

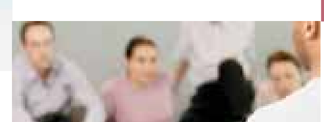

Komerční banka Bratislava, a.s.

Annual Report 2004

My World.
My Bank.

Komerční banka Bratislava, a.s. provides its services not only to Slovak corporations, but also to clients, who developed business relations in the Slovak Republic, and to the international clients of the Société Générale Group.

Professionalism, innovation and team spirit are the three main values of Komerční banka Bratislava as well as of KB and Société Générale Group.

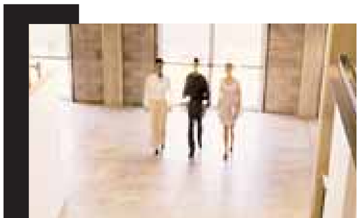


Komerční banka Bratislava, a.s. offers products and services on the Slovak market thanks to the affiliation to KB and the Société Générale Group.

Bank of the Year 2004

We are the subsidiary of Komerční banka, a.s., which has in the third year of prestigious contest MasterCard Bank of the year, won the highest price – Bank of the year 2004.

Our clients know
that we really stand behind them.



Komerční banka Bratislava, a.s. is a subsidiary of Komerční banka, a.s. one of the largest and the most important banking institutions, not only in Czech Republic, but also in the regions of central and eastern Europe. It is a part of Société Générale Group, the 5th largest bank in Euro zone.

Company Profile

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

Komerční banka Bratislava is a valuable member of the Komerční banka Group (Czech Republic). As at 31 December 2004 Komerční banka's financial group consisted of twelve companies controlled to some extent by the Komerční banka. Ten of the companies of the Komerční banka financial group are subsidiaries with a decisive influence of Komerční banka, and two are associate companies with KB's substantial influence.

The integration of Komerční banka into the Société Générale Group in October 2001 made Komerční banka Bratislava part of one of the largest and most profitable banking institutions in Europe. Société Générale Group offers over 16.4 million clients in France and worldwide top quality and comprehensive financial services, including retail banking, asset management, private banking, and corporate and investment banking. Being a member of the well-known Société Générale Group contributes to the strengthening of the market position of Komerční banka, a.s. and its affiliates. This has been achieved by ongoing quality enhancement and the gradual expansion of the scope of products and services offered to corporate clients.

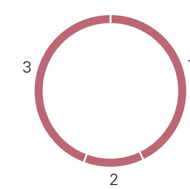
Our clients are well-established powerful corporations, along with special-purpose undertakings which have business relations with the Czech Republic and – through Société Générale – worldwide.

Komerční banka Bratislava offers its clients a full range of financial services, focusing on its corporate banking products. Well-established powerful corporations, along with special-purpose undertakings which have business relations with the Czech Republic and – through Société Générale – worldwide, 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. The fact that Komerční banka Bratislava belongs to Société Générale Group allows us to offer to our clients more sophisticated products based on the know-how of the Group in the capital markets.

A key strategic goal of the Bank for 2005 is to expand its corporate client portfolio with support from Slovakia's positive economic environment.

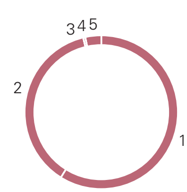
Financial Highlights

General administrative costs and income net (SKK thousand)



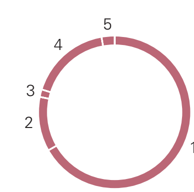
1	Personnel costs	65,973	42.90%
2	Depreciation	19,698	12.81%
3	Other administrative expenses and income net	68,122	44.29%
	Total	**153,793**	**100.00%**

Structure of assets (SKK thousand)



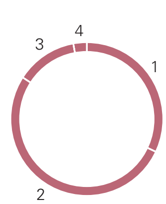
1	Due from other banks	3,389,001	58.91%
2	Loans to clients	2,148,981	37.36%
3	Trading securities	0	0.00%
4	Securities held to maturity	20,633	0.36%
5	Other assets	194,089	3.37%
	Total assets	**5,752,704**	**100.00%**

Equity and Capital (SKK thousand)



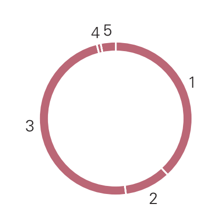
1	Registered capital	500,000	66.74%
2	Reserve fund	86,169	11.50%
3	Financial instruments adjustment	11,888	1.59%
4	Retained earnings (accumulated loss)	130,364	17.40%
5	Profit for current period	20,772	2.77%
	Total	**749,193**	**100.00%**

Structure of liabilities (SKK thousand)



1	Due to other banks	1,841,268	32.01%
2	Client deposits	2,997,664	52.11%
3	Equity	749,193	13.02%
4	Other liabilities	164,579	2.86%
	Total liabilities	**5,752,704**	**100.00%**

Structure of primary deposits (SKK thousand)



1	Current accounts	1,142,345	38.11%
2	Term deposits	292,307	9.75%
3	Term deposits – customer	1,442,830	48.13%
4	Saving deposits	25,182	0.84%
5	Loans received from clients	95,000	3.17%
	Total	**2,997,664**	**100.00%**

Unconsolidated data	IFRS		SAS	
SKK thousand	2004	2003	2004	2003
Financial Results				
Net Interest Income	125,963	143,119	125,707	141,326
Net Fees and Commissions	38,146	47,597	16,314	16,976
Trading Profit/Loss	14,852	(11,698)	36,684	19,876
Income from Associated Enterprises	0	73,721	0	129,178
Other Income	1,666	(192)	0	0
Net Banking Income	**180,627**	**252,547**	**178,705**	**307,356**
General Administrative Costs and Income net	164,464	181,915	153,793	180,121
Gross Operating Income	**16,163**	**70,632**	**24,912**	**127,235**
Provisions for Loan Loses	25,402	6,388	(1,848)	6,721
Profit/Loss before Tax	**41,565**	**77,020**	**23,064**	**133,956**
Income Tax	(5,698)	(5,781)	(2,292)	(14,242)
Net Result	**35,867**	**71,239**	**20,772**	**119,714**
Earnings/Loss per Share	7	14	4	24
Balance Sheet				
Assets Total	5,745,363	3,654,620	5,752,704	3,706,052
Loans and Advances to Customers	2,148,982	2,083,199	2,148,981	2,048,406
Amounts Owed to Customers	2,984,919	2,374,937	2,997,664	2,267,951
Trading Securities	0	548,266	0	548,266
Investment Securities	20,633	191,574	20,633	191,574
Total Shareholder's Equity	749,189	701,434	749,193	701,462
– Registered Capital	500,000	500,000	500,000	500,000
– Non-distributable Reserves	86,169	73,358	86,169	73,358
– Retained earnings	115,265	56,837	130,364	8,390
– Profit/Loss	35,867	71,239	20,772	119,714
Financial Instruments Adjustment	11,888	0	11,888	0
Indicators				
Capital Adequacy (%)	x	x	27.68	25.88
Quotient of General Administrative Costs and Income net (%)	91.05	72.03	86.06	58.60
Quotient of Fees Margin on Income from financial operations (%)	21.12	18.85	9.13	5.52
Total Assets per Share	1,149	731	1,151	741
Other Data				
Average Number of Employees	98.84	106.93	98.84	106.93
Number of Employees	87	107	87	107
Number of Points of Sale	3	3	3	3
Number of ATMs	0	2	0	2

IFRS – Results according to the International Financial Reporting Standards

SAS – Results according to the Slovak Accounting Standards

Foreword of the Chairman of the Board of Directors

In 2004, Komerční banka Bratislava invested mainly into technologies, software and optimalization of synergies with Komerční banka Group in Czech Republic and Société Générale Group.

Not only has the bank met its objectives,
it has also created a platform where
products and services are tailored according
to the customer needs.

Ladies and Gentlemen,

On behalf of the Board of Directors of Komerční banka Bratislava, a.s. I am pleased to present to you the 2004 annual report.

Last year was a period of accomplishment for the Slovak Republic. In April 2004 Slovakia joined NATO and in May Slovakia became a member of the European Union. A third car manufacturer selected the country for a billion-euro investment. This was followed by further significant investments in the automotive industry and other sectors.

These events, combined with other factors especially the stability of the current government, have confirmed that Slovakia has become a preferred venue for strategic and long-term investments.

In 2004 Komerční banka Bratislava itself invested in technologies, software and synergies. The integration of the bank into Komerční banka Group in Czech Republic and the Société Générale Group has born significant results.

Not only has the bank met its objectives, it has also created a platform where products and services are tailored and delivered adequately and swiftly by a dedicated commercial team which has taken the time to listen to our clients' needs.

In conclusion, I would like to thank the bank's employees, who spared no time or effort to keep up with the tremendous changes which took place last year and are prepared in the future to take up new challenges and to put their professionalism at the services of our clients.

Robert Kerneis
Chairman of the Board of Directors and CEO

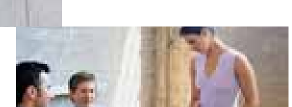
Developments in the Macroeconomic and Competitive Environment

Key Macroeconomic Indicators in 2004

Last year the pace of increase registered by the real gross domestic product was 5.5%, which, following on from the 4.2% GDP growth rate in 2003, proves that the Slovak economy has a healthy, balanced, and steadily improving structure. GDP in current prices amounted to SKK 1,325.5 billion. In the final quarter of 2004, the growth rate was 5.8%, which is 1.1% more than in the fourth quarter of 2003. This figure made the Slovak economy the fastest growing economy reported by any of the countries in Central Europe. Poland was close behind, with growth of 5.4%; the Czech and Hungarian economies both posted a rise by 4.0%. In terms of the structure of growth, last year GDP was driven forward solely by domestic demand, which surged by more then seven per cent year on year. The resurgence of domestic demand can be attributed in particular to the fact that there was a greater call for investment.

Consumer prices were up by 5.9% year on year, which is a welcome reduction compared to 2003 (9.3%). This squeeze on overall year-on-year inflation was mainly influenced by falling food prices, prompted by keener competition among retail chains and by last year's rich harvest. Removing the VAT factor, at the end of 2004 food prices had fallen by 2.1% year on year, which is a radical change compared to the 2.7% hike reported in December 2003.

Last year, Slovak economy was the fastest growing economy among all Central European countries.



In December 2004, international rating agency Standard & Poor's upgraded rating of Slovakia from BBB to A-. In January 2005, Moody's rating agency upgraded rating of Slovakia from A3 to A2.

The Slovak economy's most acute problem remains its high unemployment rate. Although there was a moderate improvement in 2003, in 2004 it returned to a growth trajectory, climbing by 0.7% to 18.1%. The main factors behind this upswing in unemployment are the large numbers of young people making their way onto the labour market and the rising retirement age. The average monthly nominal wage went up by 10.2% to SKK 15,825 (EUR 417); taking account of the parallel increase in consumer prices, real wages increased by 2.5%.
The deficit posted by the national budget in 2004 was SKK 43.9 billion, or 3.3% of GDP in ESA 95 methodology. The original prognosis had pointed to a deficit in the region of 3.8% of GDP. However, it is worth noting that even as late as November the cumulative budget deficit stood at just 43% of the full-year plan. These upbeat developments until November were made possible by the far-reaching clampdown on budgetary expenditure. The situation changed in December when expenditures escalated and budget units spent over 2% of their annual earmarked funding in a single month, thus more than doubling the cumulative deficit. Slovakia's public debt amounted to SKK 563.4 billion, of which high-risk state guarantees accounted for SKK 40.9 billion. The public debt at the end of 2004 included a liability payable to ČSOB (SKK 25 billion); SKK 16 billion of this has been paid out of state financial assets, and the remainder will be due at the end of this year.

In September 2004, Fitch Ratings upgraded Slovakia's long-term foreign currency rating from BBB to A-. Standard & Poor's and Moody's, the two largest ratings agencies, followed suit, nudging up their ratings by one notch in December and at the beginning of January respectively. This increase in the country's rating was triggered by the reforms introduced by the government.
In April 2004, Slovakia joined NATO, and on 1 May 2004 it acceded to the European Union. Therefore the country was given the opportunity of promoting itself in the new Europe, on the market of the expanding European Union.

Reforms and their Influence on the Business and Social Environment

Although the second government of Prime Minister Mikuláš Dzurinda formally lost its majority more than a year ago, in the second half of 2004 it was able to push through important reforms in Parliament, especially the reform of the health service, fiscal decentralization, and pension reform.

As in the previous quarters, during the final quarter of 2004 the reforms introduced by the government were well received by businesses and investors. The influx of investments from foreign industrial producers and service providers did not let up. Large-scale investment projects have recently been announced primarily in the automotive industry (e.g. by Getrag Ford Transmissions, Johnson Controls, and Pirelli). Not long ago, the winner of the Slovenské elektrárne privatization tender, Italy-based Enel, confirmed that it was keen to meet the government's conditions regarding the sale and to round off the takeover by the end of this year. The Slovak government also continued its other privatization projects, such as the decision to sell the state's remaining stake in Slovak Telecom and the decision to start shedding several regional heat plants.

The general public joined the business and investor community in taking a favourable view of the reform process because the country's inhabitants finally started benefiting from this programme too. In 2003, just 24% of the population thought the current year was a good year in their private lives; in December 2004, the number of people happy with the past year had risen by a full five percentage points.

Interest Rates and Exchange Rates

During the final quarter of 2004, the rate of appreciation registered by the Slovak crown was higher than forecast and ahead of exchange-rate developments in the preceding quarters. Against the benchmark currency, the euro, in the third quarter the crown appreciated by 3.3% in nominal terms, which helped push up full-year appreciation to 5.9%. Adjusted for inflation measured by the Consumer Price Index, the crown appreciated against the euro by as much as 11.3% in real terms. The buoyant mood in the region helped raise the crown to its highest ever level. In mid-December, the Slovak currency broke through 39.0 SKK per EUR, and has kept to an appreciation trend in 2005.

The National Bank of Slovakia responded to the strong appreciation of the currency by applying various types of intervention. After its initial verbal interventions, the NBS tried to slow the march of the crown with interventions on the money and foreign-exchange markets. At the end of November, the central bank cut its key interest rates for the fourth time in 2004, again by 50 basis points. This move took the key 2W repo rate down to 4.0%, i.e. 200 basis points lower than the previous year. However, the effect on the exchange rate was short-lived. In December, the NBS changed its strategy and started selling the Slovak crown directly on the foreign-exchange market. Taking the year as a whole, the NBS outlay on interventions totalled EUR 1.8 billion, almost three times more than in 2003 (EUR 660 million). Nonetheless, not even such large-scale intervention was able to check the further rise of the crown.

As the US dollar depreciated against the euro throughout the final quarter, its fall against the crown was all the steeper. In nominal terms, the crown appreciated against the dollar by a potent 11.4% in the fourth quarter; full-year appreciation stood at 12.9%.

Although the Slovak crown appreciated against its Czech counterpart in the first half of the year, the exchange rate subsequently subsided to the level reported at the beginning of the year, and from June 2004 onwards the SKK was relatively stable against the CZK. The closing exchange rate of 1.272 SKK per CZK was more or less the same as the final rate for 2003.

Projected Macroeconomic Developments in 2005

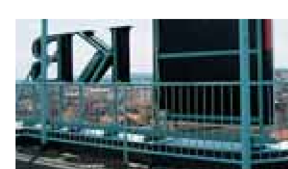
In 2005, estimates released by the NBS, the Ministry of Finance, and bank analysts indicate that the country should experience further economic growth. Real GDP growth seems set to remain strong at around 5%, driven by investments (especially in the sectors of vehicle manufacture, automobile accessory production, electronics, construction, and utility services, where we have observed a steady expansion in current production capacity, e.g. the PSA plant and essential completion of motorways), the recovery in household consumption, and higher wages. Analysts predict that Slovakia will catch up with the developed states in 20 years.

Inflation should tumble to approximately 3%, making the rise in real wages and household income all the more palpable. The main items targeted in this year's increases in regulated prices will be natural gas and heat, following last year's hike in oil prices. In addition, this year there are no plans to change indirect taxes, and last year's effect of higher VAT will no longer be felt in overall inflation. In the upcoming years, unemployment is likely to dip by between half a percentage point and a full percentage point every year. Fiscal consolidation will evidently continue, despite the fact that the launch of pension reform will entail extra expenditure from the public budget. This year the national budget plan anticipates a fall in tax income by 3.6% compared to 2004. This is because part of income tax will fall directly under the administration of municipalities and regional authorities; in the past, these funds were distributed via the national budget. However, despite the reduction in income tax, the revenues of the national budget should increase overall as Slovakia becomes eligible for grants and transfers from EU funds. Analysts believe that the external imbalance of the Slovak economy can be kept under control. The deficit of the balance of trade and current account should amount to 3-4% of GDP, which is a relatively low level and is covered by finances generated from foreign direct investment. In connection with the ongoing upbeat economic development, structural progress, and high growth in productivity, which has been boosted by the influx of foreign direct investment, the crown is forecast to continue appreciating by 5-9% p.a. in the next few years.

As far as monetary policy is concerned, given the rapidly rising domestic demand there is little reason for another cut in interest rates. However, the constant appreciation pressure on the crown means that the central bank will probably be in favour of relaxing monetary policy. Although the main weapon wielded by Slovak central bankers against the strong domestic currency has been direct intervention on the foreign-exchange market, if the crown appreciates as rapidly as it did in 2004 there is always a chance of another cut in interest rates.

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.

Real GDP growth of Slovakia in 2005 seems set to remain strong at around 5%.



Report of the Board of Directors

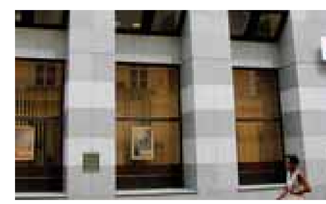
Strategy

The strategy of Komerční banka Bratislava, a.s. is to provide high-quality financial services and sophisticated products to Slovak corporate clients, clients of the bank's parent company who maintain business relationships with the Slovak Republic, and international clients of the Société Générale Group who invest and trade in the domestic market.
Availing itself of the synergy and the support provided by its parent company – Komerční banka in the Czech Republic – and the Société Générale Group, the bank wishes to offer, through its specialists, the wide variety of products and services of the SG Financial Group adapted to the specific conditions of the Slovak market.

Summary Assessment of Results in Implementing of the Bank's Objectives

To achieve its strategic plans, in 2003 the bank launched, with strong support from its parent company, an extensive transformation process consisting of individual projects covering all important areas of its banking activities. The transformation process will be completed in 2005 and its completion will be essential for the successful fulfilment of the bank's business objectives and for the provision of high-quality banking services to the bank's target clientele.
Throughout 2004, the bank carried on the process of internal transformation and global integration into the structures of Société Générale.
The bank's main objectives are laid down in its three-year business plan.

In 2004, the bank continued
in process of internal transformation
and global integration into
the structures of Komerční banka
and Société Générale.



New Client-Oriented Approach

In order to identify clients' needs better, to improve the service to clients and to meet its own business objectives, the bank applies a system of client segmentation consisting of three main client groups:
– medium-sized enterprises with an annual turnover from SKK 100 million to SKK 1.5 billion;
– large enterprises with an annual turnover of more than SKK 1.5 billion;
– international companies from the top 10 economies of the world (G10).

The bank also provided its services to small entrepreneurs with an annual turnover of less than SKK 100 million. However, it is not the bank's objective to provide services to this type of clients.

Clients were divided into individual portfolios managed by relationship managers. Clients can use the services of personal relationship managers who are responsible for the client portfolios entrusted bothers, which allows the relationship managers to manage and develop relationships actively with clients.

Clients

In line with its business strategy – to reduce business relationships with retail clients and to offer services to selected corporate clients – in 2004 the bank substantially decreased its number of clients.

At the end of 2004, Komerční banka Bratislava, a.s. was serving 2,159 clients, which represents a year-on-year reduction by 1,458 clients. Out of the total year-on-year reduction of clients, 1,228 were retail clients and 230 corporate clients.

Out of the total number of the bank's clients, 1,385 are retail clients and 774 are corporate clients.

Distribution Network

Komerční banka Bratislava, a.s. offers its products in three branches which are situated in the main regions of the Slovak Republic (Bratislava, Banská Bystrica, and Košice) and through electronic banking channels.

Serving the Client

A part of the bank's strategy is to place an emphasis on three key principles of customer service in order to come closer to the target clientele:
– close mutual cooperation – one relationship manager for each client;
– accessibility – access to the bank through electronic banking and branches;
– expertise – relationship managers are specially trained to serve clients.

Corporate Values

The bank is a member of a group which honours three main principles:
– professionalism;
– innovation;
– team spirit;
and therefore pays attention to HR management and the quality and development of its employees. The bank has prepared and rolled out a training programme designed particularly for employees serving clients in order to integrate them in the Société Générale Group. This process will continue in 2005.

A key element of the bank's strategy is to put emphasis on three principles of serving the clients – close mutual cooperation, accessibility and expertise.

Risk Management

Risk management at the bank is based on a unified concept which takes into account the risk management standards existing within the group of the parent company, the Société Générale Group, and prevailing legal standards of the Slovak Republic. In its procedures, the bank takes account of developments in all types of risks, especially credit risk, market risk, liquidity risk and operational risk.

Credit Risk Management

The bank started to prepare for the implementation of the New Basel Capital Accord Rules on the management of capital adequacy. Regular monitoring and reporting of operational risks were introduced. The procedures for measuring risk parameters of the loan portfolio were gradually approximated to Basel II standards. Concurrently with its parent company, the bank implemented a rating system for the evaluation of clients and the rating scale used by the Société Générale Group.

Loan Assessment and Monitoring

In 2004, the Credit Risk Assessment unit cooperated with the bank's business units in order to reduce the administrative burden of the credit process and to increase the efficiency of the performance and flexibility of the whole process. Most attention was paid to the process of simplifying the credit application format and monitoring the bank's receivables. In 2004, the bank upgraded the reporting system and continued using the DCCIT electronic tool (which was introduced in the previous year) designed for credit application analysis.

Classification of receivables

The bank meets all requirements laid down in the NBS Decree in the area of classification of receivables. Classification of receivables is performed on the basis of an assessment of objective criteria (a financial rating based on the scoring of accounting statements, payment discipline, fulfilment of contractual terms and conditions) and subjective criteria (market position, client-supplier relationships, etc.).

Receivables in the bank's portfolio are evaluated and classified individually by a Provisions Committee. The accuracy of the chosen classification is reviewed on a quarterly basis.

Provisions and Reserves

The bank meets the requirements laid down in the NBS Decree in the area of the creation of reserves and provisions.

The amount of the bank's provisions and reserves was affected by various factors:

- an individual approach in the process of evaluating the bank's receivables;
- the release of provisions and reserves as a result of the successful discharge of clients from loan exposures with higher risk profiles;
- a partial change in the method of computing the volume of unsecured receivables.

In the field of reserves, acting in accordance with applicable legislation, the bank released reserves for standard account receivables and guarantees through retained earnings brought forward (SKK 29,559 thousand), and currently creates reserves only for un-drawn loans and selected off-balance-sheet items which meet the statutory criteria.

Counterparty Risk from Financial Market Activities

In 2004, the bank was fully integrated into the Société Générale model for the management of risk attached to financial market transactions. The assessment of counterparty risk (where couinterparties are financial institutions) is based on external and internal ratings. Limits are allocated on the basis of an analysis of counterparty creditworthiness. The concept used by the bank for measuring the risk generated by derivative products is based on an indicator measuring assessed current average risk, the value of which depends on the costs that might occur under the current market conditions during the remaining life of the transaction in the event of counterparty default.

Credit exposure arising from financial market transactions is monitored on a daily basis, independently of the business units. The established system facilitates the monitoring of any changes in credit exposure and changes in the market conditions. A limit must always be granted by the relevant authorisation authority before the conclusion of a transaction with a counterparty. Any breach of a limit is immediately reported to the relevant level of bank management. New activities (products) offered by the bank are analysed and assessed before their introduction in the market.

Market Risk Management

Market risk is defined as the risk of loss resulting from an adverse development in market conditions. Komerční banka Bratislava, a.s. is exposed to interest rate risk and foreign exchange risk.

In 2004, the Risk Management Unit continued to implement the methods and standards of the Société Générale Group.

The bank's Market Risk Unit is responsible for the management of market risk. In order to ensure the independence of risk management from the business units, this unit reports directly to the Manager of the Risk Management Unit as well as to the Head of the Market Risk Management Unit of Komerční banka Prague. Market risk is managed in compliance with the following key principles, which are subject to the approval of the bank's Board of Directors:

- all risks are systematically and regularly monitored and are subject to reporting, independent of the business units;
- the methods of risk assessment and the control procedures are defined and approved by the management of the Market Risk Unit and the Market Risk Unit of Komerční banka;
- limit applications are processed centrally on the basis of requests from the operation units, up to the amount of the global limits specified by the Board of Directors;
- all new financial and capital market activities/products are comprehensively analysed and assessed before their introduction in the market;
- all requirements imposed by regulatory authorities are observed.

Methods of Market Risk Measurement and Setting of Limits

Market risk measurement at Komerční banka Bratislava is based on three key principles that are used to set limits:

– the Value at Risk historical simulation method calculated to a 99% confidence level and one-day time scope, allowing the bank to consolidate its market risk into the Value at Risk indicator of Société Générale Financial Group;
– stress-test measurement used to take into consideration low probability events that are not covered by the Value at Risk method. The bank conducts various types of stress tests for foreign exchange and interest rate exposures. Shock scenarios simulate significant movements in indicators, usually with a one-in-ten probability of occurrence. Other types of stress tests are based on “what if” scenarios, where a flip of interest rate curves at pivot points is simulated;
– complementary limits (sensitivity, FX position, etc.). These limits monitor market risks which are only partially covered by VaR and stress tests.

Value at Risk (VaR) Method

The new VaR method (“historical simulation”) was introduced by Komerční banka Bratislava, a.s. in 2003 for foreign exchange and interest rate risk. The method takes into account the correlation between all markets and the fact that changes in market parameters are not evenly distributed. Scenarios of one-day variations of market parameters over a period of the last 250 business days are used. The 99% Value at Risk is the loss that would have occurred in 1% of the worst-case situations with 250 scenarios, which correspond to the second and third largest potential loss computed.

Asset and Liability Management

The process of asset and liability management covers banking activities which are defined as the bank’s structural book. The rules applied, the changes proposed, and the hedging transactions proposed with respect to the interest rate and liquidity risk are approved by the Asset and Liability Management Committee. The bank meets all requirements of the regulatory authority and international accounting standards (IAS 39).

Information Technologies

In order to improve the quality of the services provided to clients, to bring the bank's IT infrastructure into line with the infrastructure of Komerční banka and to increase the efficiency of the bank's activities, the bank developed an IT investment project in cooperation with its parent company. The bank started to implement the project in 2003 and it should be completed in 2005. The bank plans to invest about SKK 70 million in individual sub-projects:
– IT infrastructure (implementation in 2003 – 2004);
– SWIFT, cross-border payment system (implementation in 2003 – 2004);
– investment banking (implementation in August 2005);
– data warehouse (implementation in December 2005);
– electronic banking (April 2005);
– new teller system (December 2005).

Human Resources

One of the objectives of the bank's restructuring programme was to implement changes in the structure, quality and number of employees. Following the introduction of new IT technologies, centralisation of the back office procedures and an increase in the efficiency of the working procedures, the bank reported a year-on-year reduction by 20 employees.
As of 31 December 2004, the bank's headcount was 87; the average adjusted headcount for 2004 was 98.8 (for 2003 – 106.93).
As far as remuneration and HR policies are concerned, the bank applies rules and procedures applicable within KB and SG.

Restructuring Programme

In line with the restructuring programme, in 2004 the bank continued to increase the efficiency of its branches and back office units. Following the closure of the Bratislava – Prievoz branch and the reduction of the size of the Košice branch premises in 2003, throughout 2004 the bank:
– completed the process of loan administration centralisation;
– centralised the processing of cross-border payment transactions;
– launched a project to centralise investment banking back offices, which should be completed in the second half of 2005;
– began to optimise the premises of the Banská Bystrica branch.
The bank's restructuring programme will be completed in 2005.

The bank's restructuring programme will be completed in 2005.

Comments on the Financial Results according to Slovak Accounting Standards (SAS)

Balance Sheet

As of 31 December 2004, the bank's total assets equalled SKK 5,752,704 thousand, which represents a year-on-year increase by 55.22%.
Interest earning assets accounted for 97.50% of the bank's total assets at the end of the year.

Amounts Due from Clients

As of 31 December 2004, the loans advanced to clients (after the deduction of provisions) amounted to SKK 2,148,981 thousand, which represents a year-on-year increase by 4.91%.
Loans accounted for 37.36% of the bank's total assets at the end of the year (after deduction of provisions).
At the end of the year, classified receivables accounted for 11.58% of the total volume of gross loans, the bank recorded four loss loan receivables in the amount of SKK 110,767 thousand.
The bank maintains provisions in the amount of SKK 132,444 thousand for the whole loan portfolio. As of 31 December 2004, the percentage of loan portfolio coverage by provisions declined by 2.30% to 5.80%, mainly as a result of the one-time release of reserves for general risk in compliance with legislation amended as of 1 January 2004.

Securities

The value of the debt securities portfolio was SKK 20,633 thousand at the end of the year, which represents a 0.36% share in the bank's total assets and a significant year-on-year decline by 97.21%.
In line with the approved strategy, in 2004 the bank sold all securities in the portfolio of trading securities.
These securities are government bonds and are kept in the portfolio of investments held to maturity.

Tangible and Intangible Assets

The net worth of the bank's tangible and intangible assets is SKK 57,632 thousand, which represents a year-on-year decline by 21.76%.
The current book value of all real estate owned by the bank and of the technical improvements to leased real estate is SKK 30,843 thousand, including the grounds. The bank owns a building and the related land parcel in Banská Bystrica with a net book value of SKK 19,613 thousand and two apartments in Bratislava with a net book value of SKK 6,613 thousand.
Other fixed assets include, in particular, office and IT equipment, software and technical improvements to leased real estate.

Amounts Due to Clients

The volume of clients' deposits amounted to SKK 2,997,664 thousand at the end of 2004, representing a year-on-year increase by 32.17%.
Compared to 2003 the volume of funds deposited in current accounts grew by 19.21% to SKK 1,142,345 thousand, term and saving deposits grew by 39.75% and represented an amount of SKK 1,760,319 thousand as of 31 December 2004.
Loans received from Eximbanka for export financing grew by 90.00% compared to the same period of the previous year.

Shareholders' Equity and Share Capital

As of 31 December 2004, the bank's shareholders' equity was SKK 749,193 thousand, and consisted of the following items (SKK thousand):

Share capital	500,000
Reserve fund	86,169
Retained earnings brought forward	130,364
Differences in revaluation of hedging derivatives	11,888
Profit for the period	20,772

As of 31 December 2004, the bank's shareholders' equity accounted for 13.02% of the total assets.
The capital intended for capital adequacy, loan exposures and unhedged FX positions was SKK 714,185 thousand at the end of the year. Capital adequacy came to 27.68%.

Reserves and Provisions

The bank maintains reserves and provisions for the coverage of potential risk in the amount of SKK 187,400 thousand, which represents a year-on-year decline by 14.03%. As of 1 January 2004, the bank recorded a release of reserves for the coverage of unspecified potential losses arising in connection with standard loans, standard special mention loans and guarantees in the total amount of SKK 51,820 thousand and created provisions for standard special mention loans in the amount of SKK 22,261 thousand.

As of 31 December 2004, the bank's total assets equalled SKK 5,75 billion, which represents a year-on-year increase by 55%.

Profit and Loss Statement

The financial result posted by the bank was mainly influenced by:

– the situation in the financial market, the impact of competition, and the reduction of the net interest margin;
– the profit from the sale of securities in the trading portfolio achieved as a result of a significant reduction in the interest rates of the domestic currency in 2004;
– the expenditures of the bank's restructuring programme;
– the implementation of significant investment projects;
– cost-effective spending of funds in the field of operating costs.

In 2004, the bank made a net profit of SKK 20,772 thousand.

The profit was computed as follows (SKK thousand):

Profit from financial operations	178,705
General operating costs	(153,793)
Operating profit	24,912
Creation of reserves, provisions and income from written-off receivables, net	(1,848)
Pre-tax profit for the fiscal period	23,064
Income tax	(2,292)

The tax liability for the current period amounted to SKK 9,986 thousand. Deferred income tax was calculated from all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Due to the uncertainty over the realisation of the deferred tax asset in future fiscal periods, the bank recognised only a deferred tax liability of SKK 7,694 thousand.

Use of Earnings from 2004

The bank recorded SKK 15,571 thousand as profit in the account "retained profit brought forward" as a result of:

– the change accounting procedures as of 1 January 2004 – release of reserves for standard receivables and guarantees (impact – earnings of SKK 29,559 thousand);
– the correction of errors from previous years – the bank corrected the depreciation of the account item Goodwill (impact – cost of SKK 10,583 thousand);
– the adjustment of income tax and deferred tax in connection with the above mentioned items (cost of SKK 3,405 thousand).

The total profit ear marked for distribution, in the amount of SKK 36,343 thousand, consisted of (SKK thousand):

Retained earnings brought forward	15,571
Profit for the period	20,772

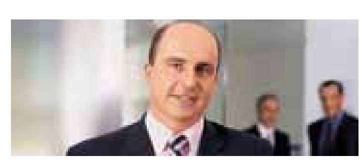
In accordance with the bank's Articles of Association, the Board of Directors proposed the following distribution of the earnings (SKK thousand):

Allocation to the social fund	600
Allocation to the reserve fund	3,634
Retained earnings brought forward	32,109

Statutory Bodies and Organisational Structure

Robert Kerneis

Jean-Marc Mesure



Róbert Beláň

Board of Directors

Robert Kerneis (1945)
Chairman of the Board of Directors
Start of tenure: 3 April 2002
Master of Sciences, University of Paris VI.
He has been working for the Société Générale Group for 17 years.

Róbert 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 for 3 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 18 years.

Supervisory Board

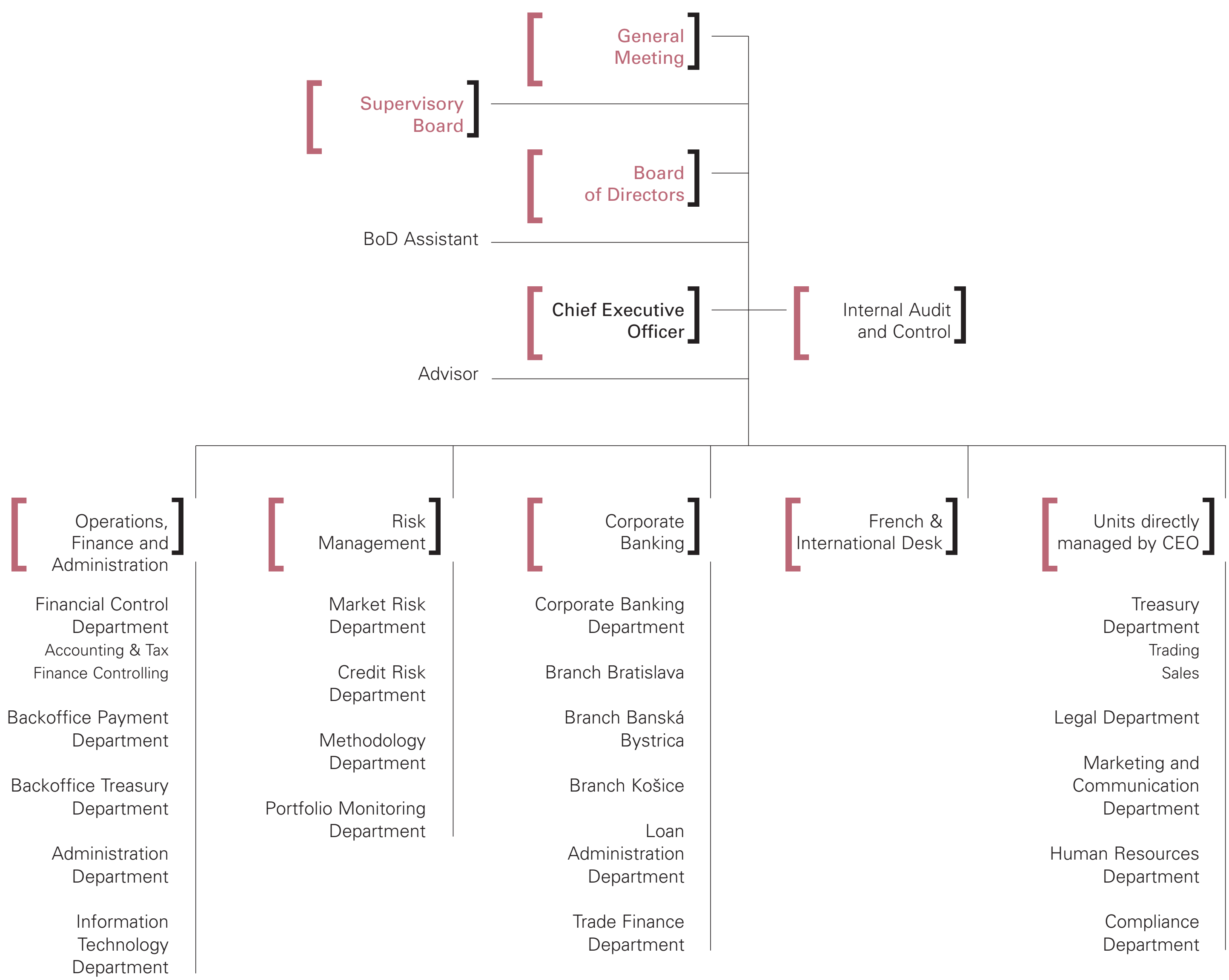
Matúš Púll (1949)
Chairman of the Supervisory Board
Start of tenure: 15 February 2002
Graduate of the University of Economics, Prague.
He has been working for the Société Générale Group for 22 years

Philippe Jean Emile Rucheton (1948)
Vice-Chairman of the Supervisory Board
Start of tenure: 17 May 2002
Graduate of the High Military-Technical College École Polytechnique, Institut Supérieur des Affaires and of the Panthéon Sorbonne University.
He has been working for the Société Générale Group for 16 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 4 years.

Organisational Chart

as at 31 December 2004



Ownership Structure

Shareholder	Share in Registered Capital (%)
Komerční banka, a.s.	100.00
Total	**100.00**

Three General Meetings were held in 2004:
On 12 May 2004 the Annual General Meeting of Komerční banka Bratislava, a.s. (hereinafter "Company") was held which made the following decision of the sole shareholder – Komerční banka, a.s.: 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, the Commercial Code, adopted the following decisions:

- it noted the Report of the Board of Directors on the business activities of the Company and on the state of its assets for the year 2003;
- it approved the financial statements for the year 2003 and decided to distribute the profit for the year 2003 in the amount of SKK 119,714 thousand as follows:
  Contribution to the reserve fund: SKK 11,971 thousand
  Contribution to the social fund: SKK 500 thousand
  Undistributed profit: SKK 107,242 thousand;
- it approved the distribution of retained earnings result from a change in accounting regulation from 1 January 2003 in the amount of SKK 8,390 thousand as follows:
  Contribution to reserve fund: SKK 839 thousand
  Undistributed profit: SKK 7,551 thousand;
- it approved the annual report of the Company for the year 2003;
- it noted the report of the Supervisory Board.

On 21 May 2004 a General Meeting of Komerční banka Bratislava, a.s. was held which adopted a decision of the sole shareholder – Komerční banka, a.s., in executing the powers of the General Meeting pursuant to the provisions of Section 190 of Act No 513/1991, the Commercial Code, as amended, granting the CEO and the Head of Risk of the Company the competence to approve financing for clients and ECG.

On 21 December 2004 a General Meeting of Komerční banka Bratislava, a.s. was held which adopted a decision of the sole shareholder – Komerční banka, a.s., in executing the powers of the General Meeting pursuant to the provisions of Section 190 of Act No 513/1991, the Commercial Code, as amended, approving changes in the Articles of Association of the Company and the full wording of the Articles of the Company Komerční banka Bratislava, a.s.

Report of the Supervisory Board

Throughout 2004 the Supervisory Board of Komerční banka Bratislava, a.s. performed tasks conferred on it by law and the Artices 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 of Directors, 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 2004.
After reviewing the financial statements of Komerční banka Bratislava, a.s., for the period from 1 January 2004 to 31 December 2004, 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 and with the Articles of Association of the Bank, and present the financial position of the Bank from all significant aspects.
The Supervisory Board recommends that the General Meeting approve the financial statements for 2004 as well as the distribution of the profit reached in 2004 in accordance with the conclusions made at the Supervisory Board meeting that was held on 11 April 2005, i.e. the allocation of SKK 0.6 million to the social fund and SKK 3.6 million to the statutory reserve fund.

Prague, 11 April 2005

On behalf of the Supervisory Board:

Matúš Púll
Chairman of the Supervisory Board

Independent Auditor's Report

Deloitte & Touche
Slovakia spol. s r.o.
BBC, Prievozská 12
Bratislava 821 09
Slovenská republika

Obchodný register
Okresného súdu Bratislava 1
Oddiel: Sro
Vložka č.: 11922/B
IČO: 35 700 416

Tel.: +421 2 582 49 111
Fax: +421 2 582 49 222
www.deloitte.sk

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

We have audited the financial statements of Komerční banka Bratislava, a.s. (the "Bank") for the year 2004, which include the balance sheet as of 31 December 2004, 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 2004 and 2003 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 25 February 2005 and 21 February 2005 we expressed unqualified opinions on these financial statements. These financial statements and Audit Reports are included in this Annual Report on pages 34 through 100.

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, 25 February 2005

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

Ing. Zuzana Letková
Responsible auditor
Licence SKAU No. 865

Audit • Tax • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Sworn Statement

Komerční banka Bratislava, a.s. hereby declares that all information and data contained in this annual report are 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 at the date on which the annual report was complied no negative changes had occurred in the financial situation, nor were there any other changes which might have affected the accurate and correct assessment of the Bank's financial situation.

Bratislava, 31 March 2005

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

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

Deloitte.
Deloitte & Touche
Slovakia spol. s r.o.
BBC, Prievozská 12
Bratislava 821 09
Slovenská republika

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Independent Auditor's Report

To the Shareholder 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 2004, which include the balance sheet as of 31 December 2004, the related income statement for the year then ended and notes. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International 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 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 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 2004, and the results of its operations for the year then ended in accordance with the Slovak Accountancy Act.

Bratislava, 25 February 2005

Deloitte & Touche

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

Zuzana Letková

Ing. Zuzana Letková
Responsible auditor
Licence SKAU No. 865

Balance Sheet as of 31 December 2004 and 2003

Assets

SKK thousand Item no.	Name of item	Note	2004 Gross	2004 Provision	2004 Net	2003 Net
1.	Cash in hand, deposits with National bank of Slovakia and with foreign banks of issue	1	78,468	–	78,468	52,372
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	3,389,001	–	3,389,001	690,620
	a) demand debts	6	19,106	–	19,106	45,450
	b) other receivables	7	3,369,895	–	3,369,895	645,170
4.	Amounts due from clients	8	2,281,425	132,444	2,148,981	2,048,406
	a) demand debts	9	195,023	–	195,023	3,431
	b) other receivables	10	2,086,402	132,444	1,953,958	2,044,975
5.	Debt securities	11	69,898	49,265	20,633	739,840
	a) of state authorities	12	20,633	–	20,633	739,840
	b) of other entities	13	49,265	49,265	–	–
6.	Shares, participation certificates and other participation	14	–	–	–	–
7.	Equity investments and contributions in subsidiaries (participating interest)	15	–	–	–	–
	a) in banks	16	–	–	–	–
	b) in other entities	17	–	–	–	–
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	65,338	62,990	2,348	17,855
	a) establishment costs	22	–	–	–	–
	b) goodwill	23	29,491	29,491	–	11,679
	c) other intangible assets	24	35,847	33,499	2,348	6,176
10.	Tangible assets	25	176,037	120,753	55,284	55,803
10.1.	Land and buildings for operation	26	37,581	6,738	30,843	32,554
10.2.	Other tangible assets	27	138,456	114,015	24,441	23,249
11.	Other assets	28	55,024	159	54,865	100,400
12.	Amounts receivable from shareholders and partners	29	–	–	–	–
13.	Prepayments and accrued income	30	3,124	–	3,124	756
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	6,118,315	365,611	5,752,704	3,706,052
A.	Special NBS records	37	–	–	–	–
B.	State receivables in relation to foreign countries	38	–	–	–	–

Liabilities

SKK thousand

Item no.	Name of item	Note	2004	2003
1.	**Amounts due to banks**	39	1,841,268	469,061
	a) demand amounts	40	3,954	8,615
	b) other payables	41	1,837,314	460,446
2.	**Amounts due to clients**	42	2,997,664	2,267,951
	a) demand amounts, including	43	1,142,345	958,297
	savings	44	–	–
	b) other payables, including	45	1,855,319	1,309,654
	term liabilities with term of notice	46	1,855,319	1,309,654
3.	**Amounts payable from debt securities**	47	–	–
	a) issued debt securities	48	–	–
	b) other payables from debt securities	49	–	–
4.	**Other liabilities**	50	154,991	210,672
5.	**Deferred income and accrued expenses**	51	4,056	2
6.	**Reserves**	52	5,532	56,904
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	86,169	73,358
	a) legal reserve fund	69	86,169	73,358
	b) other reserve funds	70	–	–
	c) other funds from profit	71	–	–
22.	**Other capital funds**	72	–	–
23.	**Valuation differences**	73	11,888	–
	a) from revaluation of assets and liabilities	74	–	–
	b) from conversion of hedging derivatives	75	11,888	–
	c) from conversion of equity investments and contributions	76	–	–
24.	**Retained profit or accumulated loss of previous years**	77	130,364	8,390
25.	**Profit or loss of current accounting period**	78	20,772	119,714
x	**Total liabilities, including**	79	5,752,704	3,706,052
	Special NBS records	80	–	–
	State payables in relation to foreign countries	81	–	–

Off Balance Sheet Accounts as of 31 December 2004 and 2003

Off Balance Sheet Assets

SKK thousand

Item no.	Name of item	Note	2004	2003
1.	**Receivables from future loans, borrowings and guarantees**	**1**	**1,053,243**	**670,281**
	a) Receivables from future loans and borrowings	2	655,936	653,862
	b) Guarantees granted	3	397,307	16,419
2.	**Guarantees granted**	**4**	**–**	**–**
	a) Real estate	5	–	–
	b) Cash	6	–	–
	c) Securities	7	–	–
	d) Other	8	–	–
3.	**Receivables from spot transactions including**	**9**	**3,741,980**	**4,040,590**
	a) Interest rate instruments	10	63,550	202,400
	b) Currency instruments	11	3,678,430	3,838,190
	c) Equity instruments	12	–	–
	d) Commodity instruments	13	–	–
	e) Credit instruments	14	–	–
4.	**Receivables from fixed term transactions including**	**15**	**2,457,089**	**2,943,555**
	a) Interest rate instruments	16	549,286	251,399
	b) Currency instruments	17	1,907,803	2,692,156
	c) Equity instruments	18	–	–
	d) Commodity instruments	19	–	–
	e) Credit instruments	20	–	–
5.	**Receivables from transactions with options including**	**21**	**1,775,009**	**276,705**
	a) Interest rate instruments	22	–	–
	b) Currency instruments	23	1,775,009	276,705
	c) Equity instruments	24	–	–
	d) Commodity instruments	25	–	–
	e) Credit instruments	26	–	–
6.	**Receivables written–off**	**27**	**12,024**	**9,326**
7.	**Assets transferred to custody, administration and deposition**	**28**	**–**	**160**
8.	**Assets transferred for management, thereof**	**29**	**–**	**–**
	Securities	30	–	–

Off Balance Sheet Liabilities

SKK thousand

Item no.	Name of item	Note	2004	2003
1.	**Payables arising from future loans, borrowings and guarantees**	**31**	**1,116,654**	**822,495**
	a) Payables arising from future loans and borrowings	32	979,359	396,903
	b) Guarantees received	33	137,295	425,592
2.	**Guarantees received**	**34**	**5,235,386**	**2,896,522**
	a) Real estate	35	865,193	860,052
	b) Cash	36	44,462	57,074
	c) Securities	37	255,984	362,545
	d) Other	38	1,686,742	1,069,364
	e) Collaterals – securities	39	2,383,005	547,487
3.	**Payables arising from spot transactions including**	**40**	**3,742,698**	**4,039,404**
	a) Interest rate instruments	41	63,550	202,400
	b) Currency instruments	42	3,679,148	3,837,004
	c) Equity instruments	43		0
	d) Commodity instruments	44	0	0
	e) Credit instruments	45	0	0
4.	**Payables arising from fixed term transactions including**	**46**	**2,460,088**	**2,953,419**
	a) Interest rate instruments	47	549,286	251,399
	b) Currency instruments	48	1,910,802	2,702,020
	c) Equity instruments	49	0	0
	d) Commodity instruments	50	0	0
	e) Credit instruments	51	0	0
5.	**Receivables from transactions with options including**	**52**	**1,776,936**	**276,705**
	a) Interest rate instruments	53	0	0
	b) Currency instruments	54	1,776,936	276,705
	c) Equity instruments	55	0	0
	d) Commodity instruments	56	0	0
	e) Credit instruments	57	0	0
7.	**Assets received in custody, administration and deposition**	**58**	**429,154**	**3,087**
8.	**Assets received for management, thereof**	**59**	**0**	**0**
	Securities	60	0	0

Profit and Loss Statement
for the years ended 31 December 2004 and 2003

SKK thousand		Note	Expences		Revenues	
Item no.	Name of item		2004	2003	2004	2003
1.	**Interest income and similar income**	1	x	x	240,356	294,882
	including: interest income from debt securities	2	x	x	30,516	54,832
2.	**Cost of interest and similar costs**	3	114,649	153,556	x	x
	including: cost of interest from debt securities	4	2,850	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	35,099	36,493
5.	**Expenses for fees and commissions**	10	18,785	19,517	x	x
6.	**Net profit or net loss from financial operations**	11	(36,684)	(19,876)	x	x
7.	**Other financial revenues**	12	x	x	–	–
8.	**Other financial expenses**	13	–	–	x	x
9.	**Other operating revenues**	14	x	x	1,489	131,455
10.	**General operating expenses**	15	114,252	115,875	x	x
	a) employee expenses	16	65,973	60,945	x	x
	aa) wages	17	51,743	48,358	x	x
	ab) social insurance and health insurance	18	14,230	12,587	x	x
	b) other general operating expenses	19	48,279	54,930	x	x
11.	**Other operating expenses**	20	21,976	40,516	x	x
12.	**Release of on reserves and provisions for tangible and intangible assets**	21	x	x	644	–
	a) release of on reserves for tangible assets	22	x	x	–	–
	b) release of on provisions for tangible assets	23	x	x	644	–
	c) release of on provisions for intangible assets	24	x	x	–	–
13.	**Depreciation, additions to reserves and provisions for tangible and intangible assets**	25	19,698	26,007	x	x
	a) depreciation of tangible assets	26	13,840	18,318	x	x
	b) additions to reserves for tangible assets	27	–	–	x	x
	c) additions to provisions for tangible assets	28	644	–	x	x
	d) depreciation of intangible assets	29	5,214	7,689	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	84,435	62,353
	a) release of on reserves for receivables and guarantees	32	x	x	–	41,866
	b) release of on provisions for bad debts and amounts receivable from guarantees	33	x	x	84,433	20,486
	c) income from ceded receivables and income from written-off receivables	34	x	x	2	1

SKK thousand		Note	Expences		Revenues	
Item no.	Name of item		2004	2003	2004	2003
15.	Depreciation, additions to reserves and provisions for bad debts and amounts receivable from guarantees	35	85,835	54,672	x	x
	a) additions to provisions for bad debts and amounts receivable from guarantees	36	84,665	45,082	x	x
	b) additions to reserves for bad debts and amounts receivable from guarantees	37	–	8,769	x	x
	c) receivables write-off, written-off amounts receivable from guarantee payments, losses from ceded receivables	38	1,170	821	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	8,232	32,478
19.	Additions to other reserves	42	8,680	33,438	x	x
20.	Drawing on other provisions	43	x	x	–	–
21.	Additions to other provisions	44	–	–	x	x
22.	Profit or loss of the current accounting period before taxation	45	23,064	133,956	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	2,292	14,242	x	x
27.	Sharing profit/loss in subsidiaries and affiliates	50	–	–	x	x
28.	Profit or loss of the accounting period after taxation	51	20,772	119,714	x	x

Statement of Changes in Equity for the years ended 31 December 2004 and 2003

SKK thousand

Item no.	Name of item	Note	2004	2003
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	73,358	55,135
	Compulsory allotment	21	11,972	1,872
	Other increase	22	839	16,351
	Decrease	23	–	–
	Closing balance	24	86,169	73,358
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	11,888	–
	Decrease	38	–	–
	Closing balance	39	11,888	–
8.	**Retained earnings**	**40**	–	–
	Opening balance	41	8,390	8,390
	Increase	42	122,813	–
	Decrease	43	839	–
	Closing balance	44	130,364	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**	**20,772**	**119,714**
11.	**Dividends**	**51**	–	–
	Equity total		**749,193**	**701,462**

Notes to the Financial Statements prepared in accordance with Slovak Accounting Standards (SAS) for the years ended 31 December 2004 and 2003

1. Core business activities

Komerční banka Bratislava, a.s., (the "Bank" or "KBB") is a wholly owned subsidiary of Komerční banka, a.s., (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 time 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 2004, the Bank reported physical headcount of 87 employees, while calculated headcount for 2004 was 98.835 (as at 31 December 2003: physical headcount of 107 employees, average calculated headcount for the year 106.93).

2. The 2004 events

In the 2003 summer, following the participation of Société Générale ("SG") in KB in 2002 and changes in the KBB bodies' 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 is 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 2004, the Bank continued with:
– The process of inclusion in the Société Générale structures in order to offer the clients both SG and the parent company products,
– Restructuring to optimise banking transactions and minimise operating expenses.

The Bank completed or commenced significant projects in both information technologies and back office processing in order to improve the quality of services provided to the selected corporate client base. In line with its core strategy, the Bank reduced the number of its retail and corporate clients by 1,228 and 230, respectively. The reduction in the number of clients did not result in a significant decrease in deposits.

Members of the Bank's statutory bodies in 2003 and 2004

Board of Directors in 2003:

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

Supervisory Board in 2003:

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

Board of Directors in 2004:
Henri Robert Kerneis – Chairman
Jean-Marc Mesure – Member
Róbert Beláň – Vice-Chairman

Supervisory Board in 2004:
Matúš Púll – Chairman
Philippe Jean Emile Rucheton – Vice-Chairman
Monika Španitzová – Member

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 431/2002 Coll. on Accounting and the relevant legal regulations, mainly the Regulation of the Ministry of Finance of the SR No. 20359/2002-92 dated 13 November 2002, specifying details on accounting procedures and the chart of accounts for banks, as valid from 1 January 2003 as amended.

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.

B. Adjustments to profit/loss from prior years

Following the legislation changes, as at 1 January 2004 the Bank recognised release of reserves of SKK 51,819 thousand in retained earnings created in the previous accounting periods as expenses. Reserves released had been created to cover unspecified contingent losses that by experience occurred in the portfolio of pass loans and advances made. As at 31 December 2003, these reserves covered risks related to:

– Pass loans (SKK 29,145 thousand)
– Watch loans (SKK 22,261 thousand)
– Guarantees issued (SKK 414 thousand)

Subsequently, as at 1 January 2004, the Bank created provisions for watch loans totalling SKK 22,261 thousand and recorded deferred tax liability due to the release of general reserves of SKK 7,019 thousand. The Bank's management has approved the aforementioned procedure in order to ensure the compliance with Decree 24658/2003-92 of the Slovak Ministry of Finance.

In addition, the Bank recorded in the "Profit/loss from prior years" account (Accounting Group 57) revenues of SKK 1,288 thousand arising from the difference between the actual calculation of tax obligations resulting from the 2003 tax return and the interim tax recognised in 2003, and costs of SKK 320 thousand arising from the difference between the interim deferred tax calculation and its final amount in 2003.

The Bank identified in its books and financial statements for 2003 an error in the depreciation of Goodwill (fixed asset). Following the change in the accounting methodology as at 1 January 2003, at the reclassification of this item from tangible fixed assets "Provision for assets acquired for consideration" to intangible fixed assets "Goodwill" the Bank failed also to implement the change in the depreciation of the aforementioned item in 2003. In accordance with the Act on Accounting, the write-off of Goodwill should be completed in 5 years. As the bank depreciated the aforementioned item over the time specified in the Act on Accounting for intangible assets, in 2004 the Bank debited to the "Profit/loss from prior years" an extraordinary depreciation charge at the net book value of Goodwill amounting to SKK 10,583 thousand. This adjustment reduced the Bank's tax obligations for 2003 by SKK 2,646 thousand. The bank recorded a receivable from the Tax Authority and applied for the tax refund of the amount.

Items recorded through Accounting Group 57

SKK thousand	
Release of general reserves	51,820
Creation of provisions for watch receivables	(22,261)
Deferred tax liability due to release of general reserves	(7,019)
Adjustment to current tax as at 31 December 2003	1,288
Adjustment to deferred tax as at 31 December 2003	(320)
Goodwill – recording of the 2003 write-offs	(10,583)
Goodwill – recording of the 2003 tax	2,646
Total adjustments	**15,571**

Impact of change on balance sheet items

SKK thousand	
Assets	**(32,844)**
Creation of provisions for watch receivables	(22,261)
Goodwill – recording of the 2003 write-offs	(10,583)

SKK thousand	
Liabilities	**48,415**
Release of general reserves	51,820
Deferred tax liability due to release of general reserves	(7,019)
Adjustment to current tax as at 31 December 2003	1,288
Adjustment to deferred tax as at 31 December 2003	(320)
Goodwill – recording of the 2003 tax	2,646
Total adjustments	**15,571**

C. 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"*.

D. 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.

E. 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 the amount of outstanding principal and charges and interest net of provisions. 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 provisions for receivables and guarantees, income from ceded receivables and income from written-off receivables"* if previously written off.

F. 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 a coupon bond includes the 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, which 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 Provisions"*.

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 horizon. 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".

G. 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"*.

H. Tangible and intangible fixed 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	5
Buildings and structures	20

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.

I. Reserves

Following legislation changes, as at 1 January 2004 the Bank recorded release of reserves for unspecified contingent losses incurred in both pass and watch loan portfolios, and subsequently, created reserves for watch loans as at 1 January 2004. The Bank recognises in the balance sheet a reserve for losses on off-balance sheet loan receivables. The Bank creates these reserves in accordance with the NBS Decree.
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.

J. 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.
The Bank creates provisions to receivables as follows:

	2004	**2003**
Pass loans (provisions in 2003)	0%	0%
Watch loans (provisions in 2003)	1 – 5%	5%
Non-standard loans	20 – 50%	20 – 50%
Loss loans	100%	100%

In 2004, the Bank calculated provisions to receivables from the gross value of receivables net of discounted amount of collateral. In 2003, the Bank did not take into consideration collateral values in the calculation of provisions.

K. 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 in Sub-ledger Account 995.

Fees and commissions are recognised as income in the statement of profit and loss when due; guarantees are recognised on an accrual basis.

L. 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, unrealised foreign exchange gains/losses and change in the method of accounting for reserves for guarantees and pass loans.

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 2004, the Bank recorded no deferred tax receivable due to its uncertain realisation (in 2003, the Bank reported no deferred tax receivable).

Changes in the legislation governing legal reserves in the banking sector are recognised as taxable temporary differences. Under the Income Taxes Act, reserve balances are included in the taxable income based on their estimated drawing within five years starting 2004.

The Bank taxed in the first year the balances of reserves for both guarantees and watch loans recorded based on their age structure. The Bank distributed evenly over a five-year period the taxation of reported balances of reserves for receivables from the Bank's credit activities with contractual maturity over one year.

In the current accounting period, the Bank settled its deferred tax liabilities from all unrealised foreign exchange gains/losses and from gains/losses from the fair value measurement of both securities and derivatives, paying the current tax considering the changes in both securities and derivative instruments portfolios.

Gains/losses from the fair value measurement of both securities and derivatives were included in the 2004 tax base. In accordance with the Income Taxes Act, the Bank decided not to adjust the tax base in the current and subsequent taxation periods for unrealised foreign exchange gains/losses. They will be included in the tax base as recognised in the profit/loss.

M. 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.

N. 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 and options. 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"*.

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 according to the nature of the hedged risk.

Changes in fair values of hedging instruments, which do not correspond to the risk hedged, shall be translated in the *"Net profit/(loss) on financial operations"*.

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"*.

O. 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,
- 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.

P. 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.

Q. Reclassifications

Certain reclassifications have been made to the 2003 balances to conform to the 2004 presentation.

4. Information on risk management and financial instruments

Credit risk

Debtor credit rating

The Bank determines the counterparty risk through financial analysis, and generally by using a rating based on the financial and economic ratings, which are combined to determine the resulting rating category. The evaluation involves both quantitative and qualitative 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. In 2004, the Bank adjusted the previously used rating scale to the shareholder's rating scale. 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 in the amount corresponding to the difference between the face value of receivables and the following items: estimated real generation of the client's resources from business activities to pay the loan instalments scheduled, estimated revenues from the realisation of collateral and/or from the sale of receivable. The Bank evaluates risk inherent in receivables, and classifies its clients on an on-going basis while recording provisions 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 bankbook. 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 bankbook 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.

In 2004, the Bank entered into transactions that meet the requirements of hedging 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 2004 the Bank also monitored 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.

Bankbook market risk

The Financial Management function is responsible for the management of the bankbook. The bankbook 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 bankbook.

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 comprise:

SKK thousand	2004	2003
Accounts with the National Bank of Slovakia	50,053	20,368
thereof: current accounts	50	365
overnight deposits	50,000	20,000
accrued interest on deposits	3	3
Cash in hand	28,415	32,004
Total	**78,468**	**52,372**

6. Amounts due from banks

Amounts due from banks are comprised of the following:

SKK thousand	2004	2003
Demand deposits	19,106	45,450
Other deposits		
thereof: time deposits with other banks	928,375	61,773
minimum statutory reserves with the NBS	58,999	36,719
accruals for minimum statutory reserves	84	–
loans extended under the NBS REPO transaction	2,382,437	546,678
Total	**3,389,001**	**690,620**

Demand bank deposits earn interest at rates ranging from 0.0% to 2.0% p.a. (31 December 2003: from 0.0% to 5.0% p.a.).
Time deposits with banks earn interest at rates ranging from 2.5% to 9.8% p.a. (31 December 2003: from 0.63% to 5.99% p.a.).
The amount of legal minimum reserves is set by the NBS guidelines – it represents 2% of the average amount of deposits (in 2003: 3%) with limited drawing.
As at 31 December 2004, the Bank complied with the required levels of legal minimum reserves. Legal minimum reserves bear interest at the rate of 1.5% (31 December 2003: 1.5%).
The loan extended to the NBS is secured by the NBS treasury bills and earns interest at the rate of 3.99% p.a. (31 December 2003: 5.99%). The NBS treasury bills received under the REPO transaction are reported in the off-balance sheet accounts at their fair value of SKK 2,383,005 thousand as at 31 December 2004.

7. Amounts due from customers

Amounts due from clients are comprised of the following:

SKK thousand	2004	2003
Demand deposits	195,023	3,431
Other receivables – gross loans	2,086,402	2,155,485
Total	**2,281,425**	**2,158,916**
Provisions for loans	(132,444)	(110,510)
Amounts due from customers, net	**2,148,981**	**2,048,406**

An analysis of amounts due from customers by contractual maturity:

SKK thousand	2004	2003
Current accounts	195,023	3,431
Short-term loans	1,093,060	1,233,764
Long-term loans	993,342	921,721
Total gross	**2,281,425**	**2,158,916**
Less: provisions and reserves (Note 0)	(132,444)	(110,510)
Loans and advances provided to customers, net	**2,148,981**	**2,048,406**

Loans, collateral values and provisions by classification:

31 December 2004

SKK thousand	Gross receivable	Collateral	Net credit exposure	Provisions	Carrying value	Provisions %
Standard	1,778,558	–	1,778,558	–	1,778,558	–
Watch	238,718	102,247	136,471	(4,418)	234,300	1.85
Substandard	153,382	104,263	49,119	(17,259)	136,123	11.25
Doubtful	–	–	–	–	–	–
Loss	110,767	–	110,767	(110,767)	–	100.00
Total	**2,281,425**	**206,510**	**2,074,915**	**(132,444)**	**2,148,981**	**5.80**

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	20.00
Doubtful	6,604	–	6,604	(4,623)	1,981	70.00
Loss	70,754	–	70,754	(70,754)	–	100.00
Total	**2,158,916**	**55,290**	**2,103,626**	**(110,510)**	**2,048,406**	**5.10**
General reserves for loan losses	–	–	–	(51,406)	(51,406)	–
Total	–	–	–	**(161,916)**	**1,997,000**	**8.10**

In 2003, the Bank did not take into consideration collateral values in the calculation of provisions.
Below is an analysis of types of collateral underlying loans and advances to customers:

SKK thousand	Total client loan collateral 2004	Discounted client loan collateral value 2004	Applied client loan collateral value 2004	Total client loan collateral 2003	Discounted client loan collateral value 2003	Applied client loan collateral value 2003
Bank guarantee	447,694	–	–	3,416	1,025	–
Deposits	291	291	291	55,290	55,290	–
State bonds	–	–	–	–	–	–
Issued debentures in pledge	255,984	–	–	189,625	56,888	–
Pledge of real estate	834,134	61,511	61,511	860,052	172,010	–
Pledge of movable assets	307,551	1,282	1,282	310,367	31,036	–
Guarantee by corporate entity	482,134	43,134	43,134	800,673	152,128	–
Pledge of receivables	1,136,144	99,490	99,490	738,903	295,561	–
Other	236,756	–	–	20,094	4,019	–
Total nominal value of collateral	**3,700,688**	**206,510**	**206,510**	**2,978,420**	**767,957**	–

Loans by industry:

SKK thousand	2004	2003
Trade and service activities	654,247	575,849
Financial leasing	668,264	350,844
Manufacturing industry	2,496	52,496
Wood processing and paper production	111,238	79,237
Mining industry	37,932	50,011
Engineering	39,671	26,047
Chemical industry	220,821	301,031
Electrical engineering	66,739	167,055
Textile industry	12,558	12,558
Transport and infrastructure	5,097	9,369
Agriculture industry	358,276	315,463
Construction industry	67,000	128,303
Other industries	37,086	90,653
Total	**2,281,425**	**2,158,916**
Less: provisions	(132,444)	(110,510)
Loans and advances to customers, net	**2,148,981**	**2,048,406**

The Bank arranges two syndicated loans, which the Bank offers to clients in co-operation with the parent company. As at 31 December 2004, the amount of syndicated loans extended to two clients totalled SKK 600,000 thousand, with the share of KBB in these loans in the amount of SKK 325,000 thousand. (As at 31 December 2003: syndicated loan extended to one client in the amount of SKK 670,000 thousand, with KBB share in the loan amounting to SKK 343,000 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 2004, 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 2,009,624 thousand (31 December 2003: SKK 1,987,970 thousand). There was no credit exposure in excess of 25% of the Bank's capital as of 31 December 2004.

In 2004, loans bore interest at rates varying between 2.62% and 12.5% per annum (31 December 2003: between 2.9% and 12.5% per annum).

In 2004, the Bank wrote off bad debts arising from interest and debit balances on current accounts in the amount of SKK 43 thousand (31 December 2003: SKK 54 thousand).

As at 31 December 2004, the Bank created provisions for bad debts arising from debit balances on current accounts in the amount of SKK 445 thousand (2003: the Bank created provisions for debit balances on current accounts in the amount of SKK 230 thousand).

As at 31 December 2004, the Bank recorded in off-balance sheet accounts in "Receivables written-off'" interest overdue for more than 90 days in the amount of SKK 1,143 thousand, and the penalty interest overdue in the amount of SKK 1,556 thousand related to loss loans. Interest relates to the period from 1 January 2004 to 31 December 2004. (In 2003, the Bank recognised interest overdue more than 90 days of SKK 3,465 thousand).

General reserve for risks and uncertainties inherent in the loan portfolio

As of 1 January 2004, the Bank recognised in retained earnings reversals of reserves that had been created in previous accounting periods as costs in the amount of SKK 51,819 thousand. Then, the Bank created provisions to retained earnings from previous periods in the amount of SKK 22,261 thousand. Reserves released had been created to cover unspecified contingent losses that by experience occurred in the portfolio of pass loans and advances made. The Bank's management has approved such accounting treatment in order to ensure the compliance with Decree 24 658/2003-92 issued by the Slovak Ministry of Finance. For further information refer to Note 3B above.

8. Debt securities

Debt securities are comprised of the following:

SKK thousand	2004	2003
Securities issued by State authorities, gross	20,633	739,840
Securities issued by other entities, gross	49,265	49,265
Provision for securities	(49,265)	(49,265)
Total	**20,633**	**739,840**

Debt securities by purpose of acquisition:

a) Trading securities

SKK thousand	2004 Fair value	2004 Cost	2003 Recognised value	2003 Cost
State bonds	–	–	548,266	533,929
thereof: Accrued interest and premium	–	–	7,907	7,209
Total trading securities	**–**	**–**	**548,266**	**533,929**

In line with the approved strategy, in 2004 the Bank sold all securities from this portfolio. The Bank recognised no securities in this portfolio as at 31 December 2004 (31 December 2003: all listed, in SKK, fixed interest rate).

b) Securities available for sale

SKK thousand	2004 Fair value	2004 Cost	2003 Value recognised	2003 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	2004 Recognised Value	2004 Cost	2003 Recognised Value	2003 Cost
State bonds	20,633	20,000	191,574	182,586
thereof: Accrued interest and amortisation	633	–	8,988	–
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	**20,633**	**59,400**	**191,574**	**221,986**

State bonds held to maturity bear interest at rate 8.5% per annum (31 December 2003: between 7.5% and 8.5%).

Slovak government bond at face value of SKK 20,000 thousand held by the Bank as at 31 December 2004 was issued in SKK and listed at Burza cenných papierov v Bratislave, a.s., Slovak government bonds in the amount of SKK 162,586 thousand owned by the Bank as of 31 December 2003 were issued in EUR and not listed; other government bonds issued in 2003 were denominated in SKK and listed at Burza cenných papierov v Bratislave, a.s. Issuers of corporate bonds at cost of SKK 39,400 thousand are in bankruptcy; the market value of these securities is nil and the Bank created full provisions (100%) for such bonds (December 2003: the same status).

9. Shares and participation in associates

As at 1 January 2004, the Bank held no shares (in 2003 the Bank held a 20% interest in CAC LEASING Slovakia, a.s.).

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 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, decreases	–	–	–	–	–	(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**
Cost at 1 January 2004	61	29,491	35,557	–	65,109	37,581	135,650	–	173,231	238,340
Additions (+)	–	–	249	298	547	–	12,575	13,314	25,889	26,436
Disposals (-)	(61)	–	–	(257)	(318)	–	(10,516)	(12,567)	(23,083)	(23,401)
Cost at 31 December 2004	**–**	**29,491**	**35,806**	**41**	**65,338**	**37,581**	**137,709**	**747**	**176,037**	**241,375**
Accumulated depreciation at 1 January 2004	61	17,812	29,381	–	47,254	5,027	112,401	–	117,428	164,682
Depreciation (+)	–	10,583	–	–	10,583	–	–	–	–	10,583
Net book value written off at sale	–	1,096	4,118	–	5,214	1,711	12,130	–	13,841	19,055
Disposals, decreases	(61)	–	–	–	(61)	–	(10,516)	–	(10,516)	(10,577)
Accumulated depreciation at 31 December 2004	**–**	**29,491**	**33,499**	**–**	**62,990**	**6,738**	**114,015**	**–**	**120,753**	**183,743**
Net book value at 31 December 2004	**–-**	**–**	**2,307**	**41**	**2,348**	**30,843**	**23,694**	**747**	**55,284**	**57,632**

Total amount of the aforementioned depreciation charges for 2004 also includes the creation of provisions to assets in the amount of SKK 643 thousand (Note 15).

Following the change in the accounting methodology as at 1 January 2003, at the reclassification of Goodwill from tangible fixed assets "Provision for assets acquired for consideration" to intangible fixed assets "Goodwill", the Bank failed also to implement the change in the depreciation of the aforementioned item in 2003. In accordance with the Act on Accounting, the write-off of Goodwill should be completed in 5 years. As the bank depreciated the aforementioned item over the time specified in the Act on Accounting for intangible assets, in 2004 the Bank debited to the "Profit/loss from prior years" an extraordinary depreciation charge at the net book value of Goodwill amounting to SKK 10,583 thousand.

11. Other assets, prepayments and accrued income

Other assets include:

SKK thousand	2004	2003
Other receivables from clients	499	86,416
Positive fair value of derivative transactions	39,775	10,527
Settlement account balances	58	148
Other assets	14,692	4,608
Less: provisions (Note 0)	(159)	(1,299)
Total other assets	**54,865**	**100,400**

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.

Prepaid expenses and accrued income include:

SKK thousand	2004	2003
Prepaid expenses	3,090	707
Accrued income	34	49
Total prepaid expenses and accrued income	**3,124**	**756**

Prepaid expenses represent unpaid invoices for operating expenses.

12. Amounts owed to banks

Amounts owed to banks comprise of the following:

SKK thousand	2004	2003
Demand deposits	3,954	8,615
Other liabilities	1,837,314	460,446
thereof: loans received	–	4,368
time deposits	1,837,314	456,078
Total	1,841,268	469,061

Current accounts of other banks bear interest at rates 1.5% per annum (31 December 2003: from 1.5% per annum). Time deposits received from other banks bear interest at rates varying between 0.65% and 6.5% per annum (31 December 2003: 2.0% and 5.7% per annum).

13. Amounts owed to customers

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

SKK thousand	2004	2003
Demand deposits	1,142,345	958,297
Other liabilities	1,855,319	1,309,654
thereof: time deposits	1,735,136	1,211,494
savings deposits	25,183	48,160
loans received	95,000	50,000
Total	**2,997,664**	**2,267,951**

Current accounts represent customer demand deposits. As of 31 December 2004, they bear interest at rates varying between 0.10% and 0.9% per annum (31 December 2003: 0.01% and 2.0% per annum)

Time deposits include customer funds with specified maturity date. The balance of time deposits includes the amount of SKK 1,036,932 thousand representing a deposit made by legal entity and due in 2005. As of 31 December 2004, Time deposits bear interest at rates varying between 0.15% and 3.6% per annum depending on the deposit maturity (as of 31 December 2003: 0.15% and 3.9% per annum).

As at 31 December 2004, Loans received in the amount of SKK 95,000 thousand represented two short-term loans from Eximbanka aimed at providing special purpose loans to the Bank's customers in order to finance exports (31 December 2003: SKK 50,000 thousand represented a short-term loan for the provision of special-purpose loans to the Bank's clients to finance exports).

Amounts owed to customers by the type of customer:

SKK thousand	2004	2003
Private businesses	2,294,977	1,365,919
Individuals	374,535	527,690
Other financial institutions	121,167	119,961
Non-residents	73,912	133,261
Insurance companies	125	5,294
Entrepreneurs - individuals	131,797	112,467
Other	1,151	3,359
Total	**2,997,664**	**2,267,951**

14. Other payables, deferred income and accrued expense

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

SKK thousand	2004	2003
Other payables to customers	82,253	156,986
Payables to suppliers	15,636	747
Negative fair value of derivative transactions	33,817	21,558
Payables to employees	8,858	–
Settlement with State budget	13,463	15,403
Settlement with social and health insurance companies and the National Labour Office	59	49
Payables to employees	11	43
Other liabilities	894	15,884
Deferred income and accrued expense	4,056	2
Total	**159,047**	**210,672**

Other payables to customers represent accumulated interest related to customers' demand and time deposits.

15. Reserves and provisions

Below is the summary of movements in reserves and provisions created in 2004 and 2003:

SKK thousand	Provisions for loans	Provisions for other liabilities	Provisions for guarantees and loan commitments	Provisions to fixed assets	Other reserves	Other provisions, provisions for securities	Total reserves and provisions
As at 1 January 2003	**170,562**	**2,149**	**3,292**	**–**	**1,236**	**49,265**	**226,504**
Reserves presented in statement of profit and loss, creation	8,660	–	10,823	–	22,724	–	42,207
Reserves presented in statement of profit and loss, use	(41,767)	–	(11,423)	–	(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**	**2,692**	**–**	**2,806**	**49,265**	**217,978**
As at 1 January 2004 through retained earnings	**(29,145)**	**–**	**(414)**	**–**	**–**	**–**	**(29,559)**
Reserves presented in statement of profit and loss, creation	–	–	7,939	–	741	–	8,680
Reserves presented in statement of profit and loss, use	–	–	(5,426)	–	(2,806)	–	(8,232)
Provisions presented in statement of profit and loss, creation	84,665	–	–	644	–	–	85,309
Provisions presented in statement of profit and loss, use	(83,293)	(1,140)	–	(644)	–	–	(85,077)
Foreign exchange rate differences, net	(1,699)	–	–	–	–	–	(1,699)
As at 31 December 2004	**132,444**	**159**	**4,791**	**–**	**741**	**49,265**	**187,400**
	(Note 7)	(Note 11)	(Note 30)		(Note 32)	(Note 8)	

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

Registered capital consists of 5 000 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 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**
Effect of change in accounting procedures as at 1 January 2004 (Note 3b)	–	–	15,571	15,571
Opening balance as at 1 January 2004	500,000	73,358	143,675	717,033
Allotment/drawing	–	12,811	(13,311)	(500)
Valuation gains/losses from conversion of hedging derivatives			11,888	11,888
Profit for the current period	–	–	20,772	20,772
Closing balance as at 31 December 2004	**500,000**	**86,169**	**163,024**	**749,193**

The shareholder decided on the distribution of the 2003 profit in the amount of SKK 119,714 thousand and on the distribution of profits from prior years of SKK 8,390 thousand resulting from the change in the accounting procedures as at 1 January 2003 as follows:

– SKK 12,811 thousand, allotment to the reserve fund,

– SKK 500 thousand, allotment to social fund,

– SKK 114,793 thousand, remains in retained earnings.

As at 31 December 2004, the Bank recognised "Valuation differences from conversion of hedging derivatives" of SKK 11,888 thousand (Note 28) as at 31 December 2003, the Bank held no hedging derivatives in its portfolio.

17. Interest income and other revenues

Interest income is comprised of:

SKK thousand	2004	2003
Interest income received from:		
Loans extended to clients	110,429	138,252
Loans and deposits with financial institutions	99,411	101,798
Securities:	30,516	54,832
thereof: state bonds	30,516	48,661
NBS and State treasury bills	–	5,976
other securities	–	195
Total	**240,356**	**294,882**

18. Interest expense and similar expenses

Interest expense comprise of:

SKK thousand	2004	2003
Interest paid on:		
thereof: bank loans and deposits with banks	(28,014)	(77,630)
amounts due to customers	(83,785)	(69,605)
debt securities	(2,850)	(6,321)
Total	**(114,649)**	**(153,556)**

19. Revenues from and expense for fees and commissions

Fees and commissions are comprised of:

SKK thousand	2004	2003
Revenues from fees and commissions		
thereof: received from banks	6,263	3,956
received from clients	28,836	32,537
Total revenues from fees and commissions	**35,099**	**36,493**
Expenses for fees and provisions		
thereof: paid to banks	(14,574)	(12,705)
paid to clients	(4,211)	(6,812)
Total expenses for fees and commissions	**(18,785)**	**(19,517)**

20. Net profit on financial operations

Net profit on financial operations consists of:

SKK thousand	2004	2003
Loss on derivative transactions	(9,224)	(27,280)
Profit on foreign currency trading	37,967	50,096
Profit/(loss) from securities	7,941	(2,940)
Total	**36,684**	**19,876**

21. Other operating revenues and expenses

Other income and expense comprises of:

SKK thousand	2004	2003
Profit on sale of shares	–	129,178
Profit from sale of assets	409	1,912
Other revenues	1,080	365
Total other financial revenues	**1,489**	**131,455**
Other operating expenses	(21,976)	(40,516)
Total	**(21,976)**	**(40,516)**

The amount of SKK 129,178 thousand recognised in 2003 represents profits on the sale of ownership interests in CAC Leasing Slovakia, a.s.
"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	2004	2003
Personnel expenses, total	(65,973)	(60,945)
thereof: wages and salaries	(50,250)	(47,559)
social and health insurance	(14,230)	(12,587)
bonuses to members of statutory authorities	(1,493)	(799)
Other general administrative expenses,	(48,279)	(54,930)
thereof: expenses for audit, legal and tax advisory	(3,917)	(4,364)
Total	**(114,252)**	**(115,875)**

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

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

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

SKK thousand	2004	2003
Use		
Use of reserves for receivables and guarantees,		
thereof: for loans	–	41,767
for guarantees	–	99
Use of provisions for receivables and guarantees,		
thereof: for loans	84,433	19,624
for other receivables	–	862
for fixed assets	644	–
Revenues from receivables assigned and written off	2	1
Total use	**85,079**	**62,353**

SKK thousand	2004	2003
Creation		
Creation of reserves for receivables and guarantees,		
thereof: for loans	–	8,660
for guarantees	–	109
for other receivables		–
Creation of provisions for receivables and guarantees,		
thereof: for loans	84,665	45,070
for other receivables	–	12
for fixed assets	644	–
Write-off of receivables, losses from receivables assigned,		
thereof: Write-off of operating receivables	1,127	767
Write-off of debit balances on current accounts	43	54
Total creation	**86,479**	**54,672**

In 2004, the Bank wrote off receivable of SKK 1,114 thousand and negative balances in clients' current accounts in the amount of SKK 43 thousand (in 2003: SKK 54 thousand).

25. Use and creation of other reserves and provisions

SKK thousand	2004	2003
Use		
Use of other reserves,		
thereof: for operating activities	2,806	430
for taxes	–	20,724
for off-balance sheet liabilities	5,426	11,324
Total use of other reserves	**8,232**	**32,478**
Use of other provisions,		
thereof: for securities	–	–
Total use of other provisions	–	–

SKK thousand	2004	2003
Creation		
Creation of other reserves,		
thereof: for operating activity	741	2,000
for taxes	–	20,724
for derivatives	–	
for off-balance sheet liabilities	7,939	10,714
Total creation of other reserves	**8,680**	**33,438**
Creation of other provisions,		
thereof: for securities	–	–
Total creation of other provisions	–	–

26. Income tax

The major components of corporate income tax are as follows:

SKK thousand	2004	2003
Income tax on ordinary activities	(9,986)	(11,208)
Income tax on extraordinary activities	–	–
Deferred income tax on ordinary activities	7,694	(3,034)
Deferred income tax on extraordinary activities	–	–
Total income tax expense	**(2,292)**	**(14,242)**

The corporate tax rate for the year 2004 is 19% (2003: 25%). The tax calculation is shown in the following table:

SKK thousand	2004	2003
Profit/(loss) before tax (current tax rate)	23,064	133,956
Items not deductible from tax base	111,852	79,956
thereof: provisions for loan losses	50,628	3,342
reserves	8,680	34,674
expenses for non taxed earnings from securities	3,120	7,914
other items not deductible from tax base	49,424	34,026
Items deductible from tax base	82,358	168,456
thereof: provisions for loan losses	37,952	35,774
reserves	8,232	68,099
earnings from securities	5,736	41,118
other	30,438	23,465
Tax base	52,558	45,456
Items deductible from tax base	**–**	**(625)**
Tax base	52,558	44,831
Total income tax expense	**9,986**	**11,208**

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.
The current statutory income tax rate was 19% (2003: 25%). The tax payable amounted to SKK 9,986 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% (2003: 19%).
Deferred income tax liabilities and assets are attributable to the following items:

SKK thousand	2004	2003
Deferred income tax liabilities related to income tax		
Unrealised profit on securities and financial instruments	–	(2,687)
Other temporary differences	(2,680)	(347)
Deferred income tax liability related to income tax	**(2,680)**	**(3,034)**
Deferred income tax assets related to income tax		
Loan loss provisions and reserves	2,252	1,149
Unrealised losses on securities and financial instruments	–	4,175
Fixed assets depreciation	1,716	2,993
Other temporary differences	–	494
Deferred income tax asset	**3,968**	**8,811**
Net deferred income tax asset before adjustment	**1,288**	**5,777**
Adjustment for uncertain realisation of tax asset	**(3,968)**	**(8,811)**
Net deferred income tax liability related to income tax	**(2,680)**	**(3,034)**

As discussed in Note 3B above, as at 1 January 2004 the Bank used retained earnings/accumulated deficit to record deferred tax liability due to the release of general reserves and adjustments made to deferred tax as at 31 December 2004, in the amount of SKK 7,019 and SKK 320 thousand, respectively.
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.

28. Derivative financial instruments

Derivative financial instruments held for trading at notional and fair values as at 31 December 2004 and 31 December 2003 are as follows:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Foreign currency instruments (unquoted):								
Currency swaps	996,601	1,873,040	986,638	1,876,116	12,408	1,875	6,121	(3,128)
Currency forwards	911,202	819,116	924,164	825,905	7,474	2,754	17,240	(7,677)
Call options	1,101,597	139,608	1,116,520	137,097	7,565	5,671	37	–
Put options	673,412	137,097	660,417	139,608	81	–	8,587	(5,671)
Interest rate instruments (unquoted):								
Interest rate swaps	88,394	251,399	88,394	251,399	–	227	1,482	(5,082)
Total	**3,771,206**	**3,220,260**	**3,776,133**	**3,230,125**	**27,528**	**10,527**	**33,467**	**(21,558)**

The residual contractual maturity of foreign currency swaps and forwards is mainly up to 1 year from the date of financial statements. The residual contractual maturity of IRS is up to 5 years from the financial statements date.
Hedging derivative financial instruments at notional and fair values at 31 December 2004 and 2003:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Foreign currency instruments (unquoted):								
Currency swaps	–	–	–	–	–	–	–	–
Currency forwards	–	–	–	–	–	–	–	–
Call options	–	–	–	–	–	–	–	–
Put options	–	–	–	–	–	–	–	–
Interest rate instruments (unquoted):					–	–	–	–
Interest rate swaps	460,892	–	460,892	–	12,365	–	468	–
Total	**460,892**	–	**460,892**	–	**12,365**	–	**468**	–

The residual maturity of hedging interest rate swaps is up to ten years from the financial statements date.
In 2004, the Bank entered into cash flow hedging transactions. In principle, the hedging transactions of the Bank can be divided into two groups as follows:

1. The first relationship involves a receivable from 2W reverse Repo transaction with NBS (hedged item) that bear variable interest rate (2W NBS repo rate). The cash-flow risk resulting from the variable interest rate is hedged with pay float (1M BRIBOR), receive fix (market mid price) IRS, being the hedging instrument.
2. The second relationship involves loans to customers with the fix interest rate (hedged item) that are hedged for cash-flow risk with IRS as hedging instrument. The Bank pays the fix rate (market mid price) and receives float rate (1M Bribor or 6M Bribor) from this IRS.

As IAS 39 and the Ministry of Finance of the Slovak Republic request special treatment of hedging derivatives, each hedging transaction has to be approved by the Asset and Liability Management Committee (ALCO). The Bank calculates the hedging effectiveness of the hedging transactions, i.e. tests both prospective and retrospective hedging relationship between the hedging and hedged (underlying) instrument regularly (every 3 months).

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 "unspecified".

SKK thousand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Unspeci-fied	Total
Assets						
Cash and balances with the National Bank of Slovakia	50,050	–	–	–	28,418	78,468
Amounts due from banks	3,386,855	–	–	–	2,146	3,389,001
Amounts due from customers, net	1,728,953	297,158	114,268	55	8,547	2,148,981
Securities held to maturity	–	633	–	20,000	–	20,633
Equity securities and ownership interests	–	–	–	–	–	–
Tangible and intangible fixed assets	–	–	–	–	57,632	57,632
Other assets	–	–	–	–	57,989	57,989
Total assets	**5,165,858**	**297,791**	**114,268**	**20,055**	**154,732**	**5,752,704**
Amounts due to banks	1,840,588	–	–	–	680	1,841,268
Amounts due to customers	1,265,833	562,542	–	–	1,169,289	2,997,664
Other liabilities, deferred income and accrued expenses and reserves	–	–	–	–	164,579	164,579
Equity	–	–	–	–	749,193	749,193
Total liabilities and shareholders' equity	**3,106,421**	**562,542**	**–**	**–**	**2,083,741**	**5,752,704**
Off-balance sheet interest rate assets	139,586	–	137,400	272,300	–	549,286
Off-balance sheet interest rate liabilities	409,700	4,000	135,586	–	–	549,286
Net interest rate risk at 31 December 2004	**1,789,323**	**(268,751)**	**116,082**	**292,355**	**(1,929,009)**	**–**
Cumulative interest rate risk at 31 December 2004	**1,789,323**	**1,520,572**	**1,636,654**	**1,929,009**	**–**	**–**

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 "unspecified" category.

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

SKK thousand	Up to 1 month	From 1 month to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Unspeci-fied	Total
Assets							
Cash and balances with the National Bank of Slovakia	78,468	–	–	–	–	–	78,468
Due from financial institutions	3,088,743	300,258	–	–	–	–	3,389,001
Due from customers, net	522,084	260,672	675,955	544,865	55	145,350	2,148,981
Securities held to maturity	–	–	633	–	20,000	–	20,633
Equity securities and ownership interests	–	–	–	–	–	–	–
Tangible and intangible fixed assets	–	–	–	–	–	57,632	57,632
Other assets	9,353	8,217	14,515	9,448	10,410	6,046	57,989
Total assets	**3,698,648**	**569,147**	**691,103**	**554,313**	**30,465**	**209,028**	**5,752,704**
Liabilities and shareholders' equity							
Amounts due to banks	1,841,268	–	–	–	–	–	1,841,268
Amounts due to customers	2,245,076	75,023	669,806	7,485	274	–	2,997,664
Other liabilities, deferred income and accrued expenses and reserves	101,910	13,543	26,617	9,525	–	12,984	164,579
Equity	–	–	–	–	–	749,193	749,193
Total liabilities and shareholders' equity	**4,188,254**	**88,566**	**696,423**	**17,010**	**274**	**762,177**	**5,752,704**
Liquidity risk at 31 December 2004	**(489,606)**	**480,581**	**(5,320)**	**537,303**	**30,191**	**(553,149)**	**–**
Cumulative liquidity risk at 31 December 2004	**(489,606)**	**(9,025)**	**(14,345)**	**522,958**	**553,149**	**–**	**–**

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 2004 and 31 December 2003.

SKK thousand	Slovak crown	Czech crown	US dollar	Swiss franc	EUR	Other	Total
Assets							
Cash and balances with the National Bank of Slovakia	67,497	2,935	1,349	–	6,621	66	78,468
Due from banks	3,344,153	21,817	1,581	1,048	8,750	11,652	3,389,001
Due from customers, net	1,574,771	270,878	25,678	–	277,654	–	2,148,981
Securities held to maturity	20,633	–	–	–	–	–	20,633
Equity securities and ownership interests	–	–	–	–	–	–	–
Tangible and intangible fixed assets	57,632	–	–	–	–	–	57,632
Other assets	57,907	30	–	–	52	–	57,989
Total assets	**5,122,593**	**295,660**	**28,608**	**1,048**	**293,077**	**11,718**	**5,752,704**
Liabilities and shareholders' equity							
Amounts due to banks	518,619	338,254	161,583	133,144	688,283	1,385	1,841,268
Amounts due to customers	2,574,274	40,087	53,273	–	329,181	849	2,997,664
Other liabilities, deferred income and accrued expenses and reserves	105,124	30,409	338	–	27,095	1,613	164,579
Equity	749,193	–	–	–	–	–	749,193
Total liabilities and shareholders' equity	**3,947,210**	**408,750**	**215,194**	**133,144**	**1,044,559**	**3,847**	**5,752,704**
Net foreign exchange exposure as at 31 December 2004	**1,175,383**	**(113,090)**	**(186,586)**	**(132,096)**	**(751,482)**	**7,871**	**–**
Off-balance sheet assets	2,417,045	467,124	649,915	426,482	3,017,475	383,202	7,361,243
Off-balance sheet liabilities	3,302,805	672,029	431,809	300,269	2,270,941	389,034	7,366,887
Net currency exposure as at 31 December 2004	**289,623**	**(317,995)**	**31,520**	**(5,883)**	**(4,948)**	**2,039**	**(5,644)**

Off-balance sheet assets and liabilities only include currency transactions and derivative instruments.

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 irrevocable 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	2004	2003
Non-payment guarantees	221,771	1,403
Payment guarantees	175,536	15,016
Bills of exchange accepted	–	–
Letters of credit – uncovered	3,602	1,276
Letters of credit – covered	–	–
Subtotal	400,909	17,695

SKK thousand	2004	2003
Committed facilities – loans	–	–
Committed facilities – bank guarantees	74,006	4,000
Unused credit commitments	352,282	376,717
Unused overdraft facilities	229,647	273,145
Other revocable and irrevocable commitments	655,935	653,862
Total revocable and irrevocable commitments	1,056,844	671,557

As of 31 December 2004, the Bank created reserves for risks arising from commitments from the issuance of guarantees to clients classified as watch clients amounting to SKK 197 thousand (2003: SKK 414 thousand), and reserves for risks arising from the unused loan commitments and unused overdraft facilities of clients classified as watch clients amounting to SKK 4,594 thousand (2003: SKK 2,277 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 employees of the Bank) as follows:

SKK thousand	2004	2003
Assets		
Cash and balances with the National Bank of Slovakia	–	–
Amounts due from banks, net	15,211	2,073
Amounts due from customers	838	2,089
Other assets	29,741	462
Total	**45,790**	**4,624**
Liabilities		
Amounts owed to banks	525,842	72
Amounts owed to customers	3,212	3,901
Other liabilities	2,544	583
Total	**531,598**	**4,556**

Included in the balance of amounts due from customers are loans to directors of the Bank in the amount of SKK 838 thousand (2003: SKK 2,089 thousand of loans to directors).
Included in the balance of amounts owed to customers are balances of amounts owed to directors of the Bank in the amount of SKK 3,212 thousand (2003: SKK 3,901 thousand).
Other balances relate to the Parent Bank.
Income and expenses from related parties include the following:

SKK thousand	2004	2003
Interest income and other income	3,502	11,283
Interest expense and other expenses	(4,625)	(17,297)
Income on fees and commissions	4,141	3,122
Fees and commissions expense	(4,490)	(3,644)
Other financial income	12,073	513
General administrative expenses	(3,820)	(4,210)
Total	**6,781**	**(10,233)**

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 2004. 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 741 thousand for these legal disputes (31 December 2003: SKK 806 thousand).
The Bank has no information that other 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

As of 1 January 2005, the Bank introduced the calculation of provisions for loans based on discounting the anticipated value of cash flows.

The Board of Directors approved these financial statements on 16 February 2005 without significant impacts on the Bank's profit/loss.

On behalf of the Board of Directors:

Henri Robert Kerneis	**Róbert Beláň**
Chairman of the Board of Directors	Vice-Chairman of the Board of Directors
and General Director	and Corporate Banking Director

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

Deloitte.

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Independent Auditor's Report

To the Shareholder 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 2004 and 2003, and the related statements of profit and loss, cash flows and changes in shareholder's 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 2004 and 2003, and the results of its operations, cash flows and changes in shareholder's equity for the years then ended in accordance with International Financial Reporting Standards.

Bratislava, 21 February 2005

Deloitte & Touche Slovakia spol. s r.o.

Balance Sheet as of 31 December 2004 and 2003

SKK thousand	Note	2004	2003
ASSETS			
Cash and balances with the National Bank of Slovakia	3	156,657	134,541
Due from financial institutions	4	3,310,812	608,451
Loans and advances to customers, net	5	2,148,982	2,083,199
Trading securities	6	–	548,266
Securities held to maturity	8	20,633	191,574
Tangible and intangible assets, net	11	57,632	73,658
Prepayments, accrued income and other assets	12	50,647	14,931
Total assets		**5,745,363**	**3,654,620**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts owed to financial institutions	13	1,936,269	519,062
Amounts owed to customers	14	2,984,919	2,374,937
Accrued expenses, other provisions and other liabilities	15	74,986	59,187
Total liabilities		**4,996,174**	**2,953,186**
Registered capital		500,000	500,000
Non-distributable reserves		86,169	73,358
Retained earnings		151,132	128,076
Hedging reserves	27	11,888	–
Total shareholders' equity	**17**	**749,189**	**701,434**
Total liabilities and shareholders' equity		**5,745,363**	**3,654,620**

These financial statements were approved by the Board of Directors on 16th of February 2005.

Signed on behalf of the Board of Directors:

Henri Robert Kerneis
Chairman of the Board of Directors
and General Director

Róbert Beláň
Vice-Chairman of the Board of Directors
and Corporate Banking Director

Profit and Loss Statement for the years ended 31 December 2004 and 2003

SKK thousand	Note	2004	2003
Interest income	18	237,762	290,355
Interest expense	19	(111,799)	(147,236)
Net interest income		**125,963**	**143,119**
Net fees and commissions	20	38,146	47,597
Net profit/(loss) on financial operations	21	14,852	(11,698)
Income from share of associated undertakings	9	–	73,721
Other income and expense, net	22	1,666	(192)
Operating income		**180,627**	**252,547**
Administrative expenses	23	(134,346)	(156,051)
Depreciation and other provisions (except provisions for losses from loans and guarantees)	10, 11	(30,118)	(25,864)
Profit before provisions for loan losses and income taxes		**16,163**	**70,632**
Release of provisions for losses from loans and guarantees	10	25,402	6,388
Profit before income taxes		**41,565**	**77,020**
Income taxes	24	(5,698)	(5,781)
Net profit		**35,867**	**71,239**

Statement of Changes in Shareholder's Equity for the years ended 31 December 2004 and 2003

SKK thousand	Registered capital	Reserves	Hedging reserves	Retained earnings	Total
Closing Balance at 1 January 2003	**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**
Allocation/distribution	–	12,811	–	(12,811)	–
Increase in fair value of hedging derivative	–	–	11,888	–	11,888
Profit for the current period	–	–	–	35,867	35,867
Closing balance at 31 December 2004	**500,000**	**86,169**	**11,888**	**151,132**	**749,189**
	(Note 17)	(Note 17)	(Note 17)		

Cash Flow Statements for the years ended 31 December 2004 and 2003

SKK thousand	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Received interest, fees and commissions	304,503	400,063
Paid interest, fees and commissions	(134,295)	(170,523)
Cash flow from financial operations	6,911	(40,749)
Personnel expenses	(73,797)	(75,707)
Other operating expenses	(48,380)	(80,441)
Other income	1,015	1,776
Cash flow before changes in operating assets and liabilities	**55,957**	**34,419**
Decrease in amounts due from financial institutions	(2,708,861)	1,231,527
Decrease (increase) in loans and advances to customers	(38,488)	119,373
Decrease in trading securities	556,207	43,705
Decrease in prepayments, accrued income and other assets	(33,728)	9,108
Decrease (increase) of operating assets	**(2,224,870)**	**1,403,713**
(Decrease) increase in amounts owed to financial institutions	1,417,309	(2,232,920)
Increase (decrease) in amounts owed to customers	611,770	632,521
Decrease in accrued expenses, other provisions and other liabilities	21,416	(3,323)
Decrease of operating liabilities	**2,050,495**	**(1,603,722)**
Cash flow from operating activities before tax	**(118,418)**	**(165,590)**
Income tax paid	(17,456)	(2)
Net cash flow from operating activities	**(135,874)**	**(165,592)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in held to maturity securities	171,574	749
Proceeds from sale of premises and equipment	410	470
Purchase of premises and equipment	(13,994)	(19,049)
Sale of CAC Leasing Slovakia, a.s.	–	140,132
Net cash used in investing activities	**157,990**	**122,302**
Net decrease in cash and cash equivalents	**22,116**	**(43,290)**
Cash and cash equivalents at the beginning of the year	**134,541**	**177,831**
Cash and cash equivalents at the end of the year	**156,657**	**134,541**

Notes to the Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) for the years ended 31 December 2004 and 2003

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 87 employees as of 31 December 2004 (31 December 2003: 107 employees).

2. Principal accounting policies

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

A. Changes in accounting policies in 2004

The Bank changed its accounting policy with respect to recognition of the fair value changes of the available for sale portfolio in 2004, in order to align its accounting policy with that of the Parent Bank. Starting from 1 January 2004, the changes in Available for sale securities will be reported in the Equity in the line Financial Instruments Adjustments. Since fair value of securities in this portfolio was zero as at 1 January 2003 and 31 December 2003, this newly adopted accounting policy had no impact on the existing presentation of revaluation of securities in this portfolio.

B. 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 2004. 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 reclassified for comparison purposes.
The financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities and trading 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 shareholders' 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.

C. Foreign currencies

Monetary 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*.

D. Cash and cash equivalents

Cash and cash equivalents include only unrestricted amounts of cash immediately available and highly-liquid investments with 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 10.5% by the NBS when the required average level of reserve deposits with the NBS is not complied with as of the balance sheet date.

E. 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*.
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.

F. 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 in the Equity, 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.

G. Investment in associated undertakings

Investments 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.

H. 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 2003: SKK 30 thousand) in the case of tangible fixed assets and SKK 50 thousand (31 December 2003: 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 (31 December 2003: SKK 30 thousand) in respect of tangible fixed assets and 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.

I. 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.

J. 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. Provisions are recognised in the statement of profit and loss in *Depreciation and other provisions*.

K. 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.

L. 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 are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

M. 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 customers* 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.

N. 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, 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 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 as the *Hedging reserves* in equity. 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*.
Revaluation of derivatives that fulfil the conditions of hedging derivatives is reported through the Bank's equity in compliance with IAS 39 (Note 27).

O. 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 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,
– 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 Bank and to a Bank with its seat in the states of "zone A" based banks 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 Slovak generally accepted accounting principles.

P. Reclassifications

Certain reclassifications have been made to 2003 balances to conform to the 2004 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	2004	2003
Accounts with the National Bank of Slovakia	109,137	57,087
Current accounts with other banks	19,106	45,450
Cash in hand	28,414	32,004
Total	**156,657**	**134,541**

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

SKK thousand	2004	2003
Legal minimum reserves	59,083	36,719
Current deposits	50	365
Term deposits	50,004	20,003
Total	**109,137**	**57,087**

The amount of legal minimum reserves is set by NBS guidelines – it represents 2% of the average amount of deposits for the relevant month (in 2003: 3%) and its withdrawal is restricted.

As at 31 December 2004, the Bank complied with the required levels of legal minimum reserves. Legal minimum reserves bear interest at 1.5% (31 December 2003: 1.5%).

As at 31 December 2004 current deposits with other banks bear interest between 0.0% and 2.5% per annum (31 December 2003: between 0.0% and 5.0% p. a.).

4. Due from financial institutions

Receivables from other financial institutions include:

SKK thousand	2004	2003
Advances due from the National Bank of Slovakia	2,382,437	546,678
Term deposits in banks	928,375	61,773
Total	**3,310,812**	**608,451**

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 an average interest rate 3.99% (31 December 2003: 5.99% per annum).

Term deposits in other banks bear interest at rates varying between 2.55% and 9.8% per annum (31 December 2003: between 0.63% and 1.96% per annum).

5. Loans and advances to customers, net

Loans by type:

SKK thousand	2004	2003
Loans and advances to clients	2,282,178	2,159,410
Bills of exchange	–	–
Other	–	86,225
Total	**2,282,178**	**2,245,635**
Less: provisions (Note 10)	(133,196)	(162,436)
Loans and advances to customers, net	**2,148,982**	**2,083,199**

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

31 December 2004

SKK thousand	Gross receivable	Collateral applied	Net exposure	Provisions	Carrying value	Provisions, reserves %
Standard	1,778,559	–	1,778,559	–	1,778,559	–
Watch	238,718	102,247	136,471	(4,418)	234,300	3.24
Substandard	153,382	104,263	49,119	(17,259)	136,123	35.14
Doubtful	–	–	–	–	–	–
Loss	111,519	–	111,519	(111,519)	–	100.00
Total	**2,282,178**	**206,510**	**2,075,668**	**(133,196)**	**2,148,982**	**6.42**

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	(22,261)	422,962	5.00
Substandard	175,631	–	175,631	(35,126)	140,505	20.00
Doubtful	6,604	–	6,604	(4,623)	1,981	70.00
Loss	71,281	–	71,281	(71,281)	–	100.00
Total	**2,245,635**	**86,225**	**2,159,410**	**(133,291)**	**2,026,119**	**4.90**
General reserves for loan losses				(29,145)	(29,145)	–
Total				**(162,436)**	**1,996,974**	**7.20**

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

SKK thousand	Total client loan collateral 2004	Discounted client loan collateral value 2004	Applied client loan collateral value 2004	Total client loan collateral 2003	Discounted client loan collateral value 2003	Applied client loan collateral value 2003
Bank guarantee	447,694	–	–	3,416	1,025	–
Deposits	291	291	291	55,290	55,290	–
State bonds	–	–	–	86,225	86,225	86,225
Issued debentures in pledge	255,984	–	–	189,625	56,888	–
Pledge of real estate	834,134	61,511	61,511	860,052	172,010	–
Pledge of movable assets	307,551	1,282	1,282	310,367	31,036	–
Guarantee by corporate entity	482,134	43,936	43,936	800,673	152,128	–
Pledge of receivables	1,136,144	99,490	99,490	738,903	295,561	–
Other	236,756	–	–	20,094	4,019	–
Total nominal value of collateral	**3,700,688**	**206,510**	**206,510**	**3,064,645**	**854,182**	**86,225**

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 the financial position of its clients on an on-going basis.

As a result of this the change in the accounting estimate related to provisions for pass loans, as at 1 January 2004 the Bank credited SKK 29,145 thousand of provisions for pass loans to profit and loss account.

In 2004, the Bank wrote off doubtful receivables from interest and overdrafts in the amount of SKK 42 thousand (31 December 2003: SKK 54 thousand).

Loans by industry:

SKK thousand	2004	2003
Trade and service activities	654,247	575,849
Financial leasing	668,264	350,844
Manufacturing industry	2,496	52,496
Wood processing and paper production	111,238	79,237
Mining industry	37,932	50,011
Engineering	39,671	26,047
Chemical industry	220,821	301,031
Electrical engineering	66,739	167,055
Textile industry	12,558	12,558
Transport and infrastructure	5,097	9,369
Agriculture industry	358,276	315,463
Construction industry	67,000	128,303
Other industries	37,839	177,372
Total	**2,282,178**	**2,245,635**
Less: provisions (Note 10)	(133,196)	(162,436)
Loans and advances to customers, net	**2,148,982**	**2,083,199**

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 2004, 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 2,009,624 thousand (31 December 2003: SKK 1,987,970 thousand). There was no credit exposure in excess of 25% of the Bank's capital as of 31 December 2004.
Loans to related parties as of 31 December 2004 and as of 31 December 2003 are as disclosed in Note 32.
In 2004, loans bore interest at rates varying between 2.62% and 12.5% per annum (31 December 2003: between 2.9% and 12.5% per annum).

6. Trading securities

Trading securities are comprised of the following:

SKK thousand	2004 Fair value	2004 Cost	2003 Fair value	2003 Cost
State bonds	–	–	540,359	526,720
Financial institutions bonds	–	–	–	–
Corporate shares and bonds	–	–	–	–
Accrued interest	–	–	7,907	7,209
Total trading securities	**–**	**–**	**548,266**	**533,929**

In accordance with the change in the Bank's strategy, the Bank sold all trading securities during 2004.
Included in the trading securities portfolio in 2003 were state bonds with cost of acquisition amounting to SKK 526,720 thousand; all such bonds were quoted on the stock exchange in Bratislava – Burza cenných papierov v Bratislave, a.s., issued in Slovak Crowns, with fixed interest rate.
As of 31 December 2003, trading securities bear interest at rates varying between 7.5% and 8.5% per annum.

7. Securities available for sale

SKK thousand	2004 Fair value	2004 Cost	2003 Fair value	2003 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 held at 31 December 2004 and 31 December 2003.

8. Securities held to maturity

Securities held to maturity include:

SKK thousand	2004 Recognised Value	2004 Cost	2003 Recognised Value	2003 Cost
State bonds	20,000	20,000	182,586	182,586
Accrued interest and amortisation	633	–	8,988	–
Total securities held to maturity	**20,633**	**20,000**	**191,574**	**182,586**

State bonds held to maturity bear interest at rate 8.5% per annum (31 December 2003: between 7.5% and 8.5%). State bonds have been issued in Slovak Crowns and are listed on the stock exchange in Bratislava – Burza cenných papierov v Bratislave, a.s. (31 December 2003: SKK 162,586 thousand, state bonds of the Slovak Republic have been issued in EUR and are not quoted).

9. Investment in associated undertakings

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

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

The movements in provisions in 2004 and 2003 were as follows:

SKK thousand	Loans	Guarantees and loan commit-ments	Subtotal for loans, guarantees and loan commit-ments	Other assets	Other provisions	Subtotal for, other assets and other	Total
At 1 January 2003	**169,261**	**3,292**	**172,553**	**2,149**	**2,258**	**4,407**	**176,960**
Provisions 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**
Provisions recognised in statement of profit and loss, net	(27,501)	2,099	(25,402)	(13)	604	591	(24,811)
Effect of written-off and ceded receivables	(39)	–	(39)	(1,127)	–	(1,127)	(1,166)
Net foreign exchange gains/losses	(1,700)	–	(1,700)	–	–	–	(1,700)
At 31 December 2004	**133,196**	**4,791**	**137,987**	**159**	**3,149**	**3,308**	**141,295**
	(Note 5)	(Note 15)		(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 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)
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**
Cost at 1 January 2004	35,618	29,491	3,370	34,211	135,650	–	238,340
Additions (+)	249	–	–	–	12,575	13,612	26,436
Disposals (-)	(61)	–	–	–	(10,516)	(12,824)	(23,401)
Cost at 31 December 2004	**35,806**	**29,491**	**3,370**	**34,211**	**137,709**	**788**	**241,375**
Accumulated depreciation at 1 January 2004	29,442	17,812	–	5,027	112,401	–	164,682
Depreciation (+)	4,118	11,679	–	1,711	12,130	–	29,638
Net book value written off at sale	–	–	–	–	–	–	–
Disposals	(61)	–	–	–	(10,516)	–	(10,577)
Accumulated depreciation at 31 December 2004	**33,499**	**29,491**	**–**	**6,738**	**114,015**	**–**	**183,743**
Net book value at 31 December 2004	**2,307**	**–**	**3,370**	**27,473**	**23,694**	**788**	**57,632**

Goodwill presented by the Bank in 2003 and 2004 has arisen in 1995 when the Bank has acquired Interbanka, a Slovak banking institution, and paid premium over the net assets of Interbanka at the time of acquisition. This transaction has been carried out in order to obtain full banking license that has enabled the Bank to start carrying out commercial banking activities earlier than would otherwise be possible under normal license approval procedures of NBS.

After Slovakia joining European Union in 2004, and the alternative to apply the banking license of the Parent Bank in order to carry out banking activities in another member state, the Bank has reviewed the goodwill for impairment and has identified the need to provision remaining balance of the goodwill in the amount of SKK 11,679 thousand as at 31 December 2004. Related expense is presented in *Depreciation and other provisions* of the Profit and Loss.

12. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets are comprised of:

SKK thousand	2004	2003
Prepaid expenses and accrued revenues	3,124	757
Other assets	7,651	4,798
Positive fair value of derivative transactions (Note 27)	39,776	10,527
Settlement account balances	58	148
Income tax	197	–
Less: provisions (Note 10)	(159)	(1,299)
Total	**50,647**	**14,931**

Included in the amount of Positive fair value of derivatives is SKK 12,365 thousand of interest rate swaps that qualify for cash-flow hedges.

13. Amounts owed to financial institutions

Amounts due to financial institutions are comprised of:

SKK thousand	2004	2003
Term accounts of other banks	1,837,314	456,078
Deposits of other financial institutions	95,000	50,000
Loans received from other banks	–	4,369
Current accounts of other banks	3,955	8,615
Total	**1,936,269**	**519,062**

Current accounts of other banks bear interest at rates 1.5% per annum (31 December 2003: 1.5% per annum).

Term deposits received from other banks bear interest at rates varying between 0.65% and 6.5% per annum (31 December 2003: 4.6% and 5.7% per annum).

Other financial institution deposits amounting to SKK 95,000 thousand at 31 December 2004 represent a short-term loan received from Eximbanka to provide specific purpose loans to finance exports by customers of the Bank (31 December 2003: SKK 50,000 thousand represent a short-term loan received from Eximbanka with same specific purpose as in 2004).

14. Amounts owed to customers

Amounts owed to customers are comprised of:

SKK thousand	2004	2003
Current accounts	1,142,345	958,297
Term deposits	1,735,136	1,211,494
Saving accounts	25,182	48,160
Other accounts payable to clients	82,256	156,986
Total	2,984,919	2,374,937

Current accounts represent customer deposits payable upon request. As of 31 December 2004, these bear interest at rates varying between 0.1% and 0.9% per annum (31 December 2003: between 0.01% and 2.0% per annum).
Term deposits include customer funds with specified maturity date. Included in the balance of term deposits is amount owed to a single corporate customer of SKK 1,036,932 thousand, repayable in 2005. As of 31 December 2004, term deposits bear interest at rates varying between 0.15% and 3.6% per annum depending on the amount and the maturity of the deposit (as of 31 December 2003: 0.15% and 3.9% per annum).
Amounts owed to customers by type of customer:

SKK thousand	2004	2003
Private businesses	2,294,977	1,365,919
Individuals	374,535	527,690
Other financial institutions	26,167	69,961
Non-residents	73,912	133,261
Insurance companies	125	5,294
Entrepreneurs – individuals	131,797	112,467
Other	83,406	160,345
Total	2,984,919	2,374,937

15. Accrued expenses, other provisions and other liabilities

Accrued expenses, other provisions and other liabilities include:

SKK thousand	2004	2003
Settlement account balances	755	25
Other accounts payable	25,738	17,318
Accrued expenses	4,056	808
Other provisions and reserves (Note 10)	3,149	2,545
Provisions for guarantees (Notes 10 and 28)	4,791	2,692
Negative fair value of derivative transactions	33,817	21,558
Deferred tax (Notes 25)	2,680	3,035
Income tax	–	11,206
Total	74,986	59,187

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	2004 Carrying value	2004 Fair value	2003 Carrying value	2003 Fair value
Financial assets				
Cash and balances with the National Bank of Slovakia	156,657	156,657	134,541	134,541
Due from financial institutions	3,310,812	3,310,812	608,451	608,451
Loans and advances to customers, net	2,148,982	2,148,982	2,083,199	2,083,199
Securities held to maturity	20,633	25,510	191,574	199,909
Financial liabilities				
Amounts owed to financial institutions	1,936,269	1,936,269	519,062	519,062
Amounts owed to customers	2,984,919	2,984,919	2,374,937	2,374,937

17. Shareholders' equity

Registered capital consists of 5,000 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 the General Meeting of Shareholders.

18. Interest income

Interest income is comprised of:

SKK thousand	2004	2003
Interest income received from:		
Loans extended to clients	110,687	140,046
Loans and deposits with financial institutions	99,409	101,797
Fixed income securities	27,666	43,432
Treasury bills	–	5,080
Total	**237,762**	**290,355**

19. Interest expense

Interest expense is comprised of:

SKK thousand	2004	2003
Interest paid on:		
Loans and deposits of financial institutions	30,254	77,631
Amounts owed to customers	81,545	69,605
Total	**111,799**	**147,236**

20. Net fees and commissions

Fees and commissions consist of:

SKK thousand	2004	2003
Fees and commissions income	58,752	70,664
Fees and commissions expense	(20,606)	(23,067)
Total	**38,146**	**47,597**

21. Net profit/(loss) on financial operations

Profit/(loss) on financial operations consist of:

SKK thousand	2004	2003
Profit (loss) from interest rate swaps – trading	(1,281)	(1,200)
Profit (loss) from foreign currency trading	8,192	(7,559)
Profit (loss) from securities	7,941	(2,939)
Total	**14,852**	**(11,698)**

22. Other income and expense, net

Other income and expense comprises of:

SKK thousand	2004	2003
Other income	1,666	308
Other expense	–	(500)
Total	**1,666**	**(192)**

23. Administrative expenses

Administrative expenses are comprised of:

SKK thousand	2004	2003
Wages and salaries	59,067	62,907
Social costs	14,730	13,087
Other administrative costs	60,549	80,057
Total	**134,346**	**156,051**

24. Income taxes

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

SKK thousand	2004	2003
Current tax expense	6,053	11,208
Deferred tax movement	(355)	(5,427)
Total income tax expense	**5,698**	**5,781**

The corporate tax rate for 2004 is 19% (2003: 25%). The effective tax rate as of 31 December 2004 is 14.52% (2003: 7.5%). 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	2004	2003
Profit before tax (current tax rate)	41,565	77,020
Profit before tax (special tax rate)	–	–
Profit before tax	**41,565**	**77,020**
Theoretical tax credit calculated at a tax rate of 19% (2003: 25%)	**7,897**	**19,255**
Income not taxable, primarily interest	(1,089)	(32,731)
Expenses not deductible for tax purposes	15,446	20,033
out of that: Provisions for loan losses	2,408	3,818
Other non-deductible costs	13,038	16,215
CAC shares sold	–	14,103
Other	(12,268)	(9,452)
Movement on deferred tax	(355)	(5,427)
Adjustment of due tax from previous year	(3,933)	–
Total income tax expense	**5,698**	**5,781**

The Adjustment of due tax from previous year represents item of tax deductible expense related to 2003 Income Tax Expense that has been claimed by the Bank in 2004, and recorded in the current year.
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 income tax rate is 19% (in 2003: 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 revaluation of the equity share in associated undertakings, under the liability method using the principal tax rate effective for the following year that is 19% (2003: 19%). The deferred income tax liability arising on the revaluation of the equity share in associated undertakings was calculated using the 15% tax rate as described below.

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

SKK thousand	2004	2003
At beginning of period	3,035	8,462
Cancelling of deferred tax credit	(2,779)	(8,462)
Accounted deferred tax credit	2,424	3,035
At end of period (Note 15)	**2,680**	**3,035**

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

SKK thousand	2004	2003
Deferred income tax liabilities		
Unrealised profit on securities and financial instruments	–	(2,687)
Revaluation of investment in associated undertakings	–	–
Other temporary differences	(2,680)	(348)
Deferred income tax liability	**(2,680)**	**(3,035)**
Deferred income tax assets		
Loan loss provisions	2,252	1,149
Unrealised losses on securities and financial instruments	–	4,175
Fixed assets depreciation	1,716	2,993
Other temporary differences	–	494
Deferred income tax asset	**3,968**	**8,811**
Net deferred income tax asset before adjustment	**1,288**	**5,776**
Adjustment for uncertain realisation of tax asset	**(3,968)**	**(8,811)**
Net deferred income tax liability	**(2,680)**	**(3,035)**

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, from legal reserves and from delayed interests, using 19% tax rate (31 December 2003: 19% tax rate).

26. Reconciliation of net profit and shareholders' equity

Net profit

SKK thousand	2004	2003
Net profit per Bank statutory financial statements	20,772	119,714
Income from associate undertaking, net (Note 9)	–	(47,949)
Other movements	15,595	(26)
Accrual for employee social expenses	(500)	(500)
Net profit per international financial statements	**35,867**	**71,239**

Shareholders' equity

SKK thousand	2004	2003
Shareholders' equity per statutory financial statements	749,193	701,462
Profit share in associated undertaking (Note 9)	–	–
Other movements	(4)	(28)
Accrual for employee social expenses	–	–
Shareholders' equity per international financial statements	**749,189**	**701,434**

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.

In 2004 the Bank entered into cash flow hedging transactions to hedge its cash flow REPO transaction with NBS. The following is the description of two groups of hedging transactions outstanding as at 31 December 2004:

1. The first relationship involves receivable from 2 week reverse Repo transaction with NBS (hedged item) that bear variable interest rate (2 week NBS repo rate). The cash-flow risk resulting from variable interest rate is hedged with pay float (1M BRIBOR), receive fix (market mid price) IRS, being the hedging instrument.
2. The second relationship involves loans to customers with fix interest rate (hedged item) that are hedged for cash-flow risk with IRS as hedging instrument. The Bank pays fix rate (market mid price) and receives float rate (1M Bribor or 6M Bribor) from this IRS.

In accordance with requirements of IAS 39 regulations each hedging derivative, every hedging transaction has to be approved by the KBB ALCO, with the hedging effectiveness proof of the cash flow hedging transactions calculated every 3 months. Both prospective and retrospective hedging relationship between cash flows of the hedging and hedged (underlying instrument) is tested regularly.

Financial derivative instruments' held for trading at notional and fair values as at 31 December 2004 and 31 December 2003 are as follows:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Foreign currency instruments (unquoted):								
Currency swaps	996,601	1,873,040	986,638	1,876,116	12,408	1,875	6,121	(3,128)
Currency forwards	911,202	819,116	924,164	825,905	7,474	2,754	17,240	(7,677)
Call options	1,101,597	139,608	1,116,520	137,097	7,565	5,671	37	–
Put options	673,412	137,097	660,417	139,608	81	–	8,587	(5,671)
Interest rate instruments (unquoted):								
Interest rate swaps	88,394	251,399	88,394	251,399	–	227	1,482	(5,082)
Total	**3,771,206**	**3,220,260**	**3,776,133**	**3,230,125**	**27,528**	**10,527**	**33,467**	**(21,558)**

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.

Hedging financial derivative instruments' at notional and fair values as at 31 December 2004 and 31 December 2003 are as follows:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Foreign currency instruments (unquoted):								
Currency swaps	–	–	–	–	–	–	–	–
Cross currency swaps	–	–	–	–	–	–	–	–
Interest rate instruments (unquoted):								
Interest rate swaps	460,892	–	460,892	–	12,365	–	468	–
Total	460,892	–	460,892	–	12,365	–	468	–

The remaining contractual maturity of hedging interest rate swap is up to 10 years from the date of financial statements. The Bank recognized portion of the changes in the fair value of qualifying cash-flow hedges of SKK 11,888 that was determined to be an effective hedge in Hedging reserve of the shareholder's equity.

28. Commitments and contingent liabilities

a) Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2004. 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 741 thousand for these legal disputes (31 December 2003: SKK 806 thousand).

The Bank has been notified that certain parties could take legal action against it. 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 represents 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	2004	2003
Non-payment guarantees	221,771	1,403
Payment guarantees	175,536	15,016
Letters of credit – uncovered	3,602	1,276
Subtotal	**400,909**	**17,695**
Committed facilities – bank guarantees	74,006	4,000
Undrawn credit commitments	352,282	376,717
Unutilised overdraft loans	229,647	273,145
Other revocable and irrevocable commitments	**655,935**	**653,862**
Total revocable and irrevocable commitments	**1,056,844**	**671,557**

As of 31 December 2004, the Bank accounted for provisions for risks arising from commitments from the issuance of guarantees of to SKK 197 thousand (2003: SKK 414 thousand) and provisions for risks arising from the undrawn credit commitments and the unutilised overdraft loans of SKK 4,594 thousand (2003: SKK 2,278 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 2004 and 31 December 2003.

SKK thousand	Slovak Crown	Czech Crown	US Dollar	CH Frank	Euro	Other	Total
Assets							
Cash and balances with National Bank of Slovakia	128,870	3,779	2,930	1,048	15,371	4,659	156,657
Due from financial institutions	3,282,780	20,973	–	–	–	7,059	3,310,812
Loans and advances to customers, net	1,574,772	270,878	25,678	–	277,654	–	2,148,982
Receivables from derivatives fair value	39,776	–	–	–	–	–	39,776
Securities held to maturity	20,633	–	–	–	–	–	20,633
Tangible and intangible assets, net	57,632	–	–	–	–	–	57,632
Prepayments, accrued income and other assets	18,130	30	–	–	52	–	18,212
Total assets	**5,122,593**	**295,660**	**28,608**	**1,048**	**293,077**	**11,718**	**5,752,704**
Liabilities and shareholders' equity							
Amounts owed to financial institutions	613,620	338,254	161,583	133,144	688,283	1,385	1,936,269
Amounts owed to customers	2,503,078	70,085	53,611	–	355,683	2,462	2,984,919
Commitments from derivatives fair value	33,817	–	–	–	–	–	33,817
Accrued expenses, other provisions and other liabilities	47,506	411	–	–	593	–	48,510
Shareholder's equity	749,189	–	–	–	–	–	749,189
Total liabilities and shareholders' equity	**3,947,210**	**408,750**	**215,194**	**133,144**	**1,044,559**	**3,847**	**5,752,704**
Off-balance sheet assets	2,417,045	467,124	649,915	426,482	3,017,475	383,202	7,361,243
Off-balance sheet liabilities	3,302,805	672,029	431,809	300,269	2,270,941	389,034	7,366,887
Net currency exposure at 31 December 2004	**289,623**	**(317,995)**	**31,520**	**(5,883)**	**(4,948)**	**2,039**	**(5,644)**
Net currency exposure at 31 December 2003	**698,959**	**29,024**	**53,984**	**916**	**(789,815)**	**(1,746)**	**(8,678)**

Off-balance sheet assets and liabilities include only FX operations and derivatives.

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	From 1 month to 3 months	From 3 to 12 months	From 1 year to 5 years	From 5 years and over	Not specified	Total
Assets							
Cash and balances with National Bank of Slovakia	156,657	–	–	–	–		156,657
Due from financial institutions	3,010,554	300,258	–	–	–		3,310,812
Loans and advances to customers, net	522,084	260,672	675,955	544,865	55	145,351	2,148,982
Securities held to maturity	–	–	633	–	20,000		20,633
Receivables from derivatives fair value	4,724	680	14,515	9,448	10,409		39,776
Tangible and intangible assets, net	–	–	–	–	–	57,632	57,632
Prepayments, accrued income and other assets	4,630	7,536	–	–	–	6,046	18,212
Total assets	**3,698,649**	**569,146**	**691,103**	**554,313**	**30,464**	**209,029**	**5,752,704**
Liabilities and shareholders' equity							
Amounts owed to financial institutions	1,841,269	–	95,000	–	–		1,936,269
Amounts owed to customers	2,327,332	75,022	574,806	7,485	274		2,984,919
Accrued expenses, other provisions and other liabilities	14,261	10,008	8,810			15,431	48,510
Commitments from derivatives fair value	2,988	3,536	17,768	9,525			33,817
Shareholders' equity	–					749,189	749,189
Total liabilities and shareholders' equity	**4,185,850**	**88,566**	**696,384**	**17,010**	**274**	**764,620**	**5,752,704**
Liquidity risk at 31 December 2004	**(487,201)**	**480,580**	**(5,281)**	**537,303**	**30,190**	**(555,591)**	**–**
Cumulative liquidity risk at 31 December 2004	**(487,201)**	**(6,621)**	**(11,902)**	**525,401**	**555,591**	**–**	**–**
Cumulative liquidity risk at 31 December 2003	**(865,311)**	**(1,383,889)**	**(197,594)**	**341,483**	**630,811**	**–**	**–**

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	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	Not specified	Total
Assets						
Cash and balances with National Bank of Slovakia	128,154	–	–	–	28,503	156,657
Due from financial institutions	3,308,751	–	–	–	2,061	3,310,812
Loans and advances to customers, net	1,728,954	297,158	114,268	55	8,547	2,148,982
Securities held to maturity	–	633	–	20,000	–	20,633
Receivables from derivatives fair value	–	–	–	–	39,776	39,776
Tangible and intangible assets, net	–	–	–	–	57,632	57,632
Prepayments, accrued income and other assets	–	–	–	–	18,212	18,212
Total assets	**5,165,859**	**297,791**	**114,268**	**20,055**	**154,731**	**5,752,704**
Liabilities and shareholders' equity						
Amounts owed to financial institutions	1,935,589	–	–	–	680	1,936,269
Amounts owed to customers	1,170,833	562,542	–	–	1,251,544	2,984,919
Commitments from derivatives fair value	–	–	–	–	33,817	33,817
Accrued expenses, other provisions and other liabilities	–	–	–	–	48,510	48,510
Shareholders' equity	–	–	–	–	749,189	749,189
Total liabilities and shareholders' equity	**3,106,422**	**562,542**	**–**	**–**	**2,083,740**	**5,752,704**
Off-balance sheet interest rate assets	139,586		137,400	272,300	–	549,286
Off-balance sheet interest rate liabilities	409,700	4,000	135,586	–	–	549,286
Net interest rate risk at 31 December 2004	**1,789,323**	**(268,751)**	**116,082**	**292,355**	**(1,929,009)**	**–**
Cumulative interest rate risk at 31 December 2004	**1,789,323**	**1,520,572**	**1,636,654**	**1,929,009**	**–**	**–**
Cumulative interest rate risk at 31 December 2003	**(367,398)**	**198,385**	**410,219**	**628,467**	**–**	**–**

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 directors of the Bank) as follows:

SKK thousand	2004	2003
Assets		
Cash and balances with National Bank of Slovakia	8,152	2,073
Due from financial institutions	7,059	–
Loans and advances to customers, net	838	2,089
Prepayments, accrued income and other assets	29,741	462
Total	**45,790**	**4,624**
Liabilities		
Amounts owed to financial institutions	525,842	72
Amounts owed to customers	3,212	3,901
Accrued expenses and other liabilities	2,544	583
Total	**531,598**	**4,556**

Included in the balance of loans and advances to customers are loans to directors of the Bank in the amount of SKK 838 thousand (2003: SKK 2,089 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 3,212 thousand (2003: SKK 3,901 thousand).

Other balances relate to the Parent Bank.

Income and expenses from related parties include the following:

SKK thousand	2004	2003
Interest income	3,502	11,283
Interest expense	(4,625)	(17,297)
Net fees and commissions	(349)	(522)
Other income	12,073	513
Administrative expenses	(3,820)	(4,210)
Total	**6,781**	**(10,233)**

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. Changes in the accounting standards from 1 January 2005

Effective from 1 January 2005, a number of changes were introduced in the International Financial Reporting Standards. Below is the summary of the most significant changes that may impact the recognition of assets, liabilities, expenses, revenues and the equity of the Bank as of 1 January 2005. The Bank analyzed the expected impact on the amount of retained earnings as at 1 January 2005 for selected changes in IAS 39. The effect of other changes in IFRS on the retained earnings of the Bank as at 1 January 2005 had not been calculated as at the financial statements date.

IAS 16 Tangible fixed assets

The amended IAS 16 effective from 1 January 2005 requires that the Company analyse their tangible fixed assets and determine depreciation charges for individual material components of tangible fixed assets. The previous version of this Standard failed to clearly define this requirement.

IAS 32 Financial Instruments: Presentation, and IAS 39 Financial Instruments: Recognition and Measurement

Portfolio structure changes

The revised version of IAS 39 (hereinafter the "Revised IAS 39") narrowed down the alternatives of re-measurement of assets included in the available-for-sale portfolio. From 1 January 2005, the possibility to re-measure the portfolio assets through profit and loss was eliminated and the re-measurement of the available-for-sale portfolio is only recognised in retained earnings.

Also, the IAS 39 version valid from 1 January 2005 defines a new portfolio to which any financial asset or liability may be classified (except for the selected items as specified in paragraph 9 in the Standard). These assets and liabilities are re-measured at fair value through profit and loss.

In accordance with the transitional provisions of the Revised IAS 39, at the first application of this Standard the Bank may change the original classification of securities from portfolios valid until 31 December 2004.

Financial asset impairment

The Revised IAS 39 also clarifies the moment of origination of financial asset impairment. According to the revised version valid from 1 January 2005, the impairment of assets is only recognised after such impairment occurs. The Standard also defines the methods of assessment of the actual impairment that is not attributed to specific items of loans, receivables or investments held to maturity. Any differences between the balance of provisions calculated under the Revised IAS 39 and the provisions as at 31 December 2004 should be recognised through retained earnings as of 1 January 2005. The Bank performed an analysis of the expected impacts of adoption of the new IAS 39 requirements. The impact on the amount of equity as at 1 January 2005 should not be material.

IFRS 5 Non-Current Assets Held For Sale and Discontinued Operations

Assets available for sale

The new IFRS 5 introduces the definition of classification of a fixed asset as “available for sale” if the Company expects to generate the major portion of the book value of such asset from its sale rather than from its subsequent use. IFRS defines the requirements to be met in order for fixed assets to be classified as “available for sale”. Available-for-sale fixed assets are measured at the lower of the book value as at the date of their classification in the available for sale category and their fair value net of expenses related to the sale (paragraph 15), and do not continue to be depreciated (paragraph 25). As at 1 January 2005, the Bank revised their fixed assets from the perspective of the IFRS 5 adoption and identified no assets qualified for the “available-for-sale” definition as at that date.

34. Post balance sheet events

With effect from 1st January 2005 the Bank applied calculation of provisions based on expected discounted future financial flows.

These financial statements were approved by the Board of Directors on 16th of February 2005.

Signed on behalf of the Board of Directors:

Henri Robert Kerneis Chairman of the Board of Directors and General Director	**Róbert Beláň** Vice-Chairman of the Board of Directors and Corporate Banking Director

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