. 24 658/2003-92 issued by the Ministry of Finance of the Slovak Republic.

Bratislava, 19 February 2004

Deloitte & Touche Slovakia spol. s r.o.
Licence SKAU No. 149

Zuzana Letková
Responsible auditor
Licence SKAU No. 865

Member of
Deloitte Touche Tohmatsu

Balance Sheet as at 31 December 2003 and 2002

Assets

SKK thousand			2003			2002
Item no.	Name of item	Note	Gross	Adjustment	Net	
1.	Cash in hand, deposits with National bank of Slovakia and with foreign banks of issue	1	52,372	–	52,372	50,056
2.	State zero coupon bonds and other securities accepted by the National Bank of Slovakia for refinancing	2	–	–	–	–
	a) state bonds	3	–	–	–	–
	b) other securities	4	–	–	–	–
3.	Amounts due from banks	5	690,620	–	690,620	1,977,092
	a) demand debts	6	45,450	–	45,450	50,122
	b) other receivables	7	645,170	–	645,170	1,926,970
4.	Amounts due from clients	8	2,158,916	110,510	2,048,406	1,968,081
	a) demand debts	9	3,431	–	3,431	5,633
	b) other receivables	10	2,155,485	110,510	2,044,975	1,962,448
5.	Debt securities	11	789,105	49,265	739,840	1,394,497
	a) of state authorities	12	739,840	–	739,840	800,980
	b) of other entities	13	49,265	49,265	–	593,517
6.	Shares, participation certificates and other participation	14	–	–	–	–
7.	Equity investments and contributions in subsidiaries (participating interest)	15	–	–	–	10,000
	a) in banks	16	–	–	–	–
	b) in other entities	17	–	–	–	10,000
8.	Equity investments and contributions in commercial companies with controlling interest	18	–	–	–	–
	a) in banks	19	–	–	–	–
	b) in other entities	20	–	–	–	–
9.	Intangible assets	21	65,109	47,254	17,855	24,121
	a) establishment costs	22	61	61	–	–
	b) goodwill	23	29,491	17,812	11,679	14,244
	c) other intangible assets	24	35,557	29,381	6,176	9,877
10.	Tangible assets	25	173,230	117,427	55,803	58,405
10.1.	Land and buildings for operation	26	37,581	5,027	32,554	34,579
10.2.	Other tangible assets	27	135,649	112,400	23,249	23,826
11.	Other assets	28	101,699	1,299	100,400	435,126
12.	Amounts receivable from shareholders and partners	29	–	–	–	–
13.	Prepayments and accrued income	30	756	–	756	1,344
14.	Amounts receivable from International Monetary Fund	31	–	–	–	–
15.	Amounts receivable from banks of the European System of Central Banks	32	–	–	–	–
16.	Amounts receivable from other foreign entities	33	–	–	–	–
17.	Loans granted to local banks	34	–	–	–	–
18.	Other amounts receivable from local entities	35	–	–	–	–
X	Total assets, including:	36	4 031 807	325 755	3 706 052	5 918 722
A.	Special NBS records	37	–	–	–	–
B.	State receivables in relation to foreign countries	38	–	–	–	–

Liabilities

SKK thousand

Item no.	Name of item	Note	2003	2002
1.	**Amounts due to banks**	**39**	**469,061**	**3,127,233**
	a) demand amounts	40	8,615	808
	b) other payables	41	460,446	3,126,425
2.	**Amounts due to clients**	**42**	**2,267,951**	**1,867,496**
	a) demand amounts, including:	43	958,297	799,510
	savings	44	–	–
	b) other payables, including	45	1,309,654	1,067,986
	term liabilities with term of notice	46	1,309,654	1,067,986
3.	**Amounts payable from debt securities**	**47**	**–**	**–**
	a) issued debt securities	48	–	–
	b) other payables from debt securities	49	–	–
4.	**Other liabilities**	**50**	**210,672**	**248,434**
5.	**Deferred income and accrued expenses**	**51**	**2**	**–**
6.	**Reserves**	**52**	**56,904**	**101,700**
7.	**Subordinated financial liabilities**	**53**	**–**	**–**
8.	Payable to International Monetary Fund	54	–	–
9.	Payable to banks of the European System of Central Banks	55	–	–
10.	Amounts payable to other foreign entities	56	–	–
11.	Bank monetary reserves accounts with the National Bank of Slovakia	57	–	–
12.	Securities issued by the National Bank of Slovakia	58	–	–
13.	Other payables to local entities	59	–	–
14.	Banknotes and coins issue	60	–	–
15.	State account	61	–	–
16.	State funds and other clearing with state budget	62	–	–
17.	Clearing of special operations with funds of the Slovak Republic	63	–	–
18.	**Registered capital, including**	**64**	**500,000**	**500,000**
18.1.	paid registered capital	65	500,000	500,000
19.	**Own shares**	**66**	**–**	**–**
20.	**Share premium**	**67**	**–**	**–**
21.	**Reserve funds and other funds from profit**	**68**	**73,358**	**55,135**
	a) legal reserve fund	69	73,358	55,135
	b) other reserve funds	70	–	–
	c) other funds from profit	71	–	–
22.	**Other capital funds**	**72**	**–**	**–**
23.	**Valuation differences**	**73**	**–**	**–**
	a) from revaluation of assets and liabilities	74	–	–
	b) from conversion of hedging derivatives	75	–	–
	c) from conversion of equity investments and contributions	76	–	–
24.	**Retained profit or accumulated loss of previous years**	**77**	**8,390**	**–**
25.	**Profit or loss of current accounting period**	**78**	**119,714**	**18,724**
x	**Total liabilities, including**	79	**3,706,052**	**5,918,722**
	Special NBS records	80	–	–
	State payables in relation to foreign countries	81	–	–

Off Balance Sheet Accounts as of 31 December 2003 and 2002

Off Balance Sheet Assets

SKK thousand

Item no.	Name of item	Note	2003	2002
1.	**Receivables from future loans, borrowings and guarantees**	**1**	**670,281**	**284,220**
a)	Receivables from future loans and borrowings	2	653,862	251,556
b)	Guarantees granted	3	16,419	32,664
2.	**Guarantees granted**	**4**	**–**	**–**
a)	Real estate	5	–	–
b)	Cash	6	–	–
c)	Securities	7	–	–
d)	Other	8	–	–
3.	**Receivables from spot transactions including**	**9**	**4,040,590**	**1,078,172**
a)	Interest rate instruments	10	202,400	-
b)	Currency instruments	11	3,838,190	1,078,172
c)	Equity instruments	12	–	–
d)	Commodity instruments	13	–	–
e)	Credit instruments	14	–	–
4.	**Receivables from fixed term transactions including**	**15**	**2,943,555**	**5,042,735**
a)	Interest rate instruments	16	251,399	666,888
b)	Currency instruments	17	2,692,156	4,375,847
c)	Equity instruments	18	–	–
d)	Commodity instruments	19	–	–
e)	Credit instruments	20	–	–
5.	**Receivables from transactions with options including**	**21**	**276,705**	**-**
a)	Interest rate instruments	22	–	–
b)	Currency instruments	23	276,705	-
c)	Equity instruments	24	–	–
d)	Commodity instruments	25	–	–
e)	Credit instruments	26	–	–
6.	**Receivables written-off**	**27**	**9,326**	**5,861**
7.	**Assets transferred to custody, administration and deposition**	**28**	**160**	**305**
8.	**Assets transferred for management, thereof**	**29**	**–**	**–**
	Securities	30	–	–

Off Balance Sheet Liabilities

SKK thousand

Item no.	Name of item	Note	2003	2002
1.	**Payables arising from future loans, borrowings and guarantees**	**31**	**822,495**	**220,950**
a)	Payables arising from future loans and borrowings	32	396,903	–
b)	Guarantees received	33	425,592	220,950
2.	**Guarantees received**	**34**	**2,896,522**	**3,036,397**
a)	Real estate	35	860,052	702,154
b)	Cash	36	57,074	15,442
c)	Securities	37	362,545	–
d)	Other	38	1,069,364	1,351,968
e)	Collaterals – securities	39	547,487	966,833
3.	**Payables arising from spot transactions including**	**40**	**4,039,404**	**1,076,998**
a)	Interest rate instruments	41	202,400	–
b)	Currency instruments	42	3,837,004	1,076,998
c)	Equity instruments	43	–	–
d)	Commodity instruments	44	–	–
e)	Credit instruments	45	–	–
4.	**Payables arising from fixed term transactions including**	**46**	**2,953,419**	**5,077,529**
a)	Interest rate instruments	47	251,399	666,888
b)	Currency instruments	48	2,702,020	4,410,641
c)	Equity instruments	49	–	–
d)	Commodity instruments	50	–	–
e)	Credit instruments	51	–	–
5.	**Receivables from transactions with options including**	**52**	**276,705**	**–**
a)	Interest rate instruments	53	–	–
b)	Currency instruments	54	276,705	–
c)	Equity instruments	55	–	–
d)	Commodity instruments	56	–	–
e)	Credit instruments	57	–	–
7.	**Assets received in custody, administration and deposition**	**58**	**3,087**	**89,510**
8.	**Assets received for management, thereof**	**59**	**–**	**–**
	Securities	60	–	–

Profit and Loss Statement for the years ended 31 December 2003 and 2002

SKK thousand		Note	Expenses		Revenues	
Item no.	Name of item		2003	2002	2003	2002
1.	**Interest income and similar income**	**1**	**x**	**x**	**294,882**	**391,921**
	including: interest income from debt securities	2	x	x	54,832	92,186
2.	**Cost of interest and similar costs**	**3**	**153,556**	**258,742**	**x**	**x**
	including: cost of interest from debt securities	4	6,321	–	x	x
3.	**Income from shares and equity investments in trading companies**	**5**	**x**	**x**	**–**	**–**
	a) income from equity investments and contributions to trading companies with participating interest	6	x	x	–	–
	b) income from equity investments and contributions to trading companies with controlling interest	7	x	x	–	–
	c) income from other shares and equity investments	8	x	x	–	–
4.	**Income from fees and commissions**	**9**	**x**	**x**	**36,493**	**40,433**
5.	**Expenses for fees and commissions**	**10**	**19,517**	**19,341**	**x**	**x**
6.	**Net profit or net loss from financial operations**	**11**	**(19,876)**	**(51,790)**	**x**	**x**
7.	**Other financial revenues**	**12**	**x**	**x**	**–**	**–**
8.	**Other financial expenses**	**13**	**–**	**–**	**x**	**x**
9.	**Other operating revenues**	**14**	**x**	**x**	**131,455**	**17,425**
10.	**General operating expenses**	**15**	**115,875**	**119,007**	**x**	**x**
	a) employee expenses	16	60,945	63,635	x	x
	aa) wages	17	48,358	49,856	x	x
	ab) social insurance and health insurance	18	12,587	13,779	x	x
	b) other general operating expenses	19	54,930	55,372	x	x
11.	**Other operating expenses**	**20**	**40,516**	**27,737**	**x**	**x**
12.	**Release of on reserves and provisions for tangible and intangible assets**	**21**	**x**	**x**	**–**	**1,655**
	a) release of on reserves for tangible assets	22	x	x	–	-
	b) release of on provisions for tangible assets	23	x	x	–	1,655
	c) release of on provisions for intangible assets	24	x	x	–	-
13.	**Depreciation, additions to reserves and provisions for tangible and intangible assets**	**25**	**26,007**	**22,250**	**x**	**x**
	a) depreciation of tangible assets	26	18,318	15,144	x	x
	b) additions to reserves for tangible assets	27	–	–	x	x
	c) additions to provisions for tangible assets	28	–	–	x	x
	d) depreciation of intangible assets	29	7,689	7,106	x	x
	e) additions to provisions for intangible assets	30	–	–	x	x
14.	**Release of on reserves and provisions for receivables and guarantees, income from ceded receivables and income from written-off receivables**	**31**	**x**	**x**	**62,353**	**66,173**
	a) release of on reserves for receivables and guarantees	32	x	x	41,866	57,532
	b) release of on provisions for bad debts and amounts receivable from guarantees	33	x	x	20,486	8,638
	c) income from ceded receivables and income from written-off receivables	34	x	x	1	3

SKK thousand Item no.	Name of item	Note	Expenses 2003	Revenues 2002	2003	2002
15.	Depreciation, additions to reserves and provisions for bad debts and amounts receivable from guarantees	35	54,672	94,671	x	x
	a) additions to provisions for bad debts and amounts receivable from guarantees	36	45,082	41,526	x	x
	b) additions to reserves for bad debts and amounts receivable from guarantees	37	8,769	53,091	x	x
	c) receivables write-off, written-off amounts receivable from guarantee payments, losses from ceded receivables	38	821	54	x	x
16.	Drawing on provisions for equity investments and contributions in subsidiaries (controlling interest) and for equity investments and contributions in affiliates (participating interest)	39	x	x	–	–
17.	Additions to provisions for equity investments and contributions in subsidiaries (controlling interest) and to equity investments and contributions in affiliates (participating interest)	40	–	–	x	x
18.	Drawing on other reserves	41	x	x	32,478	6,673
19.	Additions to other reserves	42	33,438	16,217	x	x
20.	Drawing on other provisions	43	x	x	–	8,419
21.	Additions to other provisions	44	-	10,360	x	x
22.	Profit or loss of the current accounting period before taxation	45	133,956	16,164	x	x
23.	Extraordinary revenues	46	x	x	–	–
24.	Extraordinary expenses	47	–	–	x	x
25.	Profit or loss of the accounting period from extraordinary activities before taxation	48	–	–	x	x
26.	Income tax	49	14,242	(2,560)	x	x
27.	Sharing profit/loss in subsidiaries and affiliates	50	–	–	x	x
28.	Profit or loss of the accounting period after taxation	51	119,714	18,724	x	x

Statement of Changes in Equity for the years ended 31 December 2003 and 2002

SKK thousand

Item no.	Name of item	Note	2003	2002
1.	**Registered capital**	**1**	–	–
	Opening balance	2	500,000	500,000
	Increase	3	–	–
	Decrease	4	–	–
	Transformation of convertible bonds to shares	5	–	–
	Realisation of options	6	–	–
	Closing balance	7	500,000	500,000
2.	**Own shares**	**8**	–	–
	Opening balance	9	–	–
	Increase	10	–	–
	Decrease	11	–	–
	Closing balance	12	–	–
3.	**Share premium**	**13**	–	–
	Opening balance	14	–	–
	Compulsory allotment	15	–	–
	Other increase	16	–	–
	Decrease	17	–	–
	Closing balance	18	–	–
4.	**Reserve funds**	**19**	–	–
	Opening balance	20	55,135	20,717
	Compulsory allotment	21	1,872	3,492
	Other increase	22	16,351	30,926
	Decrease	23	–	–
	Closing balance	24	73,358	55,135
5.	**Other funds created from profit**	**25**	–	–
	Opening balance	26	–	–
	Increase	27	–	–
	Decrease	28	–	–
	Closing balance	29	–	–
6.	**Other capital funds**	**30**	–	–
	Opening balance	31	–	–
	Increase	32	–	–
	Decrease	33	–	–
	Closing balance	34	–	–
7.	**Valuation differences not included in profit or loss**	**35**	–	–
	Opening balance	36	–	–
	Increase	37	–	–
	Decrease	38	–	–
	Closing balance	39	–	–
8.	**Retained earnings**	**40**	–	–
	Opening balance	41	8,390	–
	Increase	42	–	–
	Decrease	43	–	–
	Closing balance	44	8,390	-
9.	**Accumulated losses**	**45**	–	–
	Opening balance	46	–	–
	Increase	47	–	–
	Decrease	48	–	–
	Closing balance	49	–	–
10.	**Profit or loss for current accounting period after taxation**	**50**	**119,714**	**18,724**
11.	**Dividends**	**51**	–	–
	Equity total		701,462	573,859

Notes to the Financial Statements prepared in accordance with Slovak Accounting Standards (SAS) for the years ended 31 December 2003 and 2002

1. Core Business Activities

Komerční banka Bratislava, a. s. (hereinafter "the Bank" or "KBB"), is a wholly owned subsidiary of Komerční banka, a. s. (hereinafter "the Parent Bank" or "KB") holding a universal banking licence from the National Bank of Slovakia (the "NBS") and carrying out business in the Slovak Republic. The Bank was founded on 19 January 1995 and incorporated on 1 June 1995. It started business on 2 September 1995.
Core business activities of the Bank mainly include:
– Provision of loans and guaranties denominated in Slovak and foreign currencies;
– Acceptance of deposits denominated in Slovak and foreign currencies;
– Administration of current accounts and term deposits denominated in Slovak and foreign currencies;
– Provision of banking services in the Bank's branches;
– Foreign currency transactions in inter-banking monetary market;
– Banking services of international trade;
– Banking transactions in capital markets.

The registered office address of the Bank is Medená 6, 811 02, Bratislava, Slovak Republic. The Bank has three branches in the Slovak Republic.
As at 31 December 2003, the Bank reported physical headcount of 107 employees, while calculated headcount for 2003 was 106.93 (as at 31 December 2002: physical headcount of 115 employees, average calculated headcount for the year 127.21).

2. Events of 2003

In the 2003 summer, following the participation of Société Générale ("SG") in KB in 2002 and changes in the KBB bodies's membership in 2003, the management of the Bank and the shareholder presented a new strategy of the Bank to clients and the public. The Bank will be offering complex banking services and products of the Société Générale Group for corporate clients in its three branches based in Bratislava, Banská Bystrica, and Košice. In line with the core orientation, the Bank shall decrease the number of retail clients.
In 2002, the Bank started the restructuring process with the aim of optimising the Bank's operations and minimising operating expenses. The Bank streamlined its business network. In December 2002, the Bank closed down its Poprad branch. In February 2003, the Bank closed down its Bratislava – Prievoz branch, the clients of which became the clients of the Medená street branch, however, the Bank did not experience a significant reduction in its client number.
The Bank paid a penalty in the amount of SKK 17,500 thousand for the termination of an unfavourable lease agreement included in Other operating expenses.
In line with the SG Group strategy, in 2003 the Bank sold its equity shares in CAC Leasing Slovakia, a. s. (Note 9).

Members of the Bank's statutory bodies in 2002 and 2003

Board of Directors in 2002:

Robert Kerneis – Chairman	since 3 April 2002
Jean-Marc Mesure – Member	since 11 July 2002
David John Lee – Member	since 1 December 2002
Ivan Duda – Chairman	until 3 April 2002
Anton Halúska – Vice-Chairman	until 30 September 2002
Marek Macháček – Member	until 10 July 2002

Supervisory Board in 2002:

Matúš Púll – Chairman	since 15 February 2002
Ján Lukáčik – Vice-Chairman	since 9 July 2001
Philippe Rucheton – Member	since 17 May 2002

Board of Directors in 2003:

Robert Kerneis – Chairman	
Jean-Marc Mesure – Member	
Robert Belaň – Vice-Chairman	since 30 July 2003
David John Lee – Member	until 30 June 2003

Supervisory Board in 2003:

Matúš Púll – Chairman	
Philippe Rucheton – Vice-Chairman	
Monika Španitzová – Member	since 30 July 2003
Ján Lukáčik – Member	until 30 June 2003

3. Accounting policies and methods applied

The following notes include the summary of the most important accounting principles and methods applied in the preparation of the financial statements.

A. Accounting principles

The financial statements are based on the bookkeeping of the Bank maintained in accordance with Act No. 431/2002 Coll. on Accounting and the relevant legal regulations, mainly the Regulation of the Ministry of Finance of the SR No. 20 359/2002-92 dated 13 November 2002, specifying details on accounting procedures and the chart of accounts for banks, as valid from 1 January 2003.

The financial statements observe the accruals principle of expenses and revenues with transactions and other events recognized upon origination and recorded in the period to which they relate, on the assumption of the continuation of the Bank as a going concern. The financial statements are based on the historical cost principle, which has been modified by the fair value measurement of financial instruments designated for trading and financial instruments available for sale.

The financial statements are prepared pursuant to the Regulation of the Ministry of Finance of the SR No. 21832/2002-92 dated 10 December 2002, stipulating details on the arrangement, naming and content of entries in individual financial statements and on the scope of data from individual financial statements intended for release for banks.

The preparation of financial statements requires that the Bank's management prepare estimates and assumptions which influence the amounts of assets and liabilities and contingent assets and liabilities disclosed as at the balance sheet date, as well as the amounts of revenues and expenses disclosed during the year. These estimates are based on the information available as at the balance sheet date and may differ from the actual results.
The Bank reports financial information in Slovak Crown (SKK) rounded off to thousands of SKK.

New accounting methods compared to the previous accounting period

Due to the amendments to the aforementioned legal regulations, the Bank changed the accounting standards, especially accounting for and measurement of securities and derivatives. The difference arising from changes in the accounting procedures and financial instrument measurement methods were accounted for as the first accounting transaction in Group 57, to *Account of profit/(loss) from previous years* totalling net SKK 8 390 thousand (credit), thus increasing the amount of the Bank's equity by this amount (see table below).

The impact of change on profit/loss from previous years

SKK thousand	
Interest income and similar revenues	
Securities held to maturity – discount	1,467
Trading securities – discount	8
Interest expense and similar expenses	
Trading securities – premium	(10,125)
Net profit/(loss) from financial operations:	
Revaluation of derivatives – positive fair value	14,164
Revaluation of derivatives – negative fair value	(20,942)
Fair value measurement of securities	7,605
Release of other reserves to cover	
Loss from derivatives	6,780
Deferred taxes	2,564
Release of other provisions	
For securities	9,433
Deferred taxes	(2,564)
Total impact – profit	**8,390**

The impact of change on balance sheet items

(Adjustments to the 2002 balance sheet to compare the data)

SKK thousand	
Assets	**16,675**
Debt securities	
Trading securities – premium	(10,125)
Trading securities – fair value	7,605
Securities held to maturity – amortization	1,467
Trading securities – discount	8
Securities available for sale – release of provision	452
Securities available for sale – fair value	(452)
Trading securities – release of provision	9,433
Other assets, deferred expenses, accrued income	
Derivatives – fair value measurement – positive	14,165
Tax asset	(5,878)

Liabilities	
Other liabilities	**8,285**
Release of reserve for derivatives	(6,780)
Derivatives – fair value measurement – negative	20,943
Release of reserve for deferred tax assets	(5,878)

B. Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Sk and reported in the financial statements at the exchange rate declared by the National Bank of Slovakia ("NBS") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Slovak Crowns in the underlying accounting system of the Bank and are therefore reported in the financial statements as retranslated at the official exchange rate prevailing as of the date of the transaction. Gains and losses arising from movements in exchange rates after the date of the transaction are recognised in *Net profit/(loss) on financial operations*.

C. Cash and cash equivalents

Cash in hand and deposits with the National Bank of Slovakia only include unrestricted, readily available amounts, and highly liquid investments with the original maturity in 24 hours.

D. Amounts due from banks and clients

Loans originated by the Bank by providing money directly to a borrower are categorised as loans originated by the Bank and are carried at amortised cost. All loan receivables are recognised when cash is advanced to borrowers. Loan receivables are recognised including the interest earned.

Amounts due from banks and clients are stated net of provisions. A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the interest rate at inception. Specific provisions are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue.

Pursuant to the effective accounting procedures, where a client is in delay with payments of interest and interest on late payment for over 90 days, the Bank shall cease to record interest on late payment in *Interest Income*. The actual amount of interest is recorded in individual client loan accounts and in sub-ledger accounts in *Receivables written-off.*

The Bank writes off loss loans when clients are unable to fulfil their obligations to the Bank in respect of these loans. The loan is written off against the related provision for loan impairment. Subsequent recoveries are credited to the profit and loss statement in *Release of reserves and privisions for receivables and guarantees, income from ceded receivables and income from written-off receivables* if previously written off.

E. Securities

Securities held by the bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. In accordance with change of the accounting standards from 1 January 2003, the Bank developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to "Trading securities" and Investment securities to the "Available for sale" portfolio and the "Held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and the recognition of their fair values in the financial statements.

All securities held by the Bank are recorded at the moment of their financial settlement at cost, which for coupon bonds includes their net cost and the coupon accrued. The cost of securities also includes transaction costs related to the purchase of securities directly attributable to these securities. Securities transactions that do not fulfil the requirement for standard settlement in the relevant securities market are accounted for as financial derivatives, and at the moment of their settlement disclosed on the balance sheet at fair value. The cost of debt securities is gradually increased or decreased by the interest income or interest expense accrued. Interest income or expense represents accrued coupon yields and the accrued difference between the face value and net cost of securities.

Trading securities and securities available-for-sale are re-measured at fair value. Unrealised gains and losses from fair value measurements of securities, together with realised gains and losses, are recognised in the profit and loss statement in *Net profit/(loss) from financial operations*. Securities held to maturity and securities acquired in primary market issues, that are not envisaged for trading, are recorded at amortised cost and, in the event of their impairment resulting from increased credit risk of their issuer, provisions are created for them recognised in the profit and loss statement in *Creation and release of other provision*s.

a) Trading securities

Trading securities are financial assets (equity and debt securities, treasury bills, participation certificates) acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices in short-term investment horizont. Subsequent to the initial recognition, these securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges.

The Bank monitors changes in the fair value of securities on a monthly basis and records unrealised gains and losses in *Net profit/(loss) from financial operations.*

Dividends on securities available for sale are recorded upon the origination of an entitlement to dividend payment and recognised on the balance sheet as receivable in *Prepaid expenses, accrued income and other assets* and in the profit and loss statement as revenue in *Net profit/(loss) from financial transactions*.

b) Investments held to maturity

Investments held to maturity are financial assets with fixed maturities that the Bank has the positive intent and ability to hold to maturity. This portfolio comprises treasury bills and bonds. Held-to-maturity investments are measured at accrued value using the method of effective interest rate.

The Bank makes a regular assessment of whether there has been a reduction in the value of securities in the held-to-maturity portfolio. The value of a financial asset impairs, if its book value exceeds its estimated realisable value equalling the present value of anticipated future financial flows discounted at the original effective interest rate of the given financial instrument. The amount of impairment losses from assets recognised at net cost equals the difference between the book value of an asset and its realisable value. In the case of the impairment of assets, the Bank creates provisions recognised in the profit and loss statement in *Creation/Use of other provisions*.

c) Available for sale securities

Available for sale securities are those financial assets that are not classified as financial assets held for trading or held-to-maturity investments. This portfolio comprises equity securities and debt securities. *Available-for-sale financial assets* are measured using the same method as for trading securities.

d) Non-trading securities acquired in primary issues

Non-trading securities acquired in primary market issues represent financial assets created by providing funds to debtors. They are measured at accrued value and recognised on the balance sheet in *Amounts receivable from banks*, *Amounts receivable from clients*.

F. Equity shares in associated undertakings

In accordance with accounting procedures, as of 1 January 2003 the Bank decided on recording of investments in the associated undertaking at cost. During 2003, the Bank sold this investment. Proceeds from the sale are recorded in *Other operating revenues*.

G. Tangible and intangible assets

Tangible and intangible fixed assets are stated at historical (acquisition) cost less accumulated depreciation together with accumulated impairment losses. Fixed assets are depreciated through the accumulated depreciation charge. Depreciation is calculated on a straight-line basis to write off the cost of each asset to their residual values over their estimated useful economic life. Land and assets in the course of construction are not depreciated.

The estimated useful economic lives in years are set out below:

Machinery and equipment, computers, vehicles	4
Fixtures, fittings and equipment	4 – 6
Energy machinery and equipment	6 – 12
Goodwill	15
Buildings and structures	30

Gains and losses on the disposal of fixed assets are determined by reference to their carrying amount and are recognised in the statement of profit and loss in the year of disposal. Low value fixed assets and repairs in the nature of technical improvements costing less than SKK 30 thousand in the case of tangible fixed assets and SKK 50 thousand in the case of intangible fixed assets with an estimated useful life greater than one year are charged to the statement of profit and loss when the expenditure is incurred. Technical improvements costing more than SKK 30 thousand in respect of tangible fixed assets intangible fixed assets increase the acquisition cost of the fixed asset.

The largest components of the Bank's assets are periodically tested for impairment and temporary impairments are provisioned. Repairs and renewals are charged to the statement of profit and loss when the expenditure is incurred.

H. Reserves

The Bank recognised on the balance sheet a general reserve for losses from pass loan receivables, watch loan receivables, and off-balance sheet loan receivables. The Bank creates the reserves pursuant to the NBS Regulation on Classification of Receivables. Due to changes in the Act on Accounting, new NBS regulations, and trends in bad and doubtful loan receivables in previous periods, the Bank revised its provisioning policies for pass and watch receivables in 2003 and released reserves created in excess of the NBS Regulation on the Classification of Receivables during the year.

The Bank continues in provisioning for current payables resulting from past events and if the settlement of such a payable is likely to require spending the funds representing economic benefits and the amount of such payable can be reliably determined.

I. Provisions

The Bank continuously reassesses the risks inherent in receivables, categorizes individual receivables in accordance with the NBS Regulation and internal regulations and creates provisions for contingent losses.

J. Recognition of income and expense

Interest income and expense are recognised in the statement of profit and loss for all interest bearing instruments on an accrual basis. Interest income includes coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted instruments. The Bank records interest on non-performing loans on an accrual basis if a client is in delay for less than 90 days. Provisions for these loans are included in specific provisions. If a client is in delay with interest payment or interest on late payment for more than 90 days, the Bank stops recording accrued interest in the profit and loss statement. Accrued interest is then recorded in the client account on a daily basis and at the end of month expensed in the off-balance sheet accounts debity Sub-ledger Account 995.

Fees and commissions are recognised as income in the statement of profit and loss when due.

K. Taxation and deferred taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Slovak Republic, based on the profit or loss recognised in the statement of profit and loss.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values. Future enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from depreciation of tangible and intangible assets, specific and general provisions for loans, and tax losses carried forward. The Bank also accounts for deferred tax liability relating to unrealised gains from derivative instruments and securities. Deferred tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised. In 2003, the Bank did not account for deferred tax asset whose realisation was uncertain.

L. Sale and repurchase agreements

Securities received as collaterals in reverse repo transactions are not recognised on the Bank's balance sheet, they are carried at fair value in the off-balance sheet accounts. Securities provided as collaterals in repo transactions are kept in the portfolio, in which the securities were recorded prior to being provided as collaterals in repo transactions.

In the case of a sale of a security obtained as a collateral in a repo transaction, the Bank recognises on the balance sheet a payable from security re-measured at fair value.

M. Derivative financial instruments and hedging

In the normal course of business, the Bank enters into contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include currency forward or swaps and interest rate swaps. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. The Bank also acts as a financial derivatives broker for certain clients.

Derivative financial instruments are initially recognised on the off-balance sheet in the amount of the underlying financial instrument, and subsequently re-measured at fair value on the balance sheet.

Foreign currency derivatives are further re-measured in the off-balance sheet accounts due to changes in spot exchange rates.

Fair value is calculated based on listed market prices, discounted cash flow models, or option valuation models. All financial derivatives with positive fair values are recorded as assets, and those with negative fair values as liabilities.

Changes in the fair value of derivatives held for trading are included in line *Net profit/(loss) on financial operations*.

Currently, the Bank does not hold derivatives classified as hedges.

In accordance with accounting procedures and internal guidelines, as at the financial derivative agreement date the Bank may classify some derivatives either as fair value hedges of recognised assets or liabilities (fair value hedges), or hedges of future cash flows resulting from recognised assets or liabilities, anticipated transaction, or a firm commitment (cash flow hedge). Accounting for hedges relates to financial derivatives classified as hedges, subject to the fulfilment of predetermined terms.

The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

(a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

(b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and

(c) the hedge is effective on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the statement of profit and loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to profit and loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised as a part of equity. Otherwise, amounts deferred in equity are transferred to the statement of profit and loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the profit and loss statement.

Certain financial derivatives transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under specific rules for accounting procedures and are therefore treated as derivatives held for trading with fair value gains and losses reported in income in line *Net profit/(loss) on financial operations*.

N. Regulatory requirements

The bank is subject to the regulatory requirements of the NBS. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk, liquidity and foreign currency position. These requirements apply to all banks in Slovakia and the compliance is determined based on the Bank's financial reporting procedures under Slovak statutory accounting and banking regulations.

The restrictions include:

– Capital adequacy is to be at least 8% of risk-weighted assets;
– The ratio between assets with maturity until 7 days and liabilities with maturity until 7 days has to be at least "1.0" (valid since the 1 September 2002 to 14 August 2003);
– Capital must be maintained at a minimum level of SKK 500 million;
– Net credit exposure to one loan customer may not exceed 25% of the Bank's capital;
– Net credit exposure to one domestic and to the Bank with the seat in states of "zone A" based bank may not exceed 125% of the Bank's capital;
– Net credit exposure to a related party may not exceed 20% of the Bank's capital;
– Net credit exposure limits above do not apply to the Slovak Government, the NBS and central banks and Governments of the "zone A" countries;
– Total of all net credit exposures exceeding 10% of the Bank's capital cannot exceed 800% of the reporting Bank's capital.

O. Extraordinary expenses and revenues

Extraordinary expenses and revenues represent revenues or expenses from extraordinary events, which do not relate to the business of the reporting entity. The Bank reported no such expenses and revenues.

P. Reclassifications

Certain reclassifications have been made to the 2002 balances to conform to the 2003 presentation.

4. Information on risk management and financial instruments

Credit risk

Debtor credit rating

The Bank determines the counterparty risk through financial analysis, and by using a rating based on the scores of operating results, and a number of quality criteria depending on the type of client, its size, supplier and customer relations, rate of export, management evaluation, and previous relations between the Bank and the client. The result of the client rating is then used to calculate the anticipated risk costs considering the type of loan product and the hedge. Financial analysis of financial statements is performed using a number of indicators depending on the client's size (turnover figures) and its type (manufacturer, lease company, trading company). The Bank also uses ratings provided by external rating agencies, if available. Special teams of the parent company regularly evaluate the correctness and accuracy of ratings and adjust score functions.

The Bank monitors the overall credit risk exposure for all balance sheet and off-balance sheet positions. In particular, the Bank monitors credit risk exposure by industry and credit risk exposure in groups of economically-related parties (clients). In groups of economically-related parties, the Bank monitors the credit exposure in such groups as a percentage of the Bank's capital.

Creation of provisions for receivables

The Bank creates provisions for receivables of individual clients for unsecured risks represented by the amount receivable net the value of hedge. As the hedge for calculation purposes, the Bank only considers highly liquid hedges (cash) or bank guarantees. Provision equals the amount calculated under the NBS Regulation on the Classification of receivables, and the amount of provisions following the classification. The Bank evaluates risk inherent in receivables, and classifies its clients based on the NBS Regulation and internal regulations, on an ongoing basis. Provisions are recorded on a monthly basis.

Credit risk reallocation instruments

The Bank uses no credit derivatives to hedge or reallocate its credit exposures.

Market risk

Separation of Bank's transactions

For the purpose of market risk management, the Bank is internally separated into two books – the trading book and the bank book. The Bank's market risk arises from the Treasury function transactions made for trading purposes, and from business transactions of the Bank's customer functions. The Treasury function obtains immediate information on each transaction, which is considered material in terms of market risks, and participates in the setting of price in such transactions. The Bank's market risk is concentrated in the Treasury function through internal deals between the bank book and the trading book.
To determine market risk, the Bank uses the system of limits, which result from the need of the Bank and also from external requirements of both the NBS and the parent company.
The Market Risk function monitors and manages foreign exchange risks for the Bank.

Products provided by the Bank

The Bank trades in the following products associated with market risks:
– Loans and deposits in inter-bank market;
– Foreign currency transactions (spot, swaps, forwards);
– Interest rate transactions (interest rate swaps);
– Treasury bills and government bonds.

The Bank enters into back-to-back option transactions only.

The Bank enters into derivative transactions on its own account and into transactions with its clients.
The Bank did not enter into deals that meet the requirements of hedging derivatives or structural derivatives. The Bank only concludes derivates in the OTC market and does not trade in stock exchange derivatives.

Trading book market risk

To determine market risk of trading book, the Bank also uses Value-at-Risk indicator.
Value-at-Risk is calculated using the method of historical simulations and represents the maximum possible loss of the given portfolio in the given period of time (usually one day) with the probability rate of 99%.
In 2003 the Bank also introduced daily analyses of stress testing of all open positions in the trading book. Stress tests are defined for the main currency groups.
The Bank also uses interest sensitivity indicator to determine interest rate risk.

Bank book market risk

The Financial Management function is responsible for the management of the bank book. The bank book interest rate risk is monitored using the interest sensitivity indicator of assets and liabilities included in the book, on a daily basis. To determine interest sensitivity, the Bank uses the model of parallel shift of interest curves.
The Bank uses internal deals with trading book to hedge interest rate risk of Bank book.

Financial derivatives

The Bank developed a system of market risk limits and counterparty limits designed to prevent the origination of unreasonable open positions due to movements in market prices and unreasonable credit exposures to individual clients. The Bank monitors observance of all limits on a daily basis and if exceeded, takes steps to minimize risk exposure.
As part of ordinary business activities, the Bank deals in financial derivatives to hedge the Bank's liquidity, interest and foreign exchange risks. The Bank also enters into speculative transactions in financial derivatives aimed at generating profit from short-term variations in market factors. The Bank also makes deals with clients. There is a market risk system in place in the Bank and limits are set for counterparts designed to reduce the risk resulting from changes in market prices and exposures to individual counterparts.

5. Cash balances with the National Bank of Slovakia

Cash balances with the National Bank of Slovakia are comprised of the following:

SKK thousand		2003	2002
Accounts with the National Bank of Slovakia		**20,368**	**218**
thereof:	Current accounts	365	218
	Overnight deposits	20,000	–
	Accrued interest on deposits	3	–
Cash in hand		32,004	49,838
Total		**52,372**	**50,056**

6. Amounts due from banks

Amounts due from banks are comprised of the following:

SKK thousand		2003	2002
Demand deposits		45,450	50,122
Other deposits			
thereof:	term deposits with other banks	61,773	1,254,569
	minimum statutory reserves with the NBS	36,719	77,652
	loans extended under the NBS REPO transaction	546,678	594,749
Total		**690,620**	**1,977,092**

Demand bank deposits earn interest at rates ranging from 0.0% to 5.0% p.a. (31 December 2002: from 0.0% to 5.0% p.a.).
Term deposits with banks earn interest at rates ranging from 0.63% to 5.99% p.a. (31 December 2002: from 1.3% to 7.75% p.a.).
The amount of legal minimum reserves is set by the NBS guidelines – it represents 3% of the average amount of deposits for the relevant month (in 2002: 4%)
As at 31 December 2003, the Bank complied with the required levels of legal minimum reserves. Legal minimum reserves bear interest at the rate of 1.5% (31 December 2002: 1.5%).
The loan extended to the NBS is secured by the NBS treasury bills and earns interest at the rate of 5.99% p.a. (31 December 2002: 6.5%). The NBS treasury bills received under the REPO transaction are reported in the off-balance sheet accounts at their fair value of SKK 547 487 thousand as at 31 December 2003.

7. Amounts due from customers

Amounts due from clients are comprised of the following:

SKK thousand	2003	2002
Demand deposits	3,431	5,633
Other receivables – gross loans	2,155,485	2,048,496
Total	**2,158,916**	**2,054,129**
Provisions for loans	(110,510)	(86,048)
Amounts due from customers, net	**2,048,406**	**1,968,081**

An analysis of amounts due from customers by contractual maturity:

SKK thousand	2003	2002
Current accounts	3,431	5,633
Short-term loans	1,233,764	1,133,089
Long-term loans	921,721	915,407
Total gross	**2,158,916**	**2,054,129**
Less: provisions and reserves (Note. Error! Reference source not found.)	(110,510)	(86,048)
Loans and advances provided to customers, net	**2,048,406**	**1,968,081**

Loans, collateral values and provisions by classification:

31 December 2003

SKK thousand	Gross receivable	Collateral	Net credit exposure	Provisions	Carrying value	Provisions (%)
Standard	1,460,672	55,290	1,405,382	–	1,460,672	–
Watch	445,223	–	445,223	–	445,223	–
Substandard	175,663	–	175,663	(35,133)	140,530	20
Doubtful	6,604	–	6,604	(4,623)	1,981	70
Loss	70,754	–	70,754	(70,754)	–	100
Total	**2,158,916**	**55,290**	**2,103,626**	**(110,510)**	**2,048,406**	**5.1**
General reserves for loan losses				(51,406)	(51,406)	
Total				**(161,916)**	**1,997,000**	**8.1**

31 December 2002

SKK thousand	Gross receivable	Collateral	Net credit exposure	Provisions	Carrying value	Provisions (%)
Standard	1,457,886	15,375	1,442,511	–	1,457,886	–
Watch	476,070	–	476,070	–	476,070	–
Substandard	46,615	–	46,615	(13,990)	32,625	30
Doubtful	2,047	1,500	547	(547)	–	100
Loss	71,511	–	71,511	(71,511)	–	100
Total	**2,054,129**	**16,875**	**2,037,254**	**(86,048)**	**1,966,581**	**4.2**
General reserves for loan losses				(84,513)	(84,513)	
Total				**(170,561)**	**1,882,068**	**9.0**

Below is an analysis of types of collateral underlying loans and advances to customers:

SKK thousand	2003 Total client loan collateral	2003 Discounted client loan collateral value	2003 Applied client loan collateral value	2002 Total client loan collateral	2002 Discounted client loan collateral value	2002 Applied client loan collateral value
Bank guarantee	3,416	1,025	–	–	–	–
Deposits	55,290	55,290	–	15,375	15,375	–
State bonds	–	–	–	–	–	–
Issued debentures in pledge	189,625	56,888	–	251,645	75,494	–
Pledge of real estate	860,052	172,010	–	702,154	140,431	1,500
Pledge of movable assets	310,367	31,036	–	418,800	41,880	–
Guarantee by corporate entity	800,673	152,128	–	202,666	20,875	–
Pledge of receivables	738,903	295,561	–	1,028,366	411,346	–
Other	20,094	4,019	–	552,755	126,166	–
Total nominal value of collateral	**2,978,420**	**767,957**	**–**	**3,171,761**	**831,567**	**1,500**

Loans by industry:

SKK thousand	2003	2002
Trade and service activities	575,849	478,062
Financial leasing	350,844	206,504
Manufacturing industry	52,496	360,456
Wood processing and paper production	79,237	149,778
Mining industry	50,011	150,536
Engineering	26,047	45,810
Chemical industry	301,031	165,593
Electrical engineering	167,055	177,662
Textile industry	12,558	12,558
Transport and infrastructure	9,369	39,229
Agriculture industry	315,463	254,877
Construction industry	128,303	2,464
Other industries	90,653	10,600
Total	**2,158,916**	**2,054,129**
Less: provisions	(110,510)	(86,048)
Loans and advances to customers, net	**2,048,406**	**1,968,081**

The Bank arranges syndicated loans, which the Bank offers to clients in co-operation with the parent company. As at 31 December 2003, the amount of syndicated loans extended to three clients totalled SKK 670,000 thousand, with the share of KBB in these loans in the amount of SKK 343,000 thousand. (As at 31 December 2002: syndicated loan extended to one client in the amount of SKK 250,000 thousand, with KBB share in the loan amounting to SKK 109,752 thousand).

In extending new loans, the Bank is subject to the NBS regulations relating to net credit risk (defined as the total of all existing receivables and accrued income less collateral values).

As of 31 December 2003, the Bank's credit exposure of its non-bank clients with a credit risk exposure in excess of 10% of the Bank's capital was SKK 1,987,970 thousand (31 December 2002: 1,397,850 thousand). There was no credit exposure in excess of 25% of the Bank's capital as of 31 December 2003.

In 2003, loans bore interest at rates varying between 2.9% and 12.5% p.a. (31 December 2002: between 3.21% and 14.0% p.a.).

In 2003, the Bank wrote off bad debts arising from interest and debit balances on current accounts in the amount of SKK 54 thousand (31 December 2002: SKK 54 thousand).

As at 31 December 2003, the Bank created provisions for bad debts arising from debit balances on current accounts in the amount of SKK 230 thousand (2002: the Bank created no provisions for debit balances on current accounts).
As at 31 December 2003, the Bank recorded in off-balance sheet accounts in *Receivables written-off* interest overdue for more than 90 days in the amount of SKK 1,826 thousand, and the penalty interest overdue in the amount of SKK 1,639 thousand related to loss loans. Interest relates to the period from 1 January 2003 to 31 December 2003. In 2002, all interest charges were disclosed in *Amounts due from clients* and in *Interest income and similar income*.

General reserve for risks and uncertainties inherent in the loan portfolio
The Bank's loan portfolio includes a number of risks that cannot be specifically identified as such. As of 31 December 2003, the Bank maintains a general reserve of SKK 51,406 thousand to cover the risks, which may be present in the loan portfolio as of that date (primarily pass and watch loans) but which cannot be allocated to individual loan exposures (31 December 2002: SKK 84,513 thousand).
The Bank has released SKK 51,406 thousand of general reserves as at 1 January 2004 and created provisions for watch loans in the amount of SKK 22,260 thousand. See also Note 33.

8. Debt securities

Debt securities are comprised of the following:

SKK thousand	2003	2002
Securities issued by State authorities, gross	739,840	800,980
Treasury bills received under REPO transactions		593,517
Securities issued by other entities, gross	49,265	49,265
Provision for securities	(49,265)	(49,265)
Total	**739,840**	**1,394,497**

Debt securities by purpose of acquisition:

a) Trading securities

SKK thousand	2003 Fair value	2003 Cost	2002 Recognised value	2002 Cost
State bonds	**548,266**	**533,929**	**608,960**	**571,753**
Treasury bills, NBS REPO	–	–	593,517	–
thereof: Accrued interest and premium	7,907	7,209	46,640	5,882
Total trading securities	**548,266**	**533,929**	**1,202,477**	**571,753**

Included in the trading securities portfolio are state bonds quoted on the stock exchange in Bratislava – Burza cenných papierov v Bratislave, a. s. issued in Slovak Crowns, with fixed interest rate (31 December 2002: all quoted, in Slovak Crowns, with fixed interest rates).
As of 31 December 2003, trading securities bore interest at rates varying between 7.5% and 8.5% p.a. (31 December 2002: between 7.5% and 12.0% p.a.).

b) Securities available for sale

SKK thousand	2003 Fair value	2003 Cost	2002 Value recognised	2002 Cost
Shares	–	452	–	452
Total securities available for sale	**–**	**452**	**–**	**452**

The portfolio of securities available for sale includes shares of VÚB Invest, at zero fair value.

c) Securities held to maturity

Securities held to maturity include:

SKK thousand	2003 Recognised Value	2003 Cost	2002 Recognised Value	2002 Cost
State bonds	191,574	182,586	192,020	184,802
thereof: accrued interest and amortisation	8,988	–	7,217	–
Treasury bills	–	–	–	–
Corporate bonds	49,265	39,400	49,265	39,400
thereof: accrued interest	9,865	–	9,865	–
Provisions	(49,265)	–	(49,265)	–
Total securities held to maturity	**191,574**	**221,986**	**192,020**	**224,202**

State bonds held to maturity bear interest at rates varying between 7.5% and 8.5% p.a. (31 December 2002: between 7.5% and 8.5%).

State bonds of the Slovak Republic in the amount of SKK 162,586 thousand held by the Bank as of 31 December 2003 have been issued in EUR and are not quoted. Other state bonds have been issued in Slovak Crowns and are listed on stock exchange in Bratislava – Burza cenných papierov v Bratislave, a. s. (31 December 2002: Sk 164 802 thousand).

Corporate bonds at cost of SKK 39,400 thousand are in bankruptcy; their market value is nil and the Bank created full provisions (100%) for such bonds (December 2002: the same status).

9. Shares and participation in associates

As at 1 January 2003, the Bank owned a 20% (in 2002: 20%) participation in CAC Leasing Slovakia, a. s. As at 1 January 2003, the Komerční banka Financial Group held a 50% participation in an association of CAC Leasing Slovakia, a. s.

Equity shares were acquired at cost totalling SKK 10,000 thousand.

As at 30 June 2003, the Bank sold its participation in CAC Leasing Slovakia, a. s. for SKK 139,178 thousand (CZK 106 million). Profit on sale in the amount of SKK 129,178 thousand is recognised in *Other operating revenues*. In 2002, the Bank received dividends from participation totalling SKK 7,836 thousand recognised in *Other operating revenues*.

The Bank granted a loan to the aforementioned company. As at 31 December 2003, the outstanding balance amounted to SKK 113,000 thousand (31 December 2002: SKK 40,291 thousand)

10. Tangible and intangible fixed assets

The movements during the current year are:

SKK thousand	Incorporation expenses	Goodwill	Other intangible fixed assets	Acquisition of IFA	Total intangible fixed assets	Land and buildings for operating activity	Machinery fittings and fixtures	Acquisition of TFA	Total tangible fixed assets	Total fixed assets
Cost at 1 January 2002	61	29,491	32,835		62,387	50,121	143,043	1,818	194,982	257,369
Additions (+)	–	–	982	369	1,351	–	3,991	3,212	7,203	8,554
Disposals (–)	–	–	(52)	–	(52)	(11,154)	(8,445)	(4,973)	(24,572)	(24,624)
Cost at 31 December 2002	**61**	**29,491**	**33,765**	**369**	**63,686**	**38,967**	**138,589**	**57**	**177,613**	**241,299**
Accumulated depreciation at 1 January 2002	61	13,212	19,238	–	32,511	6,117	109,120	–	115,237	147,748
Depreciation (+)	–	2,035	5,071	–	7,106	999	14,145	–	15,144	22,250
Net book value written off at sale	–	–	–	–	–	9,120	–	–	9,120	9,120
Disposals	–	–	(52)	–	(52)	(10,193)	(8,445)	–	(18,638)	(18,690)
Impairment losses	–	–	–	–	–	(1,655)	–	–	(1,655)	(1,655)
Accumulated depreciation at 31 December 2002	**61**	**15,247**	**24,257**	**–**	**39,565**	**4,388**	**114,820**	**–**	**119,208**	**158,773**
Net book value at 31 December 2002	**–**	**14,244**	**9,508**	**369**	**24,121**	**34,579**	**23,769**	**57**	**58,405**	**82,526**
Cost at 1 January 2003	61	29,491	33,765	369	63,686	38,967	138,589	57	177,613	241,299
Additions (+)	–	–	1,792	1,423	3,215	2,239	14,972	17,154	34,365	37,580
Disposals (–)	–	–	–	(1,792)	(1,792)	(3,625)	(17,912)	(17,211)	(38,748)	(40,540)
Cost at 31 December 2003	**61**	**29,491**	**35,557**	**–**	**65,109**	**37,581**	**135,649**	**–**	**173,230**	**238,339**
Accumulated depreciation at 1 January 2003	61	15,247	24,258	–	39,566	4,388	114,820	–	119,208	158,774
Depreciation (+)	–	2,565	5,123	–	7,688	3,576	14,741	–	18,317	26,005
Net book value written off at sale	–	–	–	–	–	688	752	–	1,440	1,440
Disposals, impairment losses	–	–	–	–	–	(3,625)	(17,913)	–	(21,538)	(21,538)
Accumulated depreciation at 31 December 2003	**61**	**17,812**	**29,381**	**–**	**47,254**	**5,027**	**112,400**	**–**	**117,427**	**164,681**
Net book value at 31 December 2003	**–**	**11,679**	**6,176**	**–**	**17,855**	**32,554**	**23,249**	**–**	**55,803**	**73,658**

11. Other assets, prepayments and accrued income

Other assets include:

SKK thousand	2003	2002
Other receivables from clients	86,416	314,861
Positive fair value of derivative transactions	10,527	–
Settlement account balances	148	414
Other assets	4,608	121,999
Less: provisions (Note 15)	(1,299)	(2,148)
Total other assets	**100,400**	**435,126**

Other receivables from clients in 2003 includes a receivable from the client amounting to SKK 86,225 thousand representing the purchase of securities on behalf of the client. The receivable has been fully secured with government bonds (in 2002: SKK 313,108 thousand, fully secured with government bonds).

Prepaid expenses and accrued income include:

SKK thousand	2003	2002
Prepaid expenses	707	1,344
Accrued income	49	–
Total prepaid expenses and accrued income	**756**	**1,344**

12. Amounts owed to banks

Amounts owed to banks comprise of the following:

SKK thousand	2003	2002
Demand deposits	8,615	808
Other liabilities	460,446	3,126,425
thereof: loans received	4,368	7,560
termdeposits	456,078	2 525,348
payable under REPO transaction with the NBS	–	593,517
Total	**469,061**	**3,127,233**

Current accounts of other banks bear interest at rates 1.5% p.a. (31 December 2002: between 0.0% and 2.0% p.a.).

Term deposits received from other banks bear interest at rates varying between 2.0% and 5.7% p.a. (31 December 2002: 2.75% and 8.1% p.a.).

13. Amounts owed to customers

An analysis of amounts owed to customers by type of deposit:

SKK thousand	2003	2002
Demand deposits	958,297	799,510
Other liabilities	1,309,654	1,067,986
thereof: term deposits	1,211,494	765,676
savings deposits	48,160	81,363
loans received	50,000	220,947
Total	**2,267,951**	**1,867,496**

Current accounts represent customer demand deposits. As of 31 December 2003, they bear interest at rates varying between 0.01% and 2.0% p.a. (31 December 2002: 0.1% and 2.25% p.a.)

Term deposits include customer funds with specified maturity date. As of 31 December 2003, Term deposits bear interest at rates varying between 0.15% and 3.9% p.a. depending on the maturity of the deposit (as of 31 December 2002: 0.15% and 6.8% p.a.).

As at 31 December 2003, Loans received in the amount of SKK 50,000 thousand represented a short-term loan from Eximbanka aimed at providing special purpose loans to the Bank's customers in order to finance exports (31 December 2002: SKK 220 947 thousand represented a short-term loan provided for the same purpose as in 2003).

Amounts owed to customers by the type of customer:

SKK thousand	2003	2002
Private businesses	1,365,919	764,937
Individuals	527,690	647,315
Other financial institutions	119,961	221,575
Non-residents	133,261	94,674
Insurance companies	5,294	90
Entrepreneurs – individuals	112,467	135,317
Other	3,359	3,588
Total	**2,267,951**	**1,867,496**

14. Other payables, deferred income and accrued expense

Other payables, deferred income and accrued expense are comprised of the following:

SKK thousand	2003	2002
Other payables to customers	156,986	93,405
Payables to suppliers	747	1,159
Negative fair value of derivative transactions	21,558	-
Settlement with State budget	15,403	1,225
Settlement with social and health insurance companies and the National Labour Office	49	-
Payables to employees	43	41
Other liabilities	15,884	152,604
Deferred income and accrued expense	2	-
Total	**210,672**	**248,434**

15. Reserves and provisions

Below is the summary of movements in reserves and provisions created in 2003 and 2002:

SKK thousand	Loans	Other liabilities	Guarantees	Loan commitments	Fixed assets	Other reserves	Other provisions for securities	Total reserves and provisions
As at 1 January 2002	142,205	2,271	192	–	1,655	7,238	57,209	210,770
Reserves presented in statement of profit and loss, creation	52,762	–	329	6,385	–	9,832	–	69,308
Reserves presented in statement of profit and loss, use	(57,415)	–	(117)	(3,497)	–	(3,176)	–	(64,205)
Provisions presented in statement of profit and loss, creation	41,258	268	–	–	–	–	10,360	51,886
Provisions presented in statement of profit and loss, use	(8,248)	(390)	–	–	(1,655)	–	(8,419)	(18,712)
Foreign exchange rate differences, net	–	–	–	–	–	–	–	–
As at 31 December 2002	**170,562**	**2,149**	**404**	**2,888**	**–**	**13,894**	**59,150**	**249,047**
Adjustments as at 1 January 2003	**–**	**–**	**–**	**–**	**–**	**(12,658)**	**(9,885)**	**(22,543)**
Reserves presented in statement of profit and loss, creation	8,660	–	109	10,714	–	22,724	–	42,207
Reserves presented in statement of profit and loss, use	(41,767)	–	(99)	(11,324)	–	(21,154)	–	(74,344)
Provisions presented in statement of profit and loss, creation	45,070	12	–	–	–		–	45,082
Provisions presented in statement of profit and loss, use	(19,624)	(862)	–	–	–		–	(20,486)
Foreign exchange rate differences, net	(985)	–	–	–	–	–	–	(985)
As at 31 December 2003	**161,916**	**1,299**	**414**	**2,278**	**–**	**2,806**	**49,265**	**217,978**
	(Note 24)	(Note 24)	(Note 24)	(Note 25)	(Note 23)	(Note 25)	(Note 25)	

16. Registered capital, reserve funds and other funds created from profit

Registered capital consists of 5 thousand approved and fully paid shares with a face value of SKK 100 thousand per share.
Reserve funds represent funds apportioned from profits in accordance with the legal requirements or decisions of General Meeting of Shareholders.
Movements in shareholders' equity:

SKK thousand	Registered capital	Reserve fund	Retained earnings	Total
Opening balance as at 1 January 2002	**500,000**	**20,717**	**34,918**	**555,635**
Allotment/(drawing)	–	34,418	(34,918)	(500)
Profit for the current period	–	–	18,724	18,724
Closing balance as at 31 December 2002	**500,000**	**55,135**	**18,724**	**573,859**
Effect of change in accounting procedures as at 1 January 2003 (Note 3A)	–	–	8,390	8,390
Opening balance as at 1 January 2003	500,000	55,135	27,114	582,249
Allotment/(drawing)	–	18,223	(18,724)	(501)
Profit for the current period	–	–	119,714	119,714
Closing balance as at 31 December 2003	**500,000**	**73,358**	**128,104**	**701,462**

The shareholder decided on the distribution of the 2002 profit in the amount of SKK 18,724 thousand as follows:
– SKK 18,223 thousand, allotment to the reserve fund;
– SKK 501 thousand, allotment to the social fund.

17. Interest income and other revenues

Interest income is comprised of:

SKK thousand	2003	2002
Interest income received from:		
Loans extended to clients	**138,252**	**179,806**
Loans and deposits with financial institutions	101,798	119,929
Securities:	54,832	92,186
thereof: state bonds	48,661	70,337
NBS and state treasury bills	5,976	21,818
other securities	195	31
Total	294,882	391,921

18. Interest expense and similar expenses

Interest expense are comprised of:

SKK thousand	2003	2002
Interest paid on:		
thereof: bank loans and deposits with banks	(77,630)	(165,840)
amounts due to customers	(69,605)	(92,902)
debt securities	(6,321)	–
Total	**(153,556)**	**(258,742)**

19. Revenues from and expense for fees and commissions

Fees and commissions are comprised of:

SKK thousand	2003	2002
Revenues from fees and commissions		
thereof: received from banks	3,956	5,511
received from clients	32,537	34,922
Total revenues from fees and commissions	**36,493**	**40,433**
Expenses for fees and provisions		
thereof: paid to banks	(12,705)	(13,595)
paid to clients	(6,812)	(5,746)
Total expenses for fees and commissions	**(19,517)**	**(19,341)**

20. Net profit on financial operations

Profit/(loss) on financial operations consist of:

SKK thousand	2003	2002
Profit/(loss) on derivative transactions	(27,280)	(138,232)
Profit/(loss) on foreign currency trading	50,096	164,663
Profit/(loss) from securities	(2,940)	25,359
Total	**19,876**	**51,790**

21. Other operating revenues and expenses

Other income and expense comprises of:

SKK thousand	2003	2002
Gain/(loss) on sale of shares	129,178	–
Dividends on equity securities	–	7,836
Gain/(loss) on sale of assets	1,912	8,884
Other revenues	365	705
Total other financial revenues	131,455	17,425
Other operating expenses	(40,516)	(27,737)
Total	(40,516)	(27,737)

On 30 June 2003, the Bank entered into the contract for sale of shares in CAC Leasing Slovakia, a. s. The selling price of shares amounted to SKK 139,178 thousand (CZK 106 million). The transaction was settled on 4 July 2003. The Bank recognised the profit from sale of shares amounting to SKK 129,178 thousand.

Other Operating Expenses comprise of a penalty of SKK 17,500 thousand, paid by the Bank for the premature termination of the lease contract in relation with the closing down a point of commerce in Bratislava, at Prievozská street.

22. General administrative expenses

General administrative expenses include:

SKK thousand	2003	2002
Personnel expenses, thereof:		
wages and salaries	(47,559)	(48,484)
social and health insurance	(12,587)	(13,779)
bonuses to members of statutory authorities	(799)	(1,372)
Other general administrative expenses, thereof:	(54,930)	(55,372)
expenses for audit, legal and tax advisory	(4,364)	(2,914)
Total	(115,875)	(119,007)

23. Depreciaton, reserves and provisions for tangible and intangible assets

For the summary of depreciation charges for tangible and intangible fixed assets see Note 10.

In 2003, the Bank created no reserves and provisions for tangible and intangible assets. In 2002, the Bank released provision created due to the difference between the carrying value which was above the market value of the Bank's building in Žilina. The Bank sold the building and the provision was released.

24. Use and creation of reserves and provisions for receivables and guarantees; expenses for and reveneus from receivables assigned and expenses for and revenues from receivables written off

SKK thousand	2003	2002
Use		
Use of reserves for receivables and guarantees, thereof:		
for loans	41,767	57,415
for guarantees	99	117
Use of provisions for receivables and guarantees, thereof:		
for loans	19,624	8,248
for guarantees	–	–
for other receivables	862	390
Revenues from receivables assigned and written off	1	3
Total use	**62,353**	**66,173**

SKK thousand	2003	2002
Creation		
Creation of reserves for receivables and guarantees, thereof:		
for loans	8,660	52,762
for guarantees	109	329
for other receivables	–	
Creation of provisions for receivables and guarantees, thereof:		
for loans	45,070	41,258
for guarantees	–	–
for other receivables	12	268
Write-off of receivables, losses from receivables assigned, thereof:		
write-off of operating receivables	767	–
write-off of debit balances on current accounts	54	54
Total creation	**54,672**	**94,671**

In 2003, the Bank wrote off debit balances on clients' current accounts in the amount of SKK 54 thousand (in 2002: SKK 54 thousand).

25. Use and creation of other reserves and provisions

SKK thousand	2003	2002
Use		
Use of other reserves, thereof:		
for operating activities	430	2,493
for taxes	20,724	683
for off-balance sheet liabilities	11,324	3,497
Total use of other reserves	**32,478**	**6,673**
Use of other provisions, thereof:		
for securities	–	8,419
Total use of other provisions	**–**	**8,419**

SKK thousand	2003	2002
Creation		
Creation of other reserves, thereof:		
for operating activity	2,000	488
for taxes	20,724	2,564
for derivatives		6,780
for off-balance sheet liabilities	10,714	6,385
Total creation of other reserves	**33,438**	**16,217**
Creation of other provisions, thereof:		
for securities	–	10,360
Total creation of other provisions	**–**	**10,360**

26. Income tax

The major components of corporate income tax are as follows:

SKK thousand	2003	2002
Income tax on ordinary activities	(11,208)	(4)
Income tax on extraordinary activities	–	–
Deferred income tax on ordinary activities	(3,034)	2,564
Deferred income tax on extraordinary activities	–	–
Total income tax expense	**(14,242)**	**2,560**

The corporate tax rate for the year 2003 is 25% (2002: 25%). The tax calculation is shown in the following table:

SKK thousand	2003	2002
Profit/(loss) before tax (current tax rate)	**133,956**	**16,164**
Items not deductible from tax base	79,956	100,517
thereof: provisions for loan losses	3,342	32,996
reserves	34,674	43,333
expenses for non taxed earnings from securities	7,914	7,063
other items not deductible from tax base	34,026	17,125
Items deductible from tax base	168,456	165,209
thereof: provisions for loan losses	35,774	15,042
reserves	68,099	51,259
earnings from securities	41,118	95,523
other	23,465	3,385
Tax base	45,456	(48,528)
Items deductible from tax base	**(625)**	**–**
Tax base	44,831	(48,528)
Total income tax expense	**11,208**	**(4)**

The Bank's tax liability is calculated based upon the accounting profit/(loss) taking into account tax non-deductible expenses and tax exempt income or income, which are subject to the final tax rate.

The current statutory income tax rate was 25% (2002: 25%). The tax payable amounted to SKK 11,208 thousand.

In 2002, the tax payable due to withholding taxes on interest income amounted to SKK 4 thousand.

Further information about deferred tax is presented in Note 27.

27. Deferred income taxes

Deferred income taxes are calculated on all temporary differences, using the liability method with tax rate effective for the following year that is 19% (2002: 25%).
Deferred income tax liabilities and assets are attributable to the following items:

SKK thousand	2003	2002
Deferred income tax liabilities related to income tax		
Unrealised profit on securities and financial instruments	(2,687)	–
Other temporary differences	(347)	–
Deferred income tax liability related to income tax	**(3,034)**	–
Deferred income tax assets related to income tax		
Loan loss provisions and reserves	1,149	4,569
Unrealised losses on securities and financial instruments	4,175	2,323
Fixed assets depreciation	2,993	5,878
Other temporary differences	494	108
Deferred income tax asset	**8,811**	**12,878**
Net deferred income tax asset before adjustment	**5,777**	
Adjustment for uncertain realisation of tax asset	**(8,811)**	**(12,878)**
Net deferred income tax liability related to income tax	**(3,034)**	–

The Bank has not recorded any deferred tax asset, as its realisation is not assured. With respect to different methodology for quantification of deferred taxes in 2002, the Bank accounted for deferred tax assets in the amount of SKK 5,878 thousand in the preceeding period due to differences between the accounting and tax depreciation charges of tangible fixed assets.
The Bank does not have tax losses to carry-forward into future accounting periods.

28. Derivative financial instruments

Financial derivative instruments' held for trading at notional and fair values as at 31 December 2003 and 31 December 2002 are as follows:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002	31 December 2003	31 December 2002	31 December 2003	31 December 2002
Foreign currency instruments (unquoted)								
Currency swaps	1,873,040	1,820,726	1,876,116	1,802,078	1,875	–	3,128	–
Currency forwards	819,116	2,555,122	825,905	2,608,563	2,754	–	7,677	–
Call options	139,608	–	137,097	–	5,671	–	–	–
Put options	137,097	–	139,608	–	–	–	5,671	–
Interest rate instruments (unquoted)								
Interest rate swaps	251,399	666,888	251,399	666,888	227	–	5,082	–
Total	**3,220,260**	**5,042,736**	**3,230,125**	**5,077,529**	**10,527**	–	**21,558**	–

The remaining contractual maturity of foreign currency swaps and forwards is up to 1 year from the date of financial statements. The remaining contractual maturity of IRS is up to 5 years from the balance sheet date.

29. Risks

29.1. Interest rate risk

Interest rate risk represents a risk that the value of the financial instrument would change due to fluctuations in the market interest rates. The period of time, during which the interest rate for the financial instrument is set as fixed, indicates to what extent this instrument is exposed to the interest rate risk.

The Bank uses its own models for the interest rate risk management. The models are designed to show the expected economic behaviour of the Bank's clients in the case that interest rates on the market are changed. The Bank's management intention is to manage the net interest income fluctuation risk resulting from changes in interest rates using the gap analysis between assets and liabilities in individual groups.

Assets and liabilities without any interest rate sensitivity are classified as "Not specified".

SKK thousand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Not specified	Total
Assets						
Cash and balances with the National Bank of Slovakia	20,368	–	–	–	32,004	52,372
Amounts due from banks	690,620	–	–	–	–	690,620
Amounts due from customers, net	1,762,231	188,648	90,179	331	7,017	2,048,406
Trading securities	3,000	292,555	54,794	197,917		548,266
Securities held to maturity	–	171,574	–	20,000	–	191,574
Equity securities and ownership interests	–	–	–	–	–	–
Tangible and intangible fixed assets	–	–	–	–	73,658	73,658
Other assets	96,752				4,404	101,156
Total assets	**2,572,971**	**652,777**	**144,973**	**218,248**	**117,083**	**3,706,052**
Amounts due to banks	464,928	600	3,533	–	–	469,061
Amounts due to customers	2,162,798	98,666	–	–	6,487	2,267,951
Other liabilities, deferred income and accrued expenses and reserves	156,986	–	–	–	110,592	267,578
Equity					701,462	701,462
Total liabilities and shareholders' equity	**2,784,712**	**99,266**	**3,533**	**–**	**818,541**	**3,706,052**
Off-balance sheet interest rate assets	2,812,110	334,146	–	–	–	3,146,256
Off-balance sheet interest rate liabilities	2,736,777	348,648	70,393	–	–	3,155,818
Net interest rate risk at 31 December 2003	**(136,408)**	**539,009**	**71,047**	**218,248**	**(701,458)**	**(9,562)**
Cumulative interest rate risk at 31 December 2003	**(136,410)**	**402,599**	**473,646**	**691,894**	**(9,564)**	**1,422,165**

29.2. Liquidity risk

Liquidity risk is the risk that the Bank will not have available funds to meet its commitments arising from financial contracts.

Liquidity risk management is based on the liquidity management system approved by the Bank's Board of Directors which complies with the NBS directive and at the same time enables to cover other needs/requirements of the Bank for risk liquidity management. Liquidity monitoring is provided at the Bank's level.

The Bank set the rules for liquidity management in order to meet liquidity under ordinary conditions as well as in the periods of crisis. Therefore, a set of criteria has been defined, for which limits are specified. The Bank reports on its liquidity to the NBS on a monthly basis.

The table below provides an analysis of assets, liabilities and shareholder's equity by relevant maturity groups based on the remaining period from the balance sheet date till the contractual maturity. They are presented under the most prudent consideration of maturity dates where options of repayment or repayment schedules allow for early repayments. Therefore, in liabilities the earliest possible repayment date is shown while in assets the latest possible repayment date is outlined.

Assets and liabilities without any contractual maturity dates are grouped in the "Not specified" category.

In the table below is an analysis of assets and liabilities by contractual maturity:

SKK thousand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the National Bank of Slovakia	52,372	–	–	–	–	–	52,372
Due from financial institutions	690,620	–	–	–	–	–	690,620
Due from customers, net	3,431	602,335	876,905	494,324	71,411	–	2,048,406
Trading securities	–	3,000	292,555	54,794	197,917	–	548,266
Securities held to maturity	–	–	171,574	–	20,000	–	191,574
Equity securities and ownership interests	–	–	–	–	–	–	–
Tangible and intangible fixed assets	–	–	–	–	–	73,658	73,658
Other assets	348	100,360	311	137	–	–	101,156
Total assets	**746,771**	**705,695**	**1,341,345**	**549,255**	**289,328**	**73,658**	**3,706,052**
Liabilities and shareholders' equity							
Amounts due to banks	8,614	456,314	600	3,533	–	–	469,061
Amounts due to customers	801,311	1,311,487	148,666	6,487	–	–	2,267,951
Other liabilities, deferred income and accrued expenses and reserves	156,986	101,615	5,784	158	–	3,035	267,578
Equity	–	–	–	–	–	701,462	701,462
Total liabilities and shareholders' equity	**966,911**	**1,869,416**	**155,050**	**10,178**	**–**	**704,841**	**3,706,052**
Liquidity risk at 31 December 2003	**(220,140)**	**(1,163,721)**	**1,186,295**	**539,077**	**289,328**	**(630,839)**	**–**
Cumulative liquidity risk at 31 December 2003	**(220,140)**	**(1,383,861)**	**(197,566)**	**341,511**	**630,839**	**–**	**–**

29.3. Foreign currency risk

The table below provides an analysis of the Bank's foreign currency exposures by key currency as of 31 December 2003 and 31 December 2002.

SKK thousand	Slovak crown	Czech crown	US dollar	Swiss franc	EUR	Other	Total
Assets							
Cash and balances with the National Bank of Slovakia	39,958	3,284	1,359	2,724	4,510	537	52,372
Due from banks	586,536	22,689	45,999	110	32,959	2,327	690,620
Due from customers, net	1,626,911	133,816	3,941	–	283,738	–	2,048,406
Trading securities	548,266	–			–		548,266
Securities held to maturity	20,633	–	–	–	170,941		191,574
Equity securities and ownership interests	–	–	–	–	–	–	–
Tangible and intangible fixed assets	73,658	–			–		73,658
Other assets	101,032	2	47		75		101,156
Total assets	**2,996,994**	**159,791**	**51,346**	**2,834**	**492,223**	**2,864**	**3,706,052**
Liabilities and shareholders' equity							
Amounts due to banks	468,995	–	–	–	62	–	469,061
Amounts due to customers	1,918,347	114,515	68,845	2,401	162,918	925	2,267,951
Other liabilities, deferred income and accrued expenses and reserves	181,607	50,768	3,163	–	32,040	–	267,578
Equity	701,462	–	–	–	–	–	701,462
Total liabilities and shareholders' equity	**3,270,411**	**165,283**	**72,008**	**2,404**	**195,020**	**926**	**3,706,052**
Net foreign exchange exposure as at 31 December 2003	**(273,417)**	**(5,492)**	**(20,662)**	**430**	**297,203**	**1,938**	**–**
Off-balance sheet assets	3,061,992	567,709	390,475	255,052	2,503,587	205,331	6,984,146
Off-balance sheet liabilities	2,089,736	533,193	315,782	254,566	3,590,533	209,014	6,992,824
	972,256	**34,516**	**74,693**	**486**	**(1,086,946)**	**(3,683)**	**(8,678)**
Net currency exposure as at 31 December 2003	**698,839**	**29,024**	**(54,031)**	**916**	**(789,743)**	**(1,745)**	**(8,678)**

30. Commitments and contingent liabilities

Commitments and contingent liabilities represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. These assurances bear the same risk as loans and therefore, the Bank performs their monitoring and assessment on a regular basis and makes provisions for potential associated risks, if any.

Receivables from letters of credit

A letter of credit represent ir-revocable liability of the Bank issued under the customer's (mandator's) request that the Bank would provide certain benefits to third parties (recipient, authorised entity) if conditions of the letter of credit are met within certain period of time. The precondition for opening of a letter of credit is to provide the Bank with a security/guarantee, i.e. no unsecured letter of credit can be opened. Accordingly, open letters of credit bear considerably lower risk than issued guarantee or acceptance.

Loan commitments, unused loans and overdraft lines, and debit balances on current accounts approved

The most significant off-balance sheet items include balances of unused overdraft lines and debit balances approved, unused loan commitments and issued commitments to extend credit. The primary purpose of loan commitments is to ensure that funds are available to a customer as required.

Financial commitments and contingencies include:

SKK thousand	2003	2002
Non-payment guarantees	1,403	62
Payment guarantees	15,016	29,602
Bills of exchange accepted	–	–
Letters of credit – uncovered	1,276	–
Letters of credit – covered	–	–
Subtotal	**17,695**	**29,664**
Committed facilities – loans	–	–
Committed facilities – bank guarantees	4,000	3,000
Unused credit commitments	376,717	116,483
Unused overdraft facilities	273,145	135,073
Other revocable and irrevocable commitments	**653,862**	**254,556**
Total revocable and irrevocable commitments	**671,557**	**284,220**

As of 31 December 2003, the Bank created reserves for risks arising from commitments from the issuance of guarantees amounting to SKK 414 thousand (2002: SKK 404 thousand), and reserves for risks arising from the unused loan commitments and unused overdraft facilities amounting to SKK 2,277 thousand (2002: SKK 2,888 thousand), see Note 15.

31. Related party transactions

The Bank performs transactions with the Parent Bank relating to ordinary banking operations. The Bank also enters into transactions with other related parties within the ordinary course of its business.

Assets and liabilities include book balances with related parties (namely the Parent Bank and others – CAC Leasing Slovakia, a. s. in 2002) as follows:

SKK thousand	2003	2002
Assets		
Cash and balances with the National Bank of Slovakia	2,073	7,156
Amounts due from banks, net	–	165,662
Amounts due from customers	2,089	40,937
Other assets	462	2,393
Total	**4,624**	**216,148**
Liabilities		
Amounts owed to banks	72	1,014,756
Amounts owed to customers	3,901	29,494
Other liabilities	583	2,393
Total	**4,556**	**1,046,643**

Included in the balance of amounts due from customers are loans to directors of the Bank in the amount of SKK 2,089 thousand (2002: SKK 646 thousand of loans to directors, and the loan to CAC Leasing Slovakia, a. s., in the amount of SKK 40,291 thousand).

Included in the balance of amounts owed to customers are balances of amounts owed to directors of the Bank in the amount of SKK 3,901 thousand (2002: SKK 3,021 thousand, and the balance with CAC Leasing Slovakia, a. s. in the amount of SKK 26,473 thousand). Other balances relate to the Parent Bank.

Income and expenses from related parties include the following:

SKK thousand	2003	2002
Interest income and other income	11,283	72,333
Interest expense and other expenses	(17,297)	(59,744)
Income on fees and commissions	3,122	4,973
Fees and commissions expense	(3,644)	(3,400)
Other financial income	513	8,844
General administrative expenses	(4,210)	(2,908)
Total	**(10,233)**	**20,098**

Interest rates and other terms of transactions with related parties do not differ from the ordinary interest rates and other contractual terms of the Bank.

32. Legal disputes

The Bank conducted a review of legal proceedings outstanding against the Bank as of 31 December 2003. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has created a provision of SKK 806 thousand for these legal disputes (31 December 2002: SKK 806 thousand).
The Bank has no information that such claims against the Bank have yet been filed in court. The Bank will contest any such claims and, taking into consideration the opinion of the Bank's internal legal counsel, the Bank believes that any asserted claims made will not materially affect its financial position.

33. Post balance sheet events

In connection with the change in legislation, in accordance with the Decree No. 24658/2003-92 issued by the Ministry of Finance of the SR, as at 1 January 2004 the Bank credited reserves amounting to SKK 51,819 thousand to retained earnings created in the past as an expense. The reserves that have been released were created to cover potential losses not specifically identified but which experience indicated were present in the portfolio of pass loans and advances. As at 31 December 2003, the aforementioned reserves covered risks related to:
– pass loans (in the amount of SKK 29,145 thousand);
– watch loans (in the amount of SKK 22,260 thousand);
– guarantees issued (in the amount of SKK 414 thousand).

Subsequently, as at 1 January 2004 the Bank created provisions for watch loans amounting to SKK 22,260 thousand to retained earnings.

These financial statements were approved by the Board of Directors on 17 February 2004.

Signed on behalf of the Board of Directors:

Robert Kerneis
Chairman of the Board of Directors and CEO

Jean-Marc Mesure
Member of the Board of Directors and Deputy CEO

Deloitte.

Deloitte & Touche
Slovakia spol. s r.o.
BBC, Prievozská 12
Bratislava 821 09
Slovak Republic
Tel.: +421 2 582 49 111
Fax: +421 2 582 49 222
www.deloitte.sk
Commercial Register
of District Court Bratislava 1
Section: Sro
File No.: 11922/B
Corp. ID: 35700416

Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Independent Auditor's Report

To the Shareholders of Komerční banka Bratislava, a. s.:

We have audited the accompanying balance sheets of Komerční banka Bratislava, a. s. ("the Bank") as of 31 December 2003 and 2002, and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of Komerční banka Bratislava, a. s. as of 31 December 2003 and 2002, and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw your attention to Note 33 to the accompanying financial statements. As at 1 January 2004 the Bank has credited reserves amounting to SKK 29,145 thousand to profit and loss, created as expense in the past. The reserves that have been released were created to cover potential losses not specifically identified but which experience indicated were present in the portfolio of pass loans and advances.

Bratislava, 19 February 2004

Deloitte & Touche

Deloitte & Touche Slovakia spol. s r.o.

Member of
Deloitte Touche Tohmatsu

Balance Sheet as of 31 December 2003 and 2002

SKK thousand	Note	2003	2002
ASSETS			
Cash and balances with the National Bank of Slovakia	**3**	**134,541**	**177,831**
Due from financial institutions	**4**	**608,451**	**1,849,318**
Loans and advances to customers, net	**5**	**2,083,199**	**2,196,678**
Trading securities	6	548,266	615,881
Securities held to maturity	8	191,574	193,486
Investment in associated undertakings	9	–	66,411
Tangible and intangible assets, net	11	73,658	82,525
Prepayments, accrued income and other assets	12	14,931	49,136
Total assets		**3,654,620**	**5,231,266**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts owed to financial institutions	13	519,062	2,754,666
Amounts owed to customers	14	2,374,937	1,739,952
Accrued expenses, other provisions and other liabilities	15	59,187	106,453
Total liabilities		**2,953,186**	**4,601,071**
Registered capital		500,000	500,000
Non-distributable reserves		73,358	55,135
Retained earnings		128,076	75,060
Total shareholders' equity	**17**	**701,434**	**630,195**
Total liabilities and shareholders' equity		**3,654,620**	**5,231,266**

These financial statements were approved by the Board of Directors on 17 February 2004.

Signed on behalf of the Board of Directors:

Robert Kerneis
Chairman of the Board of Directors and CEO

Jean-Marc Mesure
Member of the Board of Directors and Deputy CEO

Profit and Loss Statement for the years ended 31 December 2003 and 2002

SKK thousand	Note	2003	2002
Interest income	18	290,355	380,727
Interest expense	19	(147,236)	(258,742)
Net interest income		**143,119**	**121,985**
Net fees and commissions	20	47,597	51,659
Net profit/(loss) on financial operations	21	(11,698)	26,136
Income from share of associated undertakings	9	73,721	24,685
Other income and expense, net	22	336	(645)
Operating income		**253,075**	**223,820**
Administrative expenses	23	(156,520)	(137,392)
Depreciation and other provisions (except provisions for losses from loans and guarantees)	10, 11	(25,923)	(19,546)
Profit before provisions for loan losses and income taxes		**70,632**	**66,882**
Provisions for losses from loans and guarantees	10	6,388	(28,052)
Profit before income taxes		**77,020**	**38,830**
Income taxes	24	(5,781)	(3,703)
Net profit		**71,239**	**35,127**

Statement of Changes in Equity for the years ended 31 December 2003 and 2002

SKK thousand	Registered capital	Reserves	Retained earnings	Total
Closing Balance at 1 January 2002	**500,000**	**20,717**	**74,351**	**595,068**
Allocation/(distribution)	–	34,418	(34,418)	–
Financial instruments adjustment	–	–	–	–
Profit for the current period	–	–	35,127	35,127
Closing balance at 31 December 2002	**500,000**	**55,135**	**75,060**	**630,195**
Allocation/(distribution)	–	18,223	(18,223)	–
Financial instruments adjustment	–	–	–	–
Profit for the current period	–	–	71,239	71,239
Closing balance at 31 December 2003	**500,000**	**73,358**	**128,076**	**701,434**
	(Note 17)	(Note 17)		

Cash Flow Statements for the years ended 31 December 2003 and 2002

SKK million	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Received interest, fees and commissions	400,063	468,086
Paid interest, fees and commissions	(170,523)	(289,583)
Cash flow from financial operations	(40,749)	60,847
Personal expenses	(75,707)	(75,599)
Other operating expenses	(80,441)	(62,414)
Other income	1,776	–
Cash flow before changes in operating assets and liabilities	**34,419**	**101,337**
Decrease in amounts due from financial institutions	1,231,527	165,494
Decrease/(increase) in loans and advances to customers	119,373	(266,879)
Decrease in trading securities	43,705	321,358
Decrease in prepayments, accrued income and other assets	9,108	440
Decrease/(increase) of operating assets	**1,403,713**	**220,413**
(Decrease)/increase in amounts owed to financial institutions	(2,232,920)	135,966
Increase/(decrease) in amounts owed to customers	632,521	(1,175,898)
Decrease in accrued expenses, other provisions and other liabilities	(3,323)	(7,772)
Decrease of operating liabilities	**(1,603,722)**	**(1,047,704)**
Cash flow from operating activities before tax	**(165,590)**	**(725,954)**
Paid income tax	(2)	(1,383)
Net cash flow from operating activities	**(165,592)**	**(727,337)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Received dividends	–	9,219
Decrease in held to maturity securities	749	460,301
Proceeds from sale of premises and equipment	470	8,883
Purchase of premises and equipment	(19,049)	(3,581)
Sale of CAC Leasing Slovakia, a. s.	140,132	–
Net cash used in investing activities	**122,302**	**474,822**
Net decrease in cash and cash equivalents	**(43,290)**	**(252,515)**
Cash and cash equivalents at the beginning of the year	**177,831**	**430,346**
Cash and cash equivalents at the end of the year	**134,541**	**177,831**

Notes to the Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) for the years ended 31 December 2003 and 31 December 2002

1. Principal activities

Komerční banka Bratislava, a. s. (the “Bank”), is a wholly owned subsidiary of Komerční banka, a. s. (the “Parent Bank”) holding a universal banking licence from the National Bank of Slovakia (the "NBS") and carrying out business in the Slovak Republic. The Bank was founded on 19 January 1995 and incorporated on 1 June 1995. It started business on 2 September 1995. After the acquisition of Komerční banka, a. s. by Société Générale S. A. Paris (in 2001) the Bank became a member of SG Group.
The core business of the Bank includes providing a wide range of banking and financial services to business entities, in particular to large and medium-sized businesses, individuals and institutional clients.
The registered office address of the Bank is Medená 6, 811 02, Bratislava, Slovak Republic. The Bank has three branches in the Slovak Republic.
The Bank has 107 employees as of 31 December 2003 (31 December 2002: 115 employees).

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A. Basis of accounting and preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (“IFRS”) effective for the period ending 31 December 2003. The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and they are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders’ equity, a cash flow statement and notes to the financial statements. In certain instances, the reported amounts relating to the previous accounting period have been restated for comparison purposes.
The financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities held for trading and all derivative contracts.
The Bank maintains its accounting records in accordance with the accounting principles valid for banks in the Slovak Republic. The accompanying financial statements are based on the accounting records of the Bank and are adjusted appropriately for the purposes of fair presentation in accordance with IFRS as prescribed by the International Financial Reporting Standards Committee. The reconciliation of shareholder equity and profit for the year reported under Slovak accounting principles to shareholder’s equity and profit for the year reported under IFRS is shown in Note 26.
The presentation of financial statements in conformity with IFRS requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.
The reporting currency used in the financial statements is the Slovak Crown (“SKK”) with accuracy to SKK thousand.

B. Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Sk and reported in the financial statements at the exchange rate declared by the National Bank of Slovakia ("NBS") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Slovak Crowns in the underlying accounting system of the Bank and are therefore reported in the financial statements as retranslated at the official exchange rate prevailing as of the date of the transaction. Gains and losses arising from movements in exchange rates after the date of the transaction are recognised in *Net profit/(loss) on financial operations*.

C. Cash and cash equivalents

Cash and cash equivalents include only unrestricted amounts of cash immediately available and highly-liquid investments with the original maturity up to 24 hours. Such amounts include reserve deposits with the NBS as they can be withdrawn for liquidity purposes. However, their availability is subject to a penalty interest charge of 12.5% by the NBS when the required average level of reserve deposits with the NBS is not complied with as of the balance sheet date.

D. Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to a borrower are categorised as loans originated by the Bank and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

Loans and advances to customers and financial institutions are stated net of provisions for loan losses. A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception. Specific provisions are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash basis in *Interest income*.

A general provision for loan impairment is established to cover losses that are judged by the management of the Bank to be present in the loan portfolio as of the balance sheet date, but which have not been allocated to specific or individual exposures.

The Bank writes off loss loans when clients are unable to fulfil their obligations to the Bank in respect of these loans. The loan is written off against the related provision for loan impairment. Subsequent recoveries are credited to the profit and loss statement in *Provisions for losses from loans and guarantees* if previously written off.

E. Securities

Securities held by the bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. On the adoption of IAS 39 in 2001, the Bank developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to "Trading securities" and Investment securities to the "Available for sale" portfolio and the "Held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and the recognition of their fair values in the financial statements.

All securities held by the Bank are recognized using settlement date accounting and initially measured at their cost including transaction costs.

(a) Trading securities

Trading securities are financial assets (equity and debt securities, treasury bills, participation certificates) acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. Subsequent to the initial recognition these securities are accounted for and stated at fair value which approximates the price quoted (mid price, that is, the average between bid and offer) on recognised stock exchanges. The Bank monitors changes in fair values of securities on a monthly basis and includes unrealised gains and losses in *Net profit/(loss) on financial operations*. Interest earned on trading securities is accrued on a monthly basis and reported as Interest income in the statement of profit and loss. Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line *Prepayments, accrued income and other assets* and in *Net profit/(loss) on financial operations* in the statement of profit and loss.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at settlement date. Otherwise such transactions are treated as derivatives until settlement occurs.

(b) Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity. This portfolio comprises treasury bills and debt securities, including asset-backed securities. Held to maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

The Bank assesses on a yearly basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate.

(c) Available for sale securities

Available for sale securities are those financial assets that are not classified as financial assets held for trading or held-to-maturity investments. This portfolio comprises equity securities and debt securities. Available-for-sale financial assets are subsequently re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes on the fair value of securities classified as available-for-sale are recognised as they arise in the profit and loss statement in the line *Net profit/(loss) on financial operations*. Interest earned whilst holding available-for-sale securities is accrued on a monthly basis and reported as *Interest income* in the statement of profit and loss. Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line *Prepayments, accrued income and other assets* and in *Net profit/(loss) on financial operations* in the statement of profit and loss. Upon payment of the dividend, the receivable is offset against the collected cash.

F. Investment in associated undertakings

Investment in associated undertakings are recorded using the equity method of accounting. This method involves recognising the difference between the cost and the Bank's share of the associate's equity as of the end of the current period in the statement of profit and loss. The Bank reduces the carrying value of its Investment in associated undertakings when a permanent diminution in value has occurred.

G. Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses. Fixed assets are depreciated through the accumulated depreciation charge. Depreciation is calculated on a straight-line basis to write off the cost of each asset to their residual values over their estimated useful economic life. Land and assets in the course of construction are not depreciated.

The estimated useful economic lives in years are set out below:

Machinery and equipment, computers, vehicles	4
Fixtures, fittings and equipment	4 – 6
Energy machinery and equipment	6 – 12
Goodwill	15
Buildings and structures	30

Gains and losses on the disposal of fixed assets are determined by reference to their carrying amount and are recognised in the statement of profit and loss in the year of disposal. Low value fixed assets and repairs in the nature of technical improvements costing less than SKK 30 thousand (31 December 2002: SKK 20 thousand) in the case of tangible fixed assets and SKK 50 thousand (31 December 2002: SKK 40 thousand) in the case of intangible fixed assets with an estimated useful life greater than one year are charged to the statement of profit and loss when the expenditure is incurred. Technical improvements costing more than SKK 30 thousand (31 December 2002: SKK 20 thousand) in respect of tangible fixed assets intangible fixed assets increase the acquisition cost of the fixed asset.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount. The largest components of the Bank's assets are periodically tested for impairment and temporary impairments are provisioned. Repairs and renewals are charged to the statement of profit and loss when the expenditure is incurred.

H. Provision for guarantees and other off balance sheet credit related commitments

In the normal course of business, the Bank enters into credit related commitments, which are recorded in off balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Specific provisions are made for estimated losses on the commitments and are assessed with reference to the credit standing and performance on the borrower and take into account the value of any collateral or third party guarantees.

I. Provisions

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

J. Recognition of income and expense

Interest income and expense are recognised in the statement of profit and loss for all interest bearing instruments on an accrual basis. Interest income includes coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted instruments. The Bank accrues interest on non-performing loans with appropriate provisions against them being included in the specific provisions. Fees and commissions are recognised as income in the statement of profit and loss when due.

K. Taxation and deferred taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Slovak Republic, based on the profit or loss recognised in the statement of profit and loss prepared pursuant to Slovak accounting standards.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Future enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from depreciation on property, plant and equipment, specific and general provisions for loans and tax losses carried forward. Deferred tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

L. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (“repos”) are recorded as assets in the balance sheet line Trading securities and the counterparty liability is included in *Amounts owed to financial institutions* or *Amounts owed to customer*s as appropriate. Securities purchased under agreements to purchase and resell (‘reverse repos’) are recorded as assets in the balance sheet line *Due from financial institutions* or *Loans and advances to customers*, *net* as appropriate, with the corresponding decrease in cash being included in *Cash and balances with the National Bank*. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the sale and repurchase agreement.

M. Derivative financial instruments and hedging

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swaps. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in other financial instruments, such as the conversion option in a convertible bond, and are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income.

Changes in the fair value of derivatives held for trading are included in the line *Net profit/(loss) on financial operations*.

On the date a derivative contract is entered into, the Bank designates certain derivatives as either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank’s criteria for a derivative instrument to be accounted for as a hedge include:

(a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

(b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;

(c) the hedge is effective on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the statement of profit and loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.
If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to net profit and loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.
Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the hedging reserve in equity. Otherwise, amounts deferred in equity are transferred to the statement of profit and loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the profit and loss statement.
Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income in line *Net profit/(loss) on financial operations*.

N. Regulatory requirements

The bank is subject to the regulatory requirements of the NBS. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk, liquidity and foreign currency position. These requirements apply to all banks in Slovakia and the compliance is determined based on the Bank's financial reporting procedures under Slovak statutory accounting and banking regulations.
The restrictions include:
- Capital adequacy is to be at least 8% of risk-weighted assets;
- Capital must be maintained at a minimum level of SKK 500 million;
- The ratio between assets with maturity until 7 days and liabilities with maturity until 7 days has to be at least "1.0" (valid since the 1st of September 2002 to 14 August 2003);
- Net credit exposure to one loan customer may not exceed 25% of the Bank's capital (see Note 5);
- Net credit exposure to one domestic and to the Bank with the seat in states of "zone A" based bank may not exceed 125% of the Bank's capital;
- Net credit exposure to a related party may not exceed 20% of the Bank's capital;
- Net credit exposure limits above do not apply to the Slovak Government, the NBS and central banks and Governments of the "zone A" countries;
- Total of all net credit exposures exceeding 10% of the Bank's capital cannot exceed 800% of the reporting Bank's capital.

The Bank's capital defined for the purpose of these requirements includes registered capital, non-distributable reserves, retained earnings less goodwill and certain equity investments from other companies and banks as reported under generally accepted Slovak accounting principles.

O. Reclassifications

Certain reclassifications have been made to 2002 balances to conform to the 2003 presentation.

3. Cash and balances with the National Bank of Slovakia

Cash and balances with the National Bank of Slovakia are comprised of the following:

SKK thousand	2003	2002
Accounts with the National Bank of Slovakia	57,087	77,870
Current accounts with other banks	45,450	50,123
Cash in hand	32,004	49,838
Total	134,541	177,831

Accounts with the National Bank of Slovakia are comprised of the following:

SKK thousand	2003	2002
Legal minimum reserves	36,719	77,652
Current deposits	365	218
Term deposits	20,003	–
Total	57,087	77,870

The amount of legal minimum reserves is set by the NBS guidelines – it represents 3% of the average amount of deposits for the relevant month (in 2002: 4%)

As at 31 December 2003, the Bank complied with the required levels of legal minimum reserves. Legal minimum reserves bear interest at 1.5% (31 December 2002: 1.5%).

As at 31 December 2003 current deposits with other banks bear interest between 0.0% and 5.0% p.a. (31 December 2002: between 0.0% and 5.0% p.a.).

4. Due from financial institutions

Receivables from other financial institutions include:

SKK thousand	2003	2002
Advances due from the National Bank of Slovakia	546,678	594,749
Advances due from other banks	–	–
Term deposits in banks	61,773	1,254,569
Total	608,451	1,849,318

Advances due from the National Bank of Slovakia represent receivables from reverse REPO transactions. These receivables are collateralised by the NBS treasury bills and bear interest 5.99% p.a. (31 December 2002: 6.5% p.a.).

Term deposits in other banks bear interest at rates varying between 0.63% and 1.96% p.a. (31 December 2002: between 1.3% and 7.75% p.a.).

5. Loans and advances to customers, net

Loans by type:

SKK thousand	2003	2002
Loans and advances to clients	2,159,410	2,050,784
Bills of exchange	-	2,047
Other	86,225	313,108
Total	**2,245,635**	**2,365,939**
Less: provisions and reserves (Note 10)	(162,436)	(169,261)
Loans and advances to customers, net	**2,083,199**	**2,196,678**

As at 31 December 2003 included in the balance Other is the amount of SKK 86,225 thousand representing receivable for a purchase of securities on behalf of a client. A full amount of receivable is collateralised by purchased securities.
Loans, collateral values and provisions by classification:

31 December 2003

SKK thousand	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions, reserves (%)
Standard	1,546,896	86,225	1,460,671	–	1,460,671	–
Watch	445,223	–	445,223	–	445,223	–
Substandard	175,631	–	175,631	(35,126)	140,505	20
Doubtful	6,604	–	6,604	(4,623)	1,981	70
Loss	71,281	–	71,281	(71,281)	–	100
Total	**2,245,635**	**86,225**	**2,159,410**	**(111,030)**	**2,048,380**	**4.9**
General reserves for loan losses				(51,406)	(51,406)	
Total				**(162,436)**	**1,996,974**	**7.2**

31 December 2002

SKK thousand	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions, reserves (%)
Standard	1,771,207	328,483	1,442,724	–	1,771,207	–
Watch	475,859	–	475,859	–	475,859	–
Substandard	46,615	–	46,615	(13,990)	32,625	30
Doubtful	2,047	1,500	547	(547)	–	100
Loss	70,211	–	70,211	(70,211)	–	100
Total	**2,365,939**	**329,983**	**2,035,956**	**(84,748)**	**2,279,691**	**3.6**
General reserves for loan losses				(84,513)	(84,513)	
Total				**(169,261)**	**2,195,178**	**7.2**

Set out below is an analysis of types of collateral underlying loans and advances to customers:

SKK thousand	2003 Total client loan collateral	2003 Discounted client loan collateral value	2003 Applied client loan collateral value	2002 Total client loan collateral	2002 Discounted client loan collateral value	2002 Applied client loan collateral value
Bank guarantee	3,416	1,025	–	–	–	–
Deposits	55,290	55,290	–	15,375	15,375	15,375
State bonds	86,225	86,225	86,225	313,108	313,108	313,108
Issued debentures in pledge	189,625	56,888	–	251,645	75,494	–
Pledge of real estate	860,052	172,010	–	702,154	144,431	1,500
Pledge of movable assets	310,367	31,036	–	418,800	41,880	–
Guarantee by corporate entity	800,673	152,128	–	202,666	20,875	–
Pledge of receivables	738,903	295,561	–	1,028,366	411,346	–
Other	20,094	4,019	–	552,755	126,166	–
Total nominal value of collateral	**3,064,645**	**854,182**	**86,225**	**3,484,869**	**1,148,675**	**329,983**

In 2003, the Bank wrote off doubtful receivables from interest and overdrafts in the amount of SKK 54 thousand (31 December 2002: SKK 54 thousand).

Loans by industry:

SKK thousand	2003	2002
Trade and service activities	575,849	478,062
Financial leasing	350,844	206,504
Manufacturing industry	52,496	360,456
Wood processing and paper production	79,237	149,778
Mining industry	50,011	150,536
Engineering	26,047	45,810
Chemical industry	301,031	165,593
Electrical engineering	167,055	177,662
Textile industry	12,558	12,558
Transport and infrastructure	9,369	39,229
Agriculture industry	315,463	254,877
Construction industry	128,303	2,464
Other industries	177,372	322,410
Total	**2,245,635**	**2,365,939**
Less: provisions and reserves (Note 10)	(162,436)	(169,261)
Loans and advances to customers, net	**2,083,199**	**2,196,678**

In extending new loans, the Bank is subject to the NBS regulations relating to net credit risk (defined as the total of all existing receivables and accrued income less collateral values).

As of 31 December 2003, the Bank's gross credit exposure of its non-bank clients with a net credit risk exposure in excess of 10% of the Bank's capital was SKK 1,987,970 thousand (31 December 2002: SKK 1,397,850 thousand). There was no credit exposure in excess of 25% of the Bank's capital as of 31 December 2003.

Loans to related parties as of 31 December 2003 and as of 31 December 2002 are as disclosed in Note 32.

In 2003, loans bore interest at rates varying between 2.9% and 12.5% p.a. (31 December 2002: between 3.21% and 14.0% p.a.).

General reserve for risks and uncertainties inherent in the loan portfolio

The Bank's loan portfolio includes a number of risks that cannot be specifically identified as such. As of 31 December 2003, the Bank maintains a general reserve of SKK 51,406 thousand to cover the risks, which may be present in the loan portfolio as of that date (primarily pass and watch loans) but which cannot be allocated to individual exposures (31 December 2002: SKK 84,513 thousand). The Bank has released SKK 29,145 thousand of general reserves as at 1 January 2004. See also Note 33.

6. Trading securities

Trading securities are comprised of the following:

SKK thousand	2003 Fair value	2003 Cost	2002 Fair value	2002 Cost
State bonds	540,359	526,720	569,241	571,753
Financial institutions bonds	–	–	–	–
Corporate shares and bonds	–	–	–	–
Accrued interest	7,907	7,209	46,640	5,882
Total trading securities	**548,266**	**533,929**	**615,881**	**577,635**

Included in the trading securities portfolio are state bonds with cost of acquisition amounting to SKK 526,720 thousand (31 December 2002: SKK 571,753 thousand); all of them are quoted on the stock exchange in Bratislava – Burza cenných papierov v Bratislave, a. s. issued in Slovak Crowns, with fixed interest rate (31 December 2002: all quoted, in Slovak Crowns, with fixed interest rates).
As of 31 December 2003, trading securities bear interest at rates varying between 7.5% and 8.5% p.a. (31 December 2002: between 7.5% and 12.0% p.a.).

7. Securities available for sale

SKK thousand	2003 Fair value	2003 Cost	2002 Fair value	2002 Cost
Shares	–	452	–	452
Corporate bonds	–	39,400	–	39,400
Total securities available for sale	–	**39,852**	–	**39,852**

Bankruptcy proceedings have been declared for all issuers of corporate bonds which the bank holds at 31 December 2003 and 31 December 2002.

8. Securities held to maturity

Securities held to maturity include:

SKK thousand	2003 Recognised value	2003 Cost	2002 Recognised value	2002 Cost
State bonds	182,586	182,586	184,802	184,802
Accrued interest and amortisation	8,988	–	8,684	–
Total securities held to maturity	**191,574**	**182,586**	**193,486**	**184,802**

State bonds held to maturity bear interest at rates varying between 7.5% and 8.5% p.a. (31 December 2002: between 7.5% and 8.5%). State bonds of the Slovak Republic in the amount of SKK 162,586 thousand held as of 31 December 2003 have been issued in EUR and are not quoted. Other state bonds have been issued in Slovak Crowns and are listed on the Bratislava Stock Exchange – Burza cenných papierov v Bratislave, a. s. (31 December 2002: SKK 164,802 thousand).

9. Investment in associated undertakings

Investment in associated undertakings include:

SKK thousand Name of the company	Activity	Auditor	2003	2002
CAC Leasing Slovakia, a. s.	leasing	Deloitte & Touche spol. s r.o.	–	66,411
			–	**66,411**

The effect of consolidation of CAC Leasing Slovakia, a. s. on retained earnings and its contribution to income is as follows:

SKK thousand	Retained earnings		Profit	
Description	2003	2002	2003	2002
Consolidation equity method	56,411	56,411	–	24,685
Profit from sale of CAC Leasing Slovakia, a.s.	73,721	–	73,721	–
Income tax on received dividends	(1,383)	(1,383)	(1,383)	(1,383)
Deferred tax on consolidation surplus	8,462	(8,462)	(2,320)	(2,320)
Total effect	**137,211**	**45,566**	**70,018**	**20,982**

As at 1 January 2003 the Bank owned a 20% (2002: 20%) shareholding in CAC Leasing Slovakia, a. s. The Komerční banka Financial Group held as at 1 January 2003 the interest of 50% (31 December 2002: 50%) in CAC Leasing Slovakia, a. s.

As at 30 June 2003 the Bank sold the shareholding in CAC Leasing Slovakia, a. s. for SKK 140,132 thousand (CZK 106 million). So the profit from the sale was SKK 73,721 thousands which is the part of current profit of the Bank and is subject to income tax (2003 – 25% tax rate).

In 2002 the Bank received the dividends from CAC Leasing Slovakia, a. s. amounting to SKK 9,218 thousand less withholding tax SKK 1,383 thousand.

The Bank provided a loan to this company and its balance amounts to SKK 113,332 thousand as at 31 December 2003 (31 December 2002: SKK 40,291 thousand).

A list of transactions and balances of the Bank with its related parties is further described in Note 32.

10. Provisions for losses from assets and off-balance sheet items

The movements in provisions in 2003 and 2002 were as follows:

SKK thousand	Loans	Guarantees and loan commitments	Subtotal for loans, guarantees and loan commitments	Premises and equipment	Other assets	Other provisions	Subtotal for premises and equipment, other assets and other	Total
At 1 January 2002	**144,360**	**192**	**144,552**	**1,655**	**2,271**	**3,888**	**7,814**	**152,366**
Provisions and reserves recognised in statement of profit and loss, net	24,952	3,100	28,052	(1,655)	(122)	(1,630)	(3,407)	24,645
Effect of written-off and ceded receivables	(51)	–	(51)	–	–	–	–	(51)
Net foreign exchange gains/(losses)	–	–	–	–	–	–	–	–
At 31 December 2002	**169,261**	**3,292**	**172,553**	**–**	**2,149**	**2,258**	**4,407**	**176,960**
Provisions and reserves recognised in statement of profit and loss, net	(5,788)	(600)	(6,388)	–	(83)	287	204	(6,184)
Effect of written-off and ceded receivables	(53)	–	(53)	–	(767)	–	(767)	(820)
Net foreign exchange gains/(losses)	(984)	–	(984)	–	–	–	–	(984)
At 31 December 2003	**162,436**	**2,692**	**165,128**	**–**	**1,299**	**2,545**	**3,844**	**168,972**
	(Note 5)	(Note 15)		(Note 11)	(Note 12)	(Note 15)		

11. Tangible and intangible assets, net

The movements during the current year are:

SKK thousand	Intangible fixed assets	Goodwill	Land	Buildings	Machinery, fittings and fixtures	Acquisition of assets	Total
Cost at 1 January 2002	32,896	29,491	4,331	45,790	143,043	1,818	257,369
Additions (+)	982	–	–	–	3,991	3,581	8,554
Disposals (–)	(52)	–	(961)	(10,193)	(8,445)	(4,973)	(24,624)
Cost at 31 December 2002	**33,826**	**29,491**	**3,370**	**35,597**	**138,589**	**426**	**241,299**
Accumulated depreciation at 1 January 2002	19,301	13,212	583	5,534	109,120	–	147,750
Depreciation (+)	5,070	2,035	–	998	14,145	–	22,248
Net book value written off at sale	–	–	–	9,121	–	–	9,121
Disposals	(52)	–	–	(10,193)	(8,445)	–	(18,690)
Impairment losses	–	–	(583)	(1,072)	–	–	(1,655)
Accumulated depreciation at 31 December 2002	**24,319**	**15,247**	**–**	**4,388**	**114,820**	**–**	**158,774**
Net book value at 31 December 2002	**9,507**	**14,244**	**3,370**	**31,209**	**23,769**	**426**	**82,525**
Cost at 1 January 2003	33,826	29,491	3,370	35,597	138,589	426	241,299
Additions (+)	1,792	–	–	2,239	14,973	18,578	37,582
Disposals (–)	–	–	–	(3,625)	(17,912)	(19,004)	(40,541)
Cost at 31 December 2003	**35,618**	**29,491**	**3,370**	**34,211**	**135,650**	**–**	**238,340**
Accumulated depreciation at 1 January 2003	24,319	15,247	–	4,388	114,820	–	158,774
Depreciation (+)	5,123	2,565	–	3,576	14,742	–	26,006
Net book value written off at sale	–	–	–	688	752	–	1,440
Disposals	–	–	–	(3,625)	(17,913)	–	(21,538)
Impairment losses	–	–	–	–	–	–	–
Accumulated depreciation at 31 December 2003	**29,442**	**17,812**	**–**	**5,027**	**112,401**	**–**	**164,682**
Net book value at 31 December 2003	**6,176**	**11,679**	**3,370**	**29,184**	**23,249**	**–**	**73,658**

12. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets are comprised of:

SKK thousand	2003	2002
Prepaid expenses and accrued revenues	757	1,344
Other assets	4,798	13,821
Positive fair value of derivative transactions	10,527	35,705
Settlement account balances	148	415
Less: provisions (Note 10)	(1,299)	(2,149)
Total	**14,931**	**49,136**

13. Amounts owed to financial institutions

Amount due to financial institutions are comprised of:

SKK thousand	2003	2002
Term accounts of other banks	456,078	2,525,350
Deposits of other financial institutions	50,000	220,947
Loans received from other banks	4,369	7,561
Current accounts of other banks	8,615	808
Total	**519,062**	**2,754,666**

Current accounts of other banks bear interest at rates 1.5% p.a. (31 December 2002: between 0% and 2.0% p.a.).

Term deposits received from other banks bear interest at rates varying between 4.6% and 5.7% p.a. (31 December 2002: 2.75% and 8.1% p.a.).

Other financial institution deposits amounting to SKK 50,000 thousand at 31 December 2003 represent a short-term loan received from Eximbanka to provide specific purpose loans to finance exports by customers of the Bank (31 December 2002: SKK 220,947 thousand represent a short-term loan received from Eximbanka with same specific purpose as in 2003).

14. Amounts owed to customers

Amounts owed to customers are comprised of:

SKK thousand	2003	2002
Current accounts	958,297	799,511
Term deposits	1,211,494	765,672
Saving accounts	48,160	81,363
Other accounts payable to clients	156,986	93,406
Total	**2,374,937**	**1,739,952**

Current accounts represent customer deposits payable upon request. As of 31 December 2003, they bear interest at rates varying between 0.01% and 2.0% p.a. (31 December 2002: 0.1% and 2.25% p.a.)

Term deposits include customer funds with specified maturity date. As of 31 December 2003, term deposits bear interest at rates varying between 0.15% and 3.9% p.a. depending on the amount and the maturity of the deposit (as of 31 December 2002: 0.15% and 6.8% p.a.).

Amounts owed to customers by the type of customer:

SKK thousand	2003	2002
Private businesses	1,365,919	764,934
Individuals	527,690	647,315
Other financial institutions	69,961	628
Non-residents	133,261	94,674
Insurance companies	5,294	90
Entrepreneurs – individuals	112,467	135,317
Other	160,345	96,994
Total	2,374,937	1,739,952

15. Accrued expenses, other provisions and other liabilities

Accrued expenses, other provisions and other liabilities include:

SKK thousand	2003	2002
Settlement account balances	25	296
Other accounts payable	17,318	19,427
Accrued expenses	808	1,275
Other provisions and reserves (Note 10)	2,545	2,258
Provisions for guarantees (Notes 10 and 28)	2,692	3,292
Negative fair value of derivative transactions	21,558	71,443
Deferred tax (Notes 25)	3,035	8,462
Income tax	11,206	–
Total	59,187	106,453

16. Estimated fair value of assets and liabilities of the Bank

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly impact the estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with central banks

The carrying values of cash and balances with central banks are generally deemed to approximate their fair value.

(b) Investments held to maturity

Fair values of securities carried in the "Held to maturity" portfolio are calculated by discounting future cash flows using prevailing market rates.

(c) Due from financial institutions

The estimated fair value of amounts due from financial institutions that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from financial institutions is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from financial institutions is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral. Provisions are not taken into consideration when calculating fair values.

(d) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans and advances to customers approximates the carrying values as of the balance sheet date. Provisions are not taken into consideration when calculating fair values.

(e) Amounts due to financial institutions and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as of the balance sheet date. The fair value of term deposits at variable interest rates approximates their carrying values as of the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities. The weighted average remaining maturity of deposits at fixed interest rates is short and hence their fair value approximates the carrying values as of the balance sheet date.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

SKK thousand	2003 Carrying value	2003 Fair value	2002 Carrying value	2002 Fair value
Financial assets				
Cash and balances with the National Bank of Slovakia	134,541	134,541	177,831	177,831
Due from financial institutions	608,451	608,451	1,849,318	1,849,318
Loans and advances to customers, net	2,083,199	2,083,199	2,196,678	2,196,678
Securities held to maturity	191,574	199,909	193,486	208,527
Financial liabilities				
Amounts owed to financial institutions	519,062	519,062	2,754,666	2,754,666
Amounts owed to customers	2,374,937	2,374,937	1,739,952	1,739,952

17. Shareholders' equity

Registered capital consists of 5 thousand approved and fully paid shares with a par value of SKK 100 thousand per share.

Reserves represent reserves apportioned from profits in accordance with the legal requirements or decisions of General Meeting of Shareholders.

18. Interest income

Interest income is comprised of:

SKK thousand	2003	2002
Interest income received from		
Loans extended to clients	140,046	178,545
Loans and deposits with financial institutions	101,797	119,925
Fixed income securities	43,432	60,438
Treasury bills	5,080	21,819
Total	**290,355**	**380,727**

19. Interest expense

Interest expense is comprised of:

SKK thousand	2003	2002
Interest paid on		
Loans and deposits of financial institutions	77,631	165,841
Amounts owed to customers	69,605	92,901
Total	**147,236**	**258,742**

20. Net fees and commissions

Fees and commissions consist of:

SKK thousand	2003	2002
Fees and commissions income	70,664	76,291
Fees and commissions expense	(23,067)	(24,632)
Total	**47,597**	**51,659**

21. Net profit/(loss) on financial operations

Profit/(loss) on financial operations consist of:

SKK thousand	2003	2002
Profit/(loss) from interest rate swaps – trading	(1,200)	(3,962)
Profit/(loss) from foreign currency trading	(7,559)	(9,690)
Profit/(loss) from securities	(2,939)	39,788
Total	**(11,698)**	**26,136**

22. Other income and expense, net

Other income and expense comprises of:

SKK thousand	2003	2002
Gain/(loss) on sale of assets	471	(1,488)
Other income	365	1,044
Other expense	(500)	(201)
Total	**336**	**(645)**

23. Administrative expenses

Administrative expenses are comprised of:

SKK thousand	2003	2002
Wages and salaries	62,907	60,270
Social costs	13,087	14,279
Other administrative costs	80,526	62,843
Total	**156,520**	**137,392**

24. Income taxes

The major components of corporate income tax expense are as follows:

SKK thousand	2003	2002
Current tax expense	11,208	1,383
Deferred tax movement	(5,427)	2,320
Total income tax expense	**5,781**	**3,703**

The corporate tax rate for the year 2003 is 25% (2002: 25%). The effective tax rate as of 31 December 2003 is 7.5% (2002: 9.5%). The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of the Bank as follows:

SKK thousand	2003	2002
Profit/(loss) before tax (current tax rate)	77,020	14,145
Profit before tax (special tax rate)	–	24,685
Profit before tax	**77,020**	**38,830**
Theoretical tax credit calculated at a tax rate of 25% (2002: 25%) and 15%, respectively	**19,255**	**7,239**
Income not taxable, primarily interest	(32,731)	(39,057)
Expenses not deductible for tax purposes	20,033	23,531
out of that: Provisions for loan losses	3,818	13,596
Other non-deductible costs	16,215	9,935
CAC equity share elimination	14,103	–
Other	(9,452)	9,670
Movement on deferred tax	(5,427)	2,320
Total income tax expense	**5,781**	**3,703**

The Bank's tax liability is calculated based upon the accounting profit/(loss) taking into account tax non-deductible expenses and tax exempt income or income, which are not subject to the final tax rate.

The current statutory corporate income tax rate is 25% (in 2002: 25%).

Further information about deferred tax is presented in Note 25.

25. Deferred income taxes

Deferred income taxes are calculated on all temporary differences, except of revaluation of the equity share in associated undertakings, under the liability method using a principal tax rate effective for the following year that is 19% (2002: 25%). The deferred income tax liability arising on a revaluation of the equity share in associated undertakings was calculated using 15% tax rate as described below.

The movement on the deferred income tax account is as follows:

SKK thousand	2003	2002
At beginning of period	8,462	6,142
Effect of revaluation of investment in associated undertakings	–	2,320
Cancelling of deferred tax credit	(8,462)	–
Accounted deferred tax credit	3,035	–
At end of period (Note 15)	**3,035**	**8,462**

Deferred income tax assets and liabilities are attributable to the following items:

SKK thousand	2003	2002
Deferred income tax liabilities		
Unrealised profit on securities and financial instruments	(2,687)	(367)
Revaluation of investment in associated undertakings	–	(8,462)
Other temporary differences	(348)	–
Deferred income tax liability	**(3,035)**	**(8,829)**
Deferred income tax assets		
General and specific loan loss provisions	1,149	4,569
Unrealised losses on securities and financial instruments	4,175	2,323
Fixed assets depreciation	2,993	5,878
Other temporary differences	494	108
Deferred income tax asset	**8,811**	**12,878**
Net deferred income tax asset before adjustment	**5,776**	**4,049**
Adjustment for uncertain realisation of tax asset	**(8,811)**	**(12,511)**
Net deferred income tax liability	**(3,035)**	**(8,462)**

The Bank has not recorded any deferred tax asset, as its realisation is not assured.

The Bank does not have tax losses to carry-forward into future accounting periods.

The final deferred tax liability as reported by the Bank was calculated from revaluation of derivates and securities on fair value, from unrealized exchange rate profit of spot trades and from delayed interests, using 19% tax rate (31 December 2002: from revaluation of investments in undertakings using 15% tax rate).

26. Reconciliation of net profit and shareholders' equity

Net profit

SKK thousand	2003	2002
Net profit per Bank statutory financial statements	119,714	18,724
Income from associate undertaking, net (Note 9)	(47,949)	13,147
Other movements	(26)	3,757
Accrual for employee social expenses	(500)	(500)
Net profit per international financial statements	**71,239**	**35,127**

Shareholders' equity

SKK thousand	2003	2002
Shareholders' equity per statutory financial statements	701,462	573,895
Profit share in associated undertaking (Note 9)	–	47,949
Other movements	(28)	8,387
Accrual for employee social expenses	–	(36)
Shareholders' equity per international financial statements	**701,434**	**630,195**

27. Derivative financial instruments

In the normal course of business the Bank enters into financial instrument transactions to hedge its liquidity, interest and foreign currency risks. The Bank also enters into speculative financial derivative transactions for the purpose of generating profits from short-term fluctuations in market factors. The Bank also acts as a principal to derivative transactions with its clients. The Bank operates a system of market risk and counter-party limits that are designed to restrict exposure to movements in market prices and counter-party concentrations.

Financial derivative instruments' held for trading at notional and fair values as at 31 December 2003 and 31 December 2002 are as follows:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31. 12. 2003	31. 12. 2002	31. 12. 2003	31. 12. 2002	31. 12. 2003	31. 12. 2002	31. 12. 2003	31. 12. 2002
Foreign currency instruments (unquoted)								
Currency swaps	1,873,040	1,820,726	1,876,116	1,802,078	1,875	25,726	(3,128)	(12,319)
Currency forwards	819,116	2,555,122	825,905	2,608,563	2,754	4,075	(7,677)	(42,220)
Call options	139,608	–	137,097	–	5,671		–	–
Put options	137,097	–	139,608	–	–	–	(5,671)	–
Interest rate instruments (unquoted)								
Interest rate swaps	251,399	666,888	251,399	666,888	227	5,904	(5,082)	(16,904)
Total	**3,220,260**	**5,042,736**	**3,230,125**	**5,077,529**	**10,527**	**35,705**	**(21,558)**	**(71,443)**

The remaining contractual maturity of foreign currency instruments is mainly up to 1 year from the date of financial statements. The remaining contractual maturity of interest rate swap is up to 5 years from the balance sheet date.

28. Commitments and contingent liabilities

(a) Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2003. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of SKK 806 thousand for these legal disputes (31 December 2002: SKK 806 thousand).

The Bank has been notified that certain parties could take legal action against it. The Bank has no information that such claims have yet been filed in any court. The Bank will contest any such claims and, taking into consideration the opinion of its internal legal counsel, believes that any asserted claims made will not materially affect its financial position.

(b) Commitments arising from the issuance of guarantees

Commitments from guarantees include issued guarantees, avals, and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. The Bank creates provisions against identified impaired items.

(c) Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans

The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, undrawn portions of and approved overdraft loans. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements. The Bank creates provisions in respect of these commitments.

Financial commitments and contingencies comprise:

SKK thousand	2003	2002
Non-payment guarantees	1,403	62
Payment guarantees	15,016	29,602
Letters of credit – uncovered	1,276	–
Subtotal	**17,695**	**29,664**
Committed facilities – bank guarantees	4,000	3,000
Undrawn credit commitments	376,717	116,483
Unutilised overdraft loans	273,145	135,073
Other revocable and irrevocable commitments	**653,862**	**254,556**
Total revocable and irrevocable commitments	**671,557**	**284,220**

As of 31 December 2003, the Bank created provisions for risks arising from commitments from the issuance of guarantees amounting to SKK 414 thousand (2002: SKK 404 thousand) and provisions for risks arising from the undrawn credit commitments and the unutilised overdraft loans amounting to SKK 2,278 thousand (2002: SKK 2,888 thousand) – refer to Notes 10 and 15.

29. Net currency exposure

The table below provides an analysis of the Bank's foreign currency exposures as of 31 December 2003 and 31 December 2002.

SKK thousand	Slovak crown	Czech crown	US dollar	Swiss franc	Euro	Other	Total
Assets							
Cash and balances with National Bank of Slovakia	79,816	6,997	4,561	2,834	37,469	2,864	134,541
Due from financial institutions	546,678	18,976	42,797	-	-	–	608,451
Loans and advances to customers, net	1,661,704	133,816	3,941	-	283,738	–	2,083,199
Receivables from derivatives fair value	10,527	–	–	–	–	–	10,527
Trading securities	548,266	–	–	–	–	–	548,266
Securities held to maturity	20,633	–	–	–	170,941	–	191,574
Investment in associated undertakings	–	–	–	–	–	–	–
Tangible and intangible assets, net	73,658	–	–	–	–	–	73,658
Prepayments, accrued income and other assets	4,280	2	47	–	75	–	4,404
Total assets	**2,945,562**	**159,791**	**51,346**	**2,834**	**492,223**	**2,864**	**3,654,620**
Liabilities and shareholders' equity							
Amounts owed to financial institutions	518,995	–	–	3	62	2	519,062
Amounts owed to customers	1,939,362	165,283	72,008	2,401	194,958	925	2,374,937
Commitments from derivatives fair value	21,558	–	–	–	–	–	21,558
Accrued expenses, other provisions and other liabilities	37,510	–	47	–	72	–	37,629
Shareholder's equity	701,434	–	–	–	–	–	701,434
Total liabilities and shareholders' equity	**3,218,859**	**165,283**	**72,055**	**2,404**	**195,092**	**927**	**3,654,620**
Off-balance sheet assets	3,061,992	567,709	390,475	255,052	2,503,587	205,331	6,984,146
Off-balance sheet liabilities	**(2,089,736)**	**(533,193)**	**(315,782)**	**(254,566)**	**(3,590,533)**	**(209,014)**	**(6,992,824)**
Net currency exposure at 31 December 2003	**698,959**	**29,024**	**53,984**	**916**	**(789,815)**	**(1,746)**	**(8,678)**
Net currency exposure at 31 December 2002	**404,333**	**(18,503)**	**(20,275)**	**871**	**(374,143)**	**(25,902)**	**(33,619)**

30. Liquidity risk

Liquidity risk is a measure to the extent of which the Bank may be required to raise funds to meet its commitments relating to financial instruments.

The table below provides an analysis of assets, liabilities and shareholders' equity by relevant maturity groups based on the remaining period from the balance sheet date till the contractual maturity. They are presented under the most prudent consideration of maturity dates where options of repayment or repayment schedules allow for early repayments. Therefore, in liabilities the earliest possible repayment date is shown while in assets the latest possible repayment date is outlined.

Assets and liabilities without any contractual maturity dates are grouped in the "Not specified" category.

The structure of assets and liabilities according to contractual residual maturity is as follows:

SKK thousand	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with National Bank of Slovakia	97,822	36,719	–	–	–	–	134,541
Due from financial institutions	–	608,451	–	–	–	–	608,451
Loans and advances to customers, net	3,431	637,128	876,905	494,324	71,411	–	2,083,199
Trading securities	–	3,000	292,555	54,794	197,917	–	548,266
Securities held to maturity	–	–	171,574	–	20,000	–	191,574
Receivables from derivatives fair value	–	10,079	311	137	–	–	10,527
Investment in associated undertakings	–	–	–	–	–	–	–
Tangible and intangible assets, net	–	–	–	–	–	73,658	73,658
Prepayments, accrued income and other assets	348	4,056	–	–	–	–	4,404
Total assets	**101,601**	**1,299,433**	**1,341,345**	**549,255**	**289,328**	**73,658**	**3,654,620**
Liabilities and shareholders' equity							
Amounts owed to financial institutions	8,615	456,314	50,600	3,533	–	–	519,062
Amounts owed to customers	958,297	1,311,487	98,666	6,487	–	–	2,374,937
Accrued expenses, other provisions and other liabilities	–	34,594	–	–	–	3,035	37,629
Commitments from derivatives fair value	–	15,616	5,784	158	–	–	21,558
Shareholders' equity	–	–	–	–	–	701,434	701,434
Total liabilities and shareholders' equity	**966,912**	**1,818,011**	**155,050**	**10,178**	**–**	**704,469**	**3,654,620**
Liquidity risk at 31 December 2003	**(865,311)**	**(518,578)**	**1,186,295**	**539,077**	**289,328**	**(630,811)**	**–**
Cumulative liquidity risk at 31 December 2003	**(865,311)**	**(1,383,889)**	**(197,594)**	**341,483**	**630,811**	**–**	**–**
Cumulative liquidity risk at 31 December 2002	**(693,403)**	**(1,335,474)**	**(165,420)**	**468,083**	**489,721**	**–**	**–**

31. Interest rate risk

Interest rate risk represents a risk that the value of the financial instrument will fluctuate due to changes in market interest rates and the risk that the maturity of interest bearing assets differs from the maturity of the interest bearing liabilities used to fund these assets. Therefore, the length of time the rate of interest is fixed on the financial instrument indicates to what extent this instrument is exposed to interest rate risk.

Assets and liabilities without any interest rate sensitivity are grouped in the "Not specified" category.

SKK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not specified	Total
Assets						
Cash and balances with National Bank of Slovakia	102,537	–	–	–	32,004	134,541
Due from financial institutions	608,451	–	–	–	–	608,451
Loans and advances to customers, net	1,797,023	188,649	90,179	331	7,017	2,083,199
Trading securities	3,000	292,555	54,794	197,917	–	548,266
Securities held to maturity	–	171,574	–	20,000	–	191,574
Receivables from derivatives fair value	10,527	–	–	–	–	10,527
Investment in associated undertakings	–	–	–	–	–	–
Tangible and intangible assets, net	–	–	–	–	73,658	73,658
Prepayments, accrued income and other assets	–	–	–	–	4,404	4,404
Total assets	**2,521,538**	**652,778**	**144,973**	**218,248**	**117,083**	**3,654,620**
Liabilities and shareholders' equity						
Amounts owed to financial institutions	514,929	600	3,533	–	–	519,062
Amounts owed to customers	2,269,784	98,666	–	–	6,487	2,374,937
Commitments from derivatives fair value	21,558	–	–	–	–	21,558
Accrued expenses, other provisions and other liabilities	–	–	–	–	37,629	37,629
Shareholders' equity	–	–	–	–	701,434	701,434
Total liabilities and shareholders' equity	**2,806,271**	**99,266**	**3,533**	**–**	**745,550**	**3,654,620**
Off-balance sheet interest rate assets	4,090	176,915	70,394	–	–	251,399
Off-balance sheet interest rate liabilities	86,755	164,644	–	–	–	251,399
Net interest rate risk at 31 December 2003	**(367,398)**	**565,783**	**211,834**	**218,248**	**(628,467)**	**–**
Cumulative interest rate risk at 31 December 2003	**(367,398)**	**198,385**	**410,219**	**628,467**	**–**	**–**
Cumulative interest rate risk at 31 December 2002	**(120,860)**	**413,948**	**468,850**	**489,721**	**–**	**–**

32. Related party transactions

The Bank performs transactions with the Parent Bank relating to ordinary banking operations. The Bank also enters into transactions with other related parties within the ordinary course of its business.

Assets and liabilities include accounting balances with related parties (namely the Parent Bank and CAC Leasing Slovakia, a. s. – only in 2002) as follows:

SKK thousand	2003	2002
Assets		
Cash and balances with Natinal Bank of Slovakia	2,073	7,156
Due from financial institutions	–	165,662
Loans and advances to customers, net	2,089	40,937
Prepayments, accrued income and other assets	462	3,469
Total	**4,624**	**217,224**
Liabilities		
Amounts owed to financial institutions	72	1,014,756
Amounts owed to customers	3,901	29,494
Accrued expenses and other liabilities	583	2,974
Total	**4,556**	**1,047,224**

Included in the balance of loans and advances to customers are loans to directors of the Bank in the amount of SKK 2,089 thousand (2002: SKK 646 thousand loans to directors and loans to CAC Leasing Slovakia, a. s. in the amount of SKK 40,291 thousand).

Included in the balance of amounts owed to customers are balances of amounts owed to directors of the Bank in the amount of SKK 3,901 thousand (2002: SKK 3,021 thousand and CAC Leasing Slovakia, a. s. in the amount of SKK 26,473 thousand).

Other balances relate to the Parent Bank.

Income and expenses from related parties include the following:

SKK thousand	2003	2002
Interest income	11,283	72,333
Interest expense	(17,297)	(59,744)
Net fees and commissions	(522)	1,573
Other income	513	9,339
Administrative expenses	(4,210)	(2,908)
Total	**(10,233)**	**20,593**

Interest rates and other terms of transactions with related parties do not differ from the ordinary interest rates and other contractual terms of the Bank.

33. Post balance sheet events

In 2004, the Bank reassessed the development of the risk exposure of individual clients classified as pass loans and concluded to change the policy for creation of reserves for these receivables. The Bank has a small loan portfolio; it reassesses regularly (on a monthly basis) the financial position of its clients.
As a result of this the change in the accounting estimate related to provisions for pass loan, as at 1 January 2004 the Bank credited SKK 29,145 thousand of provisions for pass loans to profit and loss account.

These financial statements were approved by the Board of Directors on 17 February 2004.

Signed on behalf of the Board of Directors:

Robert Kerneis
Chairman of the Board of Directors and CEO

Jean-Marc Mesure
Member of the Board of Directors and Deputy CEO

Notes

Komerční banka Bratislava, a. s.
Medená 6, P.O. Box 137
811 00 Bratislava
Slovak Republic
phone: +421 259 277 111, 259 277 329
fax: +421 252 964 801, 252 961 959
e-mail: koba@koba.sk
internet: www.koba.sk

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