Komerční banka Bratislava, a.s.
Annual Report
2006

06

My World. My Bank.

professionalism

Social Responsibility

Komerční banka Bratislava, a.s. is part of the Komerční banka group, which is well aware of its universal commitments stemming from its corporate status. It fulfils these commitments through sponsorship and donations based on the three principal values of the Société Générale group: professionalism, innovation and team spirit. The long-term main pillars of the sponsorship strategy are the arts, amateur sport and education.

team spirit

innovation

Komerční banka Bratislava, a.s. has been operating on the Slovak market for eleven years. It is a full subsidiary of Komerční banka, a.s., active in the Czech Republic, and is part of the Société Générale group.

Membership of the Société Générale group enables the bank to offer clients quality services and comprehensive financial products that draw on the group's know-how and long-standing experience.

Contents

Company Profile

Since 2001 KB Bratislava has been a part of the Société Générale group – the fifth largest banking group in the Euro zone.

Komerční banka Bratislava, a.s. (hereinafter also referred to as "KB Bratislava") is a wholly-owned subsidiary of Komerční banka, a.s. (hereinafter also referred to as "KB"), one of the leading financial institutions not only in the Czech Republic but also in the CEE region. Since 2001, Komerční banka has been part of Société Générale Group (hereinafter also referred to as "SG"), which is the fifth largest banking group in the Euro zone.

KB Bratislava has been operating on the Slovak market since 1995 and focuses on corporate and investment banking. Well-established and strong domestic corporations, along with business entities which have business relations with Komerční banka in the Czech Republic and Société Générale worldwide, represent the core of the Bank's client base.

The Bank provides banking services in cash management, the financing of operational and investment needs, foreign trade financing, investment banking, financial advisory services, and technology and car fleet leases, all tailored to clients' specific needs.

Komerční banka

Komerční banka provides its clients with comprehensive services in retail, corporate and investment banking. Komerční banka's 7,563 employees serve more than 1,500,000 clients who can use an extensive network of 378 branches throughout the Czech Republic.

In retail banking, Komerční banka focuses on providing comprehensive financial services for individuals and small businesses. In corporate and investment banking Komerční banka provides its corporate and municipal clients with cash management, trade finance, leasing, factoring, loans, asset management, capital market services, financial advisory, and other services depending on their individual needs.

Rating	Long-term
Fitch	AA
Moody's	A1
Standard & Poor's	A

For its market position, experienced staff, and on-going improvement of its services in corporate and investment banking, Komerční banka won the MasterCard award Corporate Bank of the Year 2006.

Komerční banka – MasterCard Corporate Bank of the Year 2006 in the Czech Republic

Société Générale Group

Société Générale Group is the fifth largest banking group in the Euro zone and serves more than 22.5 million clients worldwide. Over 120,000 Group employees offer comprehensive services including retail banking, specialised services, asset management, private banking, capital market services, and corporate and investment banking.

The corporate and investment banking segment of Société Générale Group provides its services in more than 45 countries in Europe, the Americas and Asia, and is the third largest in the Euro zone in terms of net revenues from financial transactions.

Rating	Long-term
Fitch	AA
Moody's	Aa2
Standard & Poor's	AA

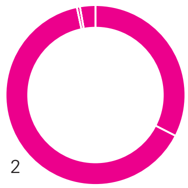
When preparing its ranking of the best companies of 2006 – "Awards for Excellence" – Euromoney magazine awarded Société Générale Group "Bank of the Year" and "Best Bank in France". These prestigious awards represent the recognition of the remarkable growth and successful transformation of the bank, which has doubled in size over the past six years, while maintaining its high profitability, efficiency of operations, and rigorous risk management.

Financial Highlights of KB Bratislava

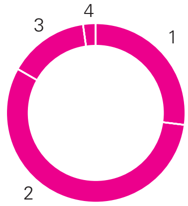
Individual financial data, unconsolidated	IFRS	
SKK thousand	2006	2005
Financial results		
Net interest income	123,873	102,944
Net fees and commissions	75,257	54,800
Trading profit/loss	36,770	19,328
Other income	313	123
Net income on financial operations	**236,213**	**177,195**
Operating expenses	155,825	153,737
Profit/loss before provisions	**80,388**	**23,458**
Reserves and provisions	(11,845)	(15,272)
Profit/loss	**68,543**	**8,186**
Income tax	(2,192)	(6,767)
Net profit/loss	**66,351**	**1,419**
Earnings per share as at 31 December	13	0
Balance sheet		
Total assets	5,678,236	6,290,465
Net loans due from customers	3,652,216	3,083,766
Deposits due to customers	3,205,154	2,983,694
Securities held to maturity	20,633	20,633
Shareholders' equity	817,973	758,385
– Registered capital	500,000	500,000
– Non-distributable reserves	90,005	89,803
– Retained earnings	148,718	147,498
– Profit/loss	66,351	1,419
Financial instruments adjustment	12,899	19,665
Indicators		
Operating expenses to net income on financial operations	65.97%	86.76%
Net fees and commissions to net income on financial operations	31.86%	30.93%
Total assets per one share	1,136	1,258
Other data		
Full-time equivalent of employees	71.97	78.09
Number of employees	73	74
Number of branches	4	3

IFRS – Profit/loss under International Financial Reporting Standards

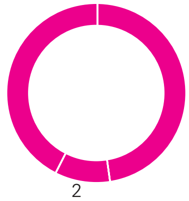
Structure of assets (SKK thousand)	2006	
1. Due from other financial institutions	1,850,246	32.59%
2. Loans to customers	3,652,216	64.32%
3. Securities held to maturity	20,633	0.36%
4. Other assets	155,141	2.73%
Total assets	**5,678,236**	**100.00%**



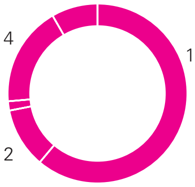
Structure of liabilities (SKK thousand)	2006	
1. Amounts due from financial institutions	1,537,364	27.07%
2. Amounts due from customers	3,205,154	56.45%
3. Shareholders' equity	817,973	14.41%
4. Other liabilities	117,745	2.07%
Total liabilities	**5,678,236**	**100.00%**



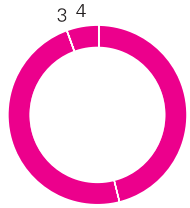
Operating expenses (SKK thousand)	2006	
1. Personnel expenses	74,826	48.02%
2. Depreciation and other provisions	15,090	9.68%
3. Other operating expenses	65,909	42.30%
Total	**155,825**	**100.00%**



Equity (SKK thousand)	2006	
1. Registered capital	500,000	61.13%
2. Reserve fund	90,005	11.00%
3. Differences from revaluation of hedging derivatives	12,899	1.58%
4. Retained earnings (accumulated loss) of prior years	148,718	18.18%
5. Profit for current period	66,351	8.11%
Total	**817,973**	**100.00%**



Structure of primary deposits (SKK thousand)	2006	
1. Current accounts	1,481,979	46.24%
2. Time deposits	1,546,795	48.26%
3. Savings deposits	6,911	0.22%
4. Other amounts due to customers	169,469	5.28%
Total	**3,205,154**	**100.00%**



Foreword by the Chairman of the Board of Directors

128%
surge in investment banking revenues

Dear clients and shareholders,

It is my honour to present to you, on behalf of the Board of Directors of Komerční banka Bratislava, a.s., the Annual Report for 2006.

It is my pleasure to inform you that 2006 – our 11th year of operation on the Slovak banking market – was very successful for KB Bratislava, and that the results achieved significantly exceeded shareholders' expectations. After a 3-year transformation period that focused on the implementation of standards both from the parent company – Komerční banka, a.s. (KB) – and the Société Générale Group (SG), our Bank has now begun a journey of development. The fact that we are on the right track is confirmed by the growing number of clients: an 18% year-on-year increase of our loan portfolio and 5% increase of deposits.

I regard highly the sound standard of risk management at KB Bratislava, which contributed significantly to our high-quality loan portfolio without the need for any major provisioning.

Our efforts last year focused mainly on meeting the Bank's key corporate strategy – to provide our Slovak and international corporate clients with professional and high-quality services by applying a customised approach to our clients and focusing on "tailored" solutions that meet clients' specific needs. KB Bratislava's range includes products and services of the SG Group and KB – tailored to the specifics of the Slovak market.

A major pillar of our business activities is our investment banking segment, in which KB Bratislava relies on the know-how of KB and SG, the leaders in various areas of this highly sophisticated field. It allows us to provide our clients with a wide range of investment products and services. The year-on-year increase of investment banking revenues by 128% can also be attributed to the fact that our investment banking segment introduced emission quota trading services, in which we rapidly became the leaders on the domestic market.

In December we opened a new branch in Žilina, which we expect to help us strengthen our market position as well as enhance the quality of services provided to our clients in the Žilina region. We believe that our product range will be of interest to business entities operating in this region.

2007 will be a great challenge for all KB Bratislava employees as they are or will be involved in 13 major projects. These projects are aimed at supporting and enhancing the quality of our services, optimising internal processes, and preparing for the introduction of the euro in 2009.

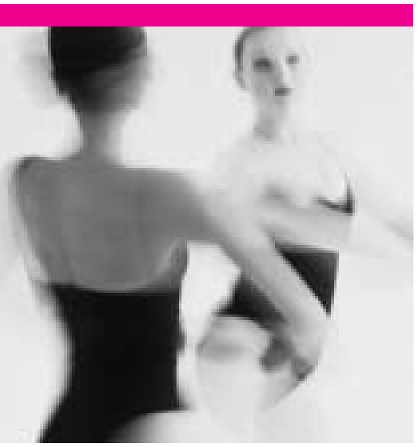
Dear ladies and gentlemen, I believe that the key values of our company – "professionalism, innovation and team spirit" – together with our commitment to maximum quality, represent the best guarantee that 2007 will be successful and beneficial for KB Bratislava, our clients, and shareholders.

In conclusion, let me thank our clients and business partners for their confidence in our services, my colleagues for their efforts and loyalty to the Bank, and shareholders for their continued co-operation and support.

Yours faithfully,

Jaromír Chabr
Chairman of the Board of Directors and CEO

Developments in the Macroeconomic Environment



The Slovak economy is continuing its rapid and, in European conditions, exceptional growth.

Macroeconomic Performance

The Slovak economy continues its fast – spectacular in a European context – growth. In 2006, Slovakia again assumed first position among the four Central-European EU countries (ahead of the Czech Republic, Hungary, and Poland). GDP growth achieved in 2006 will be around 8%, which means a substantial speed-up against 2005. Growth is driven by exports (which grew by almost 20%) but also by strong household consumption (more than 6% growth) and fixed capital investment (11% growth).

The current account deficit (7.5% of GDP) does not pose a big threat, being a logical consequence of foreign investment inflows. These are followed by imports of technology and materials, and sub-supplies for new capacities, especially in car production. Hence it may be expected that in future, after the new capacity has been fully put in use, the growth of exports will help to cut the current account deficit, bringing it below the "magical limit" of 5% of GDP.

Main Macroeconomic Indicators, 2005 – 2007

Indicator	2005	2006E	2007F
GDP (growth in %, const. pr.)	6.0	8.0	7.5
Industrial Output (growth in %)	3.9	11.0	14.5
Inflation (average, in %)	2.7	4.4	2.5
Unemployment Rate (average)	11.6	10.4	9.5
Current Account (as % of GDP)	-7.8	-7.5	-4.0

Source: Slovak Statistical Office, forecast by Komerční banka

What are the factors behind such dynamic growth of the Slovak economy in recent years?

First, the opening of the economy to direct foreign investment brings results. "Greenfield" plants are beginning to produce – and export – at full capacity. Privatized firms have gone through the necessary restructuring, and are speeding up their production and exports. Public administration has been improved, the tax system simplified, and, together with the friendly attitude of past governments toward foreign capital, this is starting to bring visible effects.

Second, the reforms of public finance undertaken in 2001 – 2003 are only now starting to be "visible" – after some period ("an implementation delay" in the words of economic theory). The flat tax has benefited the vast majority of Slovak households, which found a positive reflection in their consumption expenditures. Reduced social benefits, together with stricter rules, forced the unemployed to seek new jobs fast, or to accept work in the framework of public projects. The result is that in Slovakia – where, for more than a decade, unemployment rates were between 14% and 17% – for the first time unemployment went below 10% in the fourth quarter of 2006.

Third, the entrepreneurial environment continues to develop, and Slovakia remains an attractive location for both foreign and domestic firms.

Monetary Policy

The Slovak crown has been in the ERM II system since November 25, 2005, in accordance with the plan of the Slovak Government, and the National Bank of Slovakia, to introduce the euro in 2009. The central parity of the Slovak crown was set at 38.455 SKK/EUR, which means that the permitted exchange rate interval is from 44.22 SKK/EUR to 32.69 SKK/EUR.

During the whole second half of 2006 the Slovak crown appreciated, with a speed-up in December 2006 when it appreciated by almost 10% against the central parity.

The Slovak crown appreciated throughout the second half of 2006.

Main Financial Indicators, 2005 – 2007

	2005	2006	2007F
BRIBOR 3M (average)	3.0	4.3	5.1
SKK/EUR (average)	38.6	37.3	36.5
Public Budget Deficit (as % of GDP)	-2.9	-3.2 E	-2.8
Public Debt (as % of GDP)	33.7	35.5 E	35.0

Source: National Bank of Slovakia, Slovak Ministry of Finance, forecast by Komerční banka

One thing, however, is sure: the strong crown has undeniable anti-inflation effects; so it can be expected that the NBS will not hurry with an increase of the repo rate from the present 4.75% (if it undertakes an increase at all in the first half of the year). As opposed to 2006, in 2007 there will be no substantial increase of regulated prices, so inflation may go under the 3% level, ensuring the fulfilment of the Maastricht inflation criterion.

2009

– the target year for the introduction of the euro in Slovakia

Outlook

Strong GDP growth will continue in 2007. Achieving full capacity in the Peugeot and KIA plants will foster the growth of industrial output, as well as exports (in spite of a growth slowdown in the eurozone). Household demand and fixed capital investment will grow, too, though somewhat slower than in 2006.

The government has declared that it will keep to the goal of adopting the euro in 2009. For this goal, the year 2007, and the start of 2008, will be decisive. Slovakia can be expected to push the public finance deficit under 3% in 2007 – faster growth will also mean higher public budget incomes. The level of public debt and the long-term interest rates represent no problems. Thus inflation is and will remain the only problematic Maastricht criterion.

The Maastricht criterion evaluates inflation as a moving average of the 12-month inflation rate, which is then compared with the average of the three "best performers", i.e. the three countries with the lowest inflation among the – now 27 – EU members *. Inflation in the country in question may not exceed the average of the three best performers by more than 1.5 percentage points. Nevertheless, the strong Slovak crown, and the outlook that energy prices will not increase (the gas price has been cut by 4%) indicate that Slovakia can fulfil the inflation criterion at the start of 2008.

* By "best performing", the ECB usually means the lowest inflation rate which is still positive.

Report of the Board of Directors

Strategy

The long-term objective of KB Bratislava is:

- to be a modern and stable corporate and investment bank which strives to build long-term relationships with all its clients by focusing on service quality;
- to focus on target clientele comprising Slovak and international clients operating in the segment of medium and large enterprises, mainly clients of Komerční banka who maintain business relationships with the Slovak Republic, and international clients of Société Générale Group who invest and operate on the Slovak market;
- to offer a comprehensive range of Société Générale Financial Group products and services adapted to the specific conditions of the Slovak market;
- to specialize in providing sophisticated products and services in the areas of corporate financing, investment banking, and trade finance.

The long-term goal of KB Bratislava is to be a modern, stable corporate and investment bank.

December 2006 – opening of a new branch in Žilina.

Serving the Client

Client-Oriented Approach

One of the key pillars of the Bank's business model is a client-oriented approach. It helps the Bank to better understand the financial needs of its clients and actively manage and develop bank-client relationships.

To come closer to the target clientele, the Bank places an emphasis on three key customer service principles:

- tailored approach – one Relationship Manager for each corporate client;
- expertise of Relationship Managers – each Relationship Manager is specifically trained to serve corporate clients;
- accessibility to banking services – access to the bank through electronic banking and branches.

Branch Network

KB Bratislava offers its products through its branches, which are situated in Bratislava, Banská Bystrica, Košice and Žilina.

New Branch Žilina
The Bank opened its new branch Žilina in December 2006. This outlet offers clients a full range of bank products in the frame of non-cash payments. By opening the new branch, the Bank expects a strengthening of its position on the banking market, mainly in corporate banking, trade finance, and investment banking, as well as enhanced quality of services provided to clients in the Žilina region.

Client Portfolio

As at 31 December 2006 KB Bratislava was serving 1,419 clients in total. Of this, 839 were corporate clients and 580 were retail clients.

Compared to 2005, the number of clients who are also clients of Komerční banka in the Czech Republic increased by nearly 50%. The number of clients who are also clients of Société Générale Group went up by more than 15% compared to last year. These facts evidence the improvement of synergies between KB Bratislava and its parent companies.

Corporate Values

The Bank is a member of a financial group which honours three main principles:

- Professionalism
- Innovation
- Team spirit

Risk Management

Risk management at KB Bratislava is based on an integrated concept that takes into account the risk management standards of the Société Générale Group, and the statutory and regulatory norms as defined and required by the National Bank of Slovakia and other regulatory bodies. In its procedures, the Bank takes into consideration developments regarding all types of risk, i.e. credit risk, market and liquidity risk, as well as operational and environmental risks.

Credit Risk

In 2006, after the Bank's organisational structure changed, the Risk Management Division became directly responsible not only for the authorisation of its active deals but also for their administration and monitoring.

The Bank continues to focus its efforts on other credit risk areas:

- ongoing monitoring of credit exposures;
- updating of credit risk monitoring and assessment tools;
- preparation of amendments to the Bank's internal regulations aimed at meeting Basel II requirements.

A quality credit portfolio thanks to the high standard of risk management

Counterparty Risk from Capital Market Activities

With respect to counterparty risk, the basic rule of "pre-authorisation" (i.e. the authorisation must always be granted before a transaction is concluded with a counterparty) is systematically applied to all capital market transactions. Front office dealers are provided daily with information broken down into counterparties about their current limits, exposures and available limits. Any breach of these limits is immediately reported to the relevant level of management within the Bank. The Board of Directors is also informed of all breaches of limits.

Market Risk

Market risk activities at KB Bratislava are performed in co-operation with the Market Risk unit of the parent company – Komerční banka. In order to ensure the independence of risk management from business units, the unit reports directly to the member of the KB Bratislava Board of Directors responsible for risk management, to the member of the Komerční banka Board of Directors responsible for risk management and to the Head of Société Générale Group’s Risk Management Division.

Operating Risk

Operating risk management is the responsibility of all units of the Bank. Responsibility for the management of operating risks of specific processes lies with unit managers who are the bearers of individual banking processes.

Basel II

Taking into account efficiency, the Bank intends to apply simpler, and therefore more conservative, approaches to all types of risk for the purposes of capital adequacy reporting under Basel II standards. In 2006, the Bank also provided for the collection of necessary data for the needs of the Group, which opted to apply more sophisticated approaches.

Information Technology

In line with the Bank's key objective to provide its clients with high-quality services, the Bank sought to harmonise its IT infrastructure with that of its parent company and to rationalise its IT-related activities. In 2006 the Bank continued its integration projects related to information technology, in particular:

- implementation of Central Teller System;
- complete integration of IT infrastructure with parent company.

The successful implementation of the aforementioned projects provides new opportunities for the expansion and enhancement of the quality of services which IT provides, not only internally but for client comfort. Furthermore, the implementation of these projects significantly reduced IT operational risks. This was achieved by simplifying local IT systems, enhancing system service reliability, and introducing a business continuity plan for crisis planning.

More than

90%

of staff took part in a training programme in 2006

Human Resources

The human resources management strategy relies on the know-how of Komerční banka in the Czech Republic. This bank was selected from 2003 to 2006 as the most desired employer of the year by university graduates.

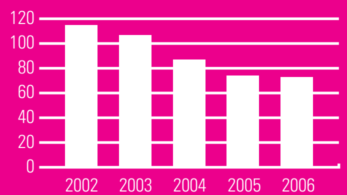
Our strategic priority is stabilisation, career development, and the professional growth of our employees. Therefore, as part of the optimisation of the Bank's organisational structure in 2006 internal employees were promoted to managerial positions. The priority in 2006 was employee training: this focused on the enhancement of professional qualifications and knowledge, banking products, and IT training. In total, 91% of employees participated in at least one training activity over the year. On average, employees spent 3.1 days on training courses. Komerční banka Bratislava also participated in the long-term development programmes of its parent company. As part of this, managers and employees were offered the opportunity to participate in training activities with their colleagues from Komerční banka Czech Republic.

As part of the Société Générale Group's international mobility project, the Komerční banka Bratislava team was supported by 4 colleagues from the Czech Republic and France.

The Bank understands that satisfied and motivated employees are the key to the company's success; therefore, new variable remuneration rules were modified and set in 2006. The total remuneration package includes a range of employee benefits which is expanded annually by the Bank.

As of 31 December 2006 the headcount was 73, of which 46 employees worked in back office positions and 27 employees front office. After the transformation programme which took place between 2002 and 2005, the number of employees stabilised in 2006.

Headcount development as at year-end



18.43%

year-on-year growth in loans granted to clients

Comments on Financial Results under IFRS

Balance Sheet

The Bank's total assets stood at SKK 5,678,236 thousand as at 31 December 2006, which represents a year-on-year decrease of 9.73%.

Interest-earning assets accounted for 97.27% of the Bank's total assets as at year-end.

Amounts Due from Clients

As at 31 December 2006 the loans extended to clients (after deducting provisions) amounted to SKK 3,652,216 thousand, which represents a year-on-year increase of 18.43%.

As at year-end, the Bank recorded four loss loan receivables in the gross amount of SKK 133,797 thousand.

As at 31 December 2006 provisions covered, in aggregate, 4.26% of the loan portfolio (as at 31 December 2005, 3.1% of the total portfolio was covered).

As at 31 December 2006 provisions on exposures represented SKK 152,224 thousand, which means an absolute increase in provisions by SKK 61,342 thousand in comparison to 2005.

The absolute increase in provisions by SKK 57,861 thousand on loss exposures was caused by one client. The volume of impaired loans increased by SKK 16,132 thousand and the volume of provisions for impaired loans increased by SKK 3,481 thousand.

Securities

In compliance with its approved strategy, since 2004 the Bank has kept only government bonds in its portfolio of securities held to maturity in the total amount of SKK 20,633 thousand.

SKK 3,652,216 thousand – value of loans at 31 December 2006 (net of provisions)

Tangible and Intangible Assets

The Bank records tangible and intangible assets with a net book value of SKK 40,626 thousand, which represents a 36.69% year-on-year decrease.

The present book value of all immovable assets owned by the Bank and the technical upgrades of leased immovable assets represents SKK 14,597 thousand.

In 2006, the Bank sold a building with associated land in Banská Bystrica for SKK 19,000 thousand.
Other fixed assets include mainly office and IT equipment, software, and fittings and fixtures.

Amounts Due to Clients

The amounts due to clients represented SKK 3,205,154 thousand at the end of 2006, which is an increase by 7.42% compared to 2005.

The balance of financial funds deposited in current accounts increased by 25.57% year-on-year to SKK 1,481,979 thousand, while term and savings deposits fell by 9.01% and stood at SKK 1,553,706 thousand as at 31 December 2006.

SKK 818

million – the bank's equity

Shareholders' Equity and Registered Capital

As at 31 December 2006, the shareholders' equity of the Bank amounted to SKK 817,973 thousand and consisted of:

SKK thousand	
Registered capital	500,000
Reserve fund	90,005
Retained earnings of prior years	148,718
Differences in revaluation of hedging derivatives	12,899
Profit for the current period	66,351

The capital accounted for 14.41% of the Bank's total assets as at 31 December 2006. The Bank's capital used for the purposes of capital adequacy and significant credit exposures amounted to SKK 732,900 thousand as at year-end. The capital adequacy ratio was 21.28%.

Reserves and Provisions

The Bank created reserves and provisions to cover potential risks in the amount of SKK 155,752 thousand, up 0.92% year-on-year.

Profit and Loss Statement

The Bank's profit was influenced mainly by the following circumstances:

- the situation on the financial market and influence of the competition;
- an increase in the loan volume in 2006;
- revenues from financial instrument transactions, mainly profit from derivative transactions for clients;
- maximum cost-effective spending of funds with respect to operating costs;
- the creation and release of reserves and provisions for classified loans and issued guarantees.

For 2006 the Bank posted a net profit of SKK 66,351 thousand.

SKK 66,351 thousand in net profit

The profit comprised:

SKK thousand	
Operating profit	236,213
Operating costs	(155,825)
Profit before provisions and reserves for loan losses	80,388
Reserves, provisions for losses from loans and guarantees	(11,845)
Pre-tax profit for the current period	68,543
Income tax	(2,192)

The tax liability for the current period amounted to SKK 850 thousand mainly due to the release of a tax non-deductible reserve for off-balance sheet liabilities in the net amount of SKK 59,687 thousand, and other tax non-deductible items in the amount of SKK 4,383 thousand. The income tax includes SKK 64 thousand, which represents a correction of the due income tax for 2005 expensed in 2006.

Deferred income tax is calculated from all temporary differences between the tax base of assets and liabilities and their book values for the purposes of financial reporting. In 2006 the Bank reported a deferred tax liability in the amount of SKK 6,936 thousand and a deferred tax asset in the amount of SKK 685 thousand. The change in the deferred tax balance influenced the results of operations in the amount of SKK 1,278 thousand.

Distribution of Profit for 2006

In compliance with the Bank's Articles of Association, the Board of Directors proposed distributing the earned profit for 2006 in the amount of SKK 66,351 thousand as follows:

SKK thousand	
Contribution to the reserve fund	6,635
Retained earnings of prior years	59,716

Statutory Bodies

Board of Directors

Jaromír Chabr (1967)

Chairman of the Board of Directors
Start of tenure: 1 February 2006
Graduate of the University of Mechanical and Textile Engineering in Liberec, major: economics and management in the consumer industry. He has been working for the Société Générale Group for 7 years.

Róbert Beláň (1970)

Vice-Chairman of the Board of Directors
Start of tenure: 30 July 2003
Graduate of the Slovak Technical University, Bratislava, and holder of an MBA diploma, University of Pittsburgh, USA. He has been working for Komerční banka Bratislava for 5 years.

Alain Couteau (1953)

Member of the Board of Directors
Start of tenure: 3 November 2006
Graduate of the Institution Fremont Lisieux. He has been working for the Société Générale Group for 35 years.

Until 26 October 2006, Jean-Marc Mesure held the office of a member of the Board of Directors.

Supervisory Board

Philippe Rucheton (1948)

Chairman of the Supervisory Board

Start of tenure: 19 June 2006

Graduate of the High Military-Technical College École Polytechnique, Institut Supérieur des Affaires and of the Panthéon Sorbonne University in Paris. He has been working for the Société Générale Group for 18 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 for 7 years.

Brigita Štefánková (1953)

Member of the Supervisory Board

Start of tenure: 15 May 2006

Graduate of the VŠB – Technical University of Ostrava, major: Management and Planning. She has been working for Komerční banka, a.s. for 8 years.

Organisational Structure

- General Meeting
  - Supervisory Board
  - Board of Directors
    - Board of Directors' Secretary
    - Internal Audit and Control
    - Chief Executive Officer
      - **Finance and Operations**
        - Accounting
        - ALM
        - Back Office
        - Controlling and Reporting
      - **Risk Management**
        - Credit Risk
        - Loan Administration
        - Portfolio Monitoring
      - **Corporate Banking**
        - Corporate Banking
        - Branch Bratislava
        - Branch Banská Bystrica
        - Branch Košice
        - Branch Žilina
      - **Units directly managed by CEO**
        - Treasury
        - Marketing and Communication
        - Human Resources
        - IT
      - **Corporate Secretary**
        - Legal
        - Compliance
        - Administration
      - **International Desk**
        - Trade Finance

Ownership Structure

Shareholder	Share in Registered Capital (%)
Komerční banka, a.s.	100
Total	**100**

Two General Meetings were held in 2006:

On 5 May 2006 at the Annual General Meeting of Komerční banka Bratislava, a.s., the sole shareholder – Komerční banka, a.s. reached the following decision: Komerční banka, a.s., as the sole shareholder exercising the powers of the General Meeting in compliance with Article 190 of Act No 513/1991 Coll., the Commercial Code, adopted the following decisions:

- it acknowledged the Board of Directors report on the business activities of the Bank and on the state of its assets for 2005;
- it approved the annual financial statements for 2005 and decided on the distribution of 2005 profit in the amount of SKK 2,019 thousand as follows:
  – contribution to the reserve fund: SKK 202 thousand;
  – retained earnings: SKK 1,817 thousand;
- it approved the Bank's annual report for 2005;
- it acknowledged the Supervisory Board's report for 2005.

On 5 May 2006 the General Meeting of Komerční banka Bratislava, a.s. was held which adopted the decision that the sole shareholder – Komerční banka, a.s., while executing the powers of the General Meeting in compliance with Article 190 Paragraph 1 of Act No. 513/1991 Coll., the Commercial Code, elected as members of the Supervisory Board Mr Phillipe Rucheton and Ms Brigita Štefánková with effect from the date when the approval of the National Bank of Slovakia takes effect.

On 11 August 2006 the General Meeting of Komerční banka Bratislava, a.s. was held, which adopted a decision that the sole shareholder – Komerční banka, a.s., while executing the powers of the General Meeting in compliance with Article 190 Paragraph 1 of Act No. 513/1991 Coll., the Commercial Code, committed the Bank's Board of Directors to adopt a decision on approval authorities for the CEO and the Director of Risk Management Division with respect to approving financing for clients and groups of economically related parties.

Report of the Supervisory Board

Throughout 2006 the Supervisory Board of Komerční banka Bratislava, a.s. (the "Bank") performed tasks conferred on it by law and the Articles of Association of the Bank. The tasks primarily focused on supervision of Board of Directors activity and commercial operations of the Bank.

During its meetings, the Supervisory Board regularly reviewed documents relating to strategic and operational management of the Bank and discussed in detail significant strategic and operational issues. Supervisory Board undertook its review procedures primarily on the basis of information provided by, and interviews with, the Board of Directors and with other key managers of the Bank.

After reviewing the financial statements of the Bank for the period from 1 January to 31 December 2006 provided by Board of Directors, the Supervisory Board ascertains that the financial statements are in compliance with generally accepted accounting standards and regulations and with the Articles of Association of the Bank, and present true and fair view on the financial position of the Bank in all material aspects. The Supervisory Board further reviewed the proposal of profit distribution of the Bank as at 31 December 2006 in the amount of SKK 66,351,376.73.

The financial statements of the Bank were audited by Deloitte Audit s.r.o. in accordance with Slovak and International Accounting Standards. The Supervisory Board acknowledges that the Audit Report issued thereon is without a qualification, it states that financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and the results of its operations for the year then ended. The Audit Report is part of the Annual Report of the Bank for 2006.

The Supervisory Board recommends that the General Meeting approves the financial statements for 2006 as well as the distribution of the profit generated in 2006 in accordance with the conclusions made at the Supervisory Board meeting that was held on 27 March 2007, i.e. the allocation of SKK 6.6 million to the statutory reserve fund and SKK 59.7 million to retained earnings.

Prague, 27 March 2007

On behalf of the Supervisory Board:

Philipe Rucheton
Chairman of the Supervisory Board

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 circumstances that may be important for decisions taken by investors.

Furthermore, Komerční banka Bratislava, a.s. declares that as at the date on which the annual report was compiled, no negative changes had occurred in its financial situation, nor were there any other changes which might have affected an accurate and correct assessment of the Bank's financial situation.

Bratislava, 4 April 2007

Jaromír Chabr
Chairman of the Board of Directors and CEO

Alain Couteau
Member of the Board of Directors
and Director of International Desk Division

Financial Section

Financial Statements Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

Independent Auditor's Report

Deloitte.

Deloitte Audit s.r.o.
Apollo BC
Prievozská 2/B
821 09 Bratislava 2
Slovenská republika

Obchodný register
Okresného súdu Bratislava 1
Oddiel: Sro
Vložka č.: 4444/B
IČO: 31 343 414

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

Independent Auditor's Report to the Shareholders and Board of Directors of Komerční banka Bratislava, a.s.:

1. We have audited the accompanying separate financial statements of Komerční banka Bratislava, a.s., which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' Responsibility for the Financial Statements

2. The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.
   An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
   We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Komerční banka Bratislava, a.s. as of 31 December 2006, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Bratislava 14 February 2007

Deloitte

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

Ing. Zuzana Letková
Responsible auditor
Licence SKAu No. 865

Audit • Tax • Consulting • Financial Advisory •

Member of
Deloitte Touche Tohmatsu

Balance Sheets as of 31 December 2006 and 31 December 2005

SKK thousand	Note	2006	2005
Assets			
Cash and balances with the National Bank of Slovakia	3	213,979	136,988
Due from financial institutions	4	1,636,267	2,908,167
Loans and advances to customers, net	5	3,652,216	3,083,766
Securities available for sale	6	–	–
Securities held to maturity	7	20,633	20,633
Tangible and intangible assets, net	9	40,626	43,644
Assets held for sale	10	–	20,526
Prepayments, accrued income and other assets	11	114,515	76,741
Total assets		**5,678,236**	**6,290,465**
Liabilities and equity			
Amounts owed to financial institutions	12	1,537,364	2,390,390
Amounts owed to customers	13	3,205,154	2,983,694
Accrued expenses, other provisions and other liabilities	14	117,745	157,996
Total liabilities		**4,860,263**	**5,532,080**
Registered capital		500,000	500,000
Non-distributable reserves		90,005	89,803
Retained earnings from previous years		148,718	147,498
Profit after taxation		66,351	1,419
Hedging reserve	25	12,899	19,665
Total equity	**16**	**817,973**	**758,385**
Total liabilities and equity		**5,678,236**	**6,290,465**

These financial statements were approved by the Board of Directors on 14 February 2007.

Signed on behalf of the Board of Directors:

Jaromír Chabr
Chairman of the Board of Directors
and CEO

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

Statements of Profit and Loss for the years ended 31 December 2006 and 31 December 2005

SKK thousand	Note	2006	2005
Interest income	17	312,485	220,987
Interest expense	18	(188,612)	(118,043)
Net interest income		**123,873**	**102,944**
Net fees and commissions	19	75,257	54,800
Net profit/(loss) on financial operations	20	36,770	19,328
Other income and expense, net		313	123
Operating income		**236,213**	**177,195**
Administrative expenses	21	(140,735)	(139,250)
Depreciation and other provisions (except provisions for losses from loans and guarantees)	8, 9	(15,090)	(14,487)
Profit before provisions for loan losses and income taxes		**80,388**	**23,458**
Provisions for losses from loans and guarantees	8	(11,845)	(15,272)
Profit before income taxes		**68,543**	**8,186**
Income taxes	22	(2,192)	(6,767)
Net profit for the year		**66,351**	**1,419**

Statements of Changes in Equity for the years ended 31 December 2006 and 31 December 2005

SKK thousand	Registered capital	Reserve fund	Hedging reserve	Retained earnings	Total
Closing Balance at 1 January 2005	**500,000**	**86,169**	**11,888**	**151,132**	**749,189**
Allocation/distribution	–	3,634	–	(3,634)	–
Change in fair value of hedging derivative, net of tax	–	–	7,777	–	7,777
Profit for the current period	–	–	–	1,419	1,419
Closing balance at 31 December 2005	**500,000**	**89,803**	**19,665**	**148,917**	**758,385**
Allocation/distribution	–	202	–	(202)	–
Change in fair value of hedging derivative, net of tax	–	–	(6,766)	–	(6,766)
Other	–	–	–	3	3
Profit for the current period	–	–	–	66,351	66,351
Closing balance at 31 December 2006	**500,000**	**90,005**	**12,899**	**215,069**	**817,973**
	(Note 16)	(Note 16)	(Note 25 and 23)		

Statements of Cash Flows for the years ended 31 December 2006 and 31 December 2005

SKK thousand	2006	2005
Cash flows from operating activities		
Received interest, fees and commissions	386,484	274,959
Paid interest, fees and commissions	(194,370)	(125,328)
Cash flow from financial operations	44,134	19,328
Personnel expenses	(74,826)	(71,398)
Other operating expenses	(79,319)	(57,590)
Other income	443	220
Cash flow before changes in operating assets and liabilities	**82,546**	**40,191**
Decrease/(increase) in amounts due from financial institutions	1,272,283	402,276
Increase in loans and advances to customers	(582,770)	(887,085)
Decrease in trading securities	–	–
Increase in prepayments, accrued income and other assets	(29,295)	(26,197)
Decrease/(increase) of operating assets	**660,218**	**(511,006)**
Decrease in amounts owed to financial institutions	(853,505)	453,797
Decrease/(increase) in amounts owed to customers	147,590	(14,369)
Increase in accrued expenses, other provisions and other liabilities	47,566	26,943
Increase of operating liabilities	**658,349**	**466,371**
Cash flow from operating activities before tax	**84,415**	**(4,444)**
Income received/(paid)	(17,772)	3,991
Net cash flow from operating activities	**66,643**	**(453)**
Cash flows from investing activities		
Interest income from held to maturity securities	1,700	1,700
Proceeds from sale of premises and equipment	19,040	813
Purchase of premises and equipment	(10,392)	(21,729)
Net cash used in investing activities	**10,348**	**(19,216)**
Net (decrease)/increase in cash and cash equivalents	**76,991**	**(19,669)**
Cash and cash equivalents at the beginning of the year	**136,988**	**156,657**
Cash and cash equivalents at the end of the year	**213,979**	**136,988**
Interest paid	**(187,809)**	**(118,242)**
Interest received	**312,877**	**214,369**

Notes to the Financial Statements Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union for the year ended 31 December 2006

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 Bank's net profit was mainly generated from the provision of banking services in the Slovak Republic. The Bank's products and services result from one business segment – the provision of banking and related services.

The registered office address of the Bank is Medená 6, 811 02, Bratislava, Slovak Republic. The Bank has four branches in the Slovak Republic.

The Bank has 73 employees as of 31 December 2006 (31 December 2005: 74 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 2006

Pursuant to Act No 431/2002 Coll. on Accounting, effective from 1 January 2006 the Bank prepares its financial statements under Regulation (EC) 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards (IFRS).

Since the Bank also prepared IFRS financial statements in the previous periods and reported no significant differences between the SAS and IFRS financial statements, the adoption of IFRS had no impact on equity.

Changes in IFRS on or after 1 January 2006

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective, and the Bank has not opted for early application of these:

- IFRS 7 "Financial Instruments: Disclosures" (effective from 1 January 2007);
- Amendments to IAS 1 "Presentation of Financial Statements – Capital Disclosures" (effective from 1 January 2007);
- IFRS 8 "Operating Segments" (effective from 1 January 2008);
- IFRIC 7 "Applying the Restatement Approach under IAS 29: Financial Reporting in Hyperinflationary Economies";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions";
- IFRIC 12 "Service Concession Arrangements".

The adoption of these standards in future periods is not expected to have a material impact on profit or equity.

B. Basis of accounting and preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). IFRS as adopted by the European Union do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The Bank has determined that portfolio hedge accounting under IAS 39 would not impact the financial statements had it been approved by the EU at the balance sheet date.

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognized 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 equity, a cash flow statement and notes to the financial statements.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held for trading and all derivative contracts.

The preparation of the financial statements in accordance with IFRS requires that the management of the Bank assess estimates and assumptions which influence the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the balance sheet date, as well as the disclosed amount of income and expenses during the year. The actual results may differ from such estimates and future changes in economic conditions, business strategies, regulatory requirements, accounting rules and/or other factors may result in a change in the estimates which could have a significant impact on the reported financial position and results of operations. Significant areas of subjective judgement include:

- Provisioning for incurred credit losses and identified contingencies involve many uncertainties about the outcome of those risks and require the management of the Bank to make many subjective judgements in estimating the loss amounts.
- Income tax rules and regulations have undergone significant changes in recent years and there is little historical precedent or interpretative rulings on a number of complex issues affecting the banking industry. Also, tax authorities have broad powers in interpreting the application of the tax laws and regulations in the course of their examination of taxpayers. Accordingly there is a high level of inherent uncertainty about the ultimate outcome of examinations by the tax authorities.

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 SKK 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 recognized 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 an 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 11.25% 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 categorized as loans originated by the Bank and are carried at amortized cost. All loans and advances are recognized 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.

In general, loan receivables are individually significant and assessed on an individual basis. The amount of the provision is calculated as 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 effective interest rate at inception of the lending relationship. 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.

Provisions are created through the Profit and loss account – *"Provisions for losses from loans and guarantees"*. If the reason for provisioning no longer exists or the provision is not appropriate, the redundant provisions are released through the Profit and loss account – *"Provisions for losses from loans and 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"*.

Write-offs are generally recorded under expenses when all reasonable restructuring or collection activities have taken place and further recovery is considered to be ineffective taking into account loans outstanding, expenses on collection, and forecast result. Use of provisions resulting from write-offs is charged to income. Subsequent collections 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 categorized 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 between 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) Securities at fair value through profit or loss

Securities designated as "At fair value through profit or loss" are securities held for trading (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 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 recognized stock exchanges. The Bank monitors changes in fair values of securities on a monthly basis and includes unrealized 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 securities at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized at the 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 amortized 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 amortized 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. Any provisions are charged to expense.

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. Unrealized gains and losses arising from changes on the fair value of securities classified as available-for-sale are recognized under 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 set off against the collected cash.

G. Non-current tangible and intangible assets

Non-current tangible and intangible assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses and increased by technical improvements. Non-current 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 its residual value over its estimated useful economic life. Land, works of art and assets in the course of construction are not depreciated.

Since 1 January 2006, in compliance with the parent the Bank has changed the estimated useful life of assets for new assets placed into service.

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

Machinery and equipment, computers, vehicles	4
Intangible assets	4
Fixtures and fittings	6 – 8
Energy machinery and equipment	6 – 15
Buildings and structures	40

Gains and losses on the disposal of non-current assets are determined by reference to their carrying amount and are recognized in the statement of profit and loss in the year of disposal. Low value non-current assets and repairs in the nature of technical improvements costing less than SKK 30,000 (31 December 2005: SKK 30,000) in the case of non-current tangible assets and SKK 50,000 (31 December 2005: SKK 50,000) in the case of non-current intangible 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 30,000 (31 December 2005: SKK 30,000) in respect of non-current tangible assets and non-current intangible assets increase the acquisition cost of the non-current asset.
When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Bank's requirements, management of the Bank determines a provision for asset impairment by reference to the selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs.

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

Provisions are recognized 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.
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. 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.
Provisions are recognized in the statement of profit and loss in the line *"Provisions for losses from loans and guarantees"*.

I. Recognition of income and expense

Interest income and expense are recognized 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 accrued discounts on treasury bills and other discounted instruments. Penalty interest is accounted for and included in interest income on a cash basis. Loan origination fees are included under the effective interest rate and are therefore reported in *"Interest income"*. Other fees and commissions are recognized in the period to which they relate on an accruals basis or when due.

J. 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 recognized in the statement of profit and loss prepared in compliance with IFRS and adjusted pursuant to regulations of the MF SR.

Deferred income tax is provided, using the balance sheet 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 of property, plant and equipment, provisions for loans, revaluation of hedging financial instruments and tax losses carried forward. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilized.

K. 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 in the off balance sheet where they are remeasured to fair value. The corresponding receivables arising from the provided loans are recognized as assets in the balance sheet line *"Due from financial institutions"* or *"Loans and advances to customers, net"* as appropriate. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the sale and repurchase agreement.

L. 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 and options. These financial instruments are used by the Bank for trading and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments entered for the purposes of trading are recognized 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. Unrealized gains and losses are reported as *"Prepayments, accrued income and other assets"* and *"Accrued expenses, other provisions and other liabilities"* on the balance sheet. Changes in the fair value of derivatives held for trading are included in the line *"Net profit/(loss) on financial operations"*.

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 unrealized gains and losses reported in income.

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 recognized asset or liability (fair value hedge), or (ii) a hedge of a future cash flow attributable to a recognized asset or liability, a forecast transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

In accordance with IFRS 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 amortized 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 the 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 recognized as the *"Hedging reserve"* 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 the line *"Net profit/(loss) on financial operations"*.

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

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

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit and loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the statement of profit and loss over the period to maturity.

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity as a *"Hedging reserve"*. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recorded to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative fair value adjustments reported in equity at that time remains in equity and is recognized in the profit and loss when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative fair value adjustments reported in equity are immediately recorded in the income statement.
The revaluation of derivatives that fulfil the conditions of hedging derivatives is reported through the Bank's equity in compliance with IAS 39 (Note 25).

M. 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. 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 regulation requirements.
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;
- asset exposure to an other entity, an other group of economically related entities or to states or central banks may not exceed 25% of the Bank's capital;
- asset exposure to a group of economically related entities, representing the parent company and its other subsidiaries, may not exceed 20% of the Bank's capital;
- the 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 accounting principles.

N. Reclassifications

Certain reclassifications have been made to 2005 balances to conform to the 2006 presentation.

3. Cash and balances with the National Bank of Slovakia

Cash and balances with the National Bank of Slovakia comprise the following:

SKK thousand	2006	2005
Accounts with the National Bank of Slovakia	179,389	100,504
Current accounts with other banks	5,138	11,629
Cash in hand	29,452	24,855
Total	213,979	136,988

Accounts with the National Bank of Slovakia comprise the following:

SKK thousand	2006	2005
Legal minimum reserves	179,155	40,271
Current deposits	234	226
Term deposits	–	60,007
Total	179,389	100,504

The amount of legal minimum reserves is set by NBS guidelines – it represents 2% of the closing amount of deposits for the relevant month (in 2005: 2%) and its withdrawal is restricted.
As at 31 December 2006, the Bank complied with the required levels of legal minimum reserves. Legal minimum reserves bear interest at 1.5% (31 December 2005: 1.5%).
As at 31 December 2006 current deposits with other banks bear interest between 0.0% and 1.8% per annum (31 December 2005: between 0.0% and 2.3% p. a.).

4. Due from financial institutions

Receivables from other financial institutions include:

SKK thousand	2006	2005
Advances due from the National Bank of Slovakia	1,594,976	2,708,144
Term deposits in banks	41,291	200,023
Total	1,636,267	2,908,167

Advances due from the National Bank of Slovakia represent receivables from reverse REPO transactions. These receivables are collateralized by the NBS treasury bills and bear interest at rates ranging between 3.0% and 4.75% per annum in 2006 (2005: 4.0% – 3.0% per annum).
Term deposits in other banks bear interest at a rate between 3.5% and 7.15% per annum (31 December 2005: 2.1% per annum).

5. Loans and advances to customers, net

Loans by type:

SKK thousand	2006	2005
Loans and advances to clients	3,800,542	3,132,006
Forfaits	3,898	42,574
Other receivables from clients	–	68
Total	**3,804,440**	**3,174,648**
Less: provisions (Note 8)	(152,224)	(90,882)
Loans and advances to customers, net	**3,652,216**	**3,083,766**

Loans, collateral values and provisions by bank classification:

SKK thousand	Gross receivable	Accepted collateral	Net exposure	Provisions	Carrying value
31 December 2006					
Loans net of impairment	3,266,481	–	3,266,481	–	3,266,481
Impaired loans	404,162	229,783	174,379	(18,427)	385,735
Loss loans	133,797	–	133,797	(133,797)	–
Total	**3,804,440**	**229,783**	**3,574,657**	**(152,224)**	**3,652,216**

SKK thousand	Gross receivable	Collateral	Net exposure	Provisions	Carrying value
31 December 2005					
Loans net of impairment	2,710,682	–	2,710,682	–	2,710,682
Impaired loans	388,030	241,040	146,990	(14,946)	373,084
Loss loans	75,936	–	75,936	(75,936)	–
Total	**3,174,648**	**241,040**	**2,933,608**	**(90,882)**	**3,083,766**

The table below shows the analysis of collaterals for loans and advances made to clients:

SKK thousand	2006	2005
Total client loan collateral		
Bank guarantee	812,249	586,226
Deposits	43,722	–
Issued debentures in pledge	150,795	128,276
Pledge of real estate	1,107,997	810,424
Pledge of movable assets	482,964	578,748
Guarantee by corporate entity	1,556,137	1,174,235
Pledge of receivables	1,500,223	1,299,851
Other	459,564	–
Total nominal value of collateral	**6,113,651**	**4,577,760**

The Bank has a small, primarily corporate loan portfolio, and it reassesses the financial position of its clients on an on-going basis. In 2006, the Bank wrote off doubtful receivables from interest and overdrafts in the amount of SKK 11 thousand (31 December 2005: SKK 34 thousand).

Loans by industry:

SKK thousand	2006	2005
Trade and service activities	1,014,709	673,544
Financial leasing	1,205,989	1,124,650
Manufacturing industry	280,900	245,633
Wood processing and paper production	33,815	147,358
Mining industry	–	10,507
Engineering	237,369	317,790
Chemical industry	96,721	216,743
Electrical engineering	112,016	–
Textile industry	12,558	12,558
Transport and infrastructure	121,798	–
Agriculture industry	325,871	363,094
Construction industry	47,682	5,183
Other industries	315,012	57,588
Total	**3,804,440**	**3,174,648**
Less: provisions (Note 8)	(152,224)	(90,882)
Loans and advances to customers, net	**3,652,216**	**3,083,766**

As of 31 December 2006, 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 2,918,277 thousand (31 December 2005: SKK 2,313,025 thousand). There was no credit exposure in excess of 25% of the Bank's capital as of 31 December 2006.

Loans to related parties as of 31 December 2006 and as of 31 December 2005 are as disclosed in Note 31.

As at 31 December 2006 interest rates of loans vary between 2.83% and 12% per annum (31 December 2005: between 2.34% and 12.0% per annum).

6. Securities available for sale

SKK thousand	Fair value	Cost	Fair value	Cost
	2006	2006	2005	2005
Shares	–	452	–	452
Corporate bonds	–	–	–	20,000
Total securities available for sale	–	**452**	–	**20,452**

The Bank reassessed its recognition of corporate bonds, issuers of which were in bankruptcy; the bonds were transferred from the portfolio of securities available for sale to other assets. The cost of such bonds amounted to SKK 20,000 thousand, and their fair value equalled SKK zero.

7. Securities held to maturity

Securities held to maturity include:

SKK thousand	Recognized value 2006	Cost 2006	Recognized value 2005	Cost 2005
State bonds	20,000	20,000	20,000	20,000
Accrued interest and amortization	633	–	633	–
Total securities held to maturity	**20,633**	**20,000**	**20,633**	**20,000**

State bonds held to maturity bear interest at a rate of 8.5% per annum (31 December 2005: 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.

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

The movements in provisions in 2006 and 2005 were as follows:

SKK thousand	Loan	Guarantees and loan commit-ments	Subtotal for loans, guarantees and loan commit-ments	Other assets	Other provisions	Subtotal for other assets and other items	Total
At 1 January 2005	**133,196**	**4,791**	**137,987**	**159**	**3,149**	**3,308**	**141,295**
Provisions recognized in statement of profit and loss, net	(42,412)	57,684	15,272	(74)	–	(74)	15,198
Effect of written-off and ceded receivables	(31)	–	(31)	(16)	–	(16)	(47)
Net foreign exchange gains/losses	129	–	129	–	–	–	129
At 31 December 2005	**90,882**	**62,475**	**153,357**	**69**	**3,149**	**3,218**	**156,575**
Reclassification	–	–	–	–	(2,178)	(2,178)	(2,178)
As at 31 December 2005 after reclassification	**90,882**	**62,475**	**153,357**	**69**	**971**	**1,040**	**154,397**
Transfers of provisions	(3,759)	–	(3,759)	24,159	–	24,159	20,400
Provisions recognized in statement of profit and loss, net	71,739	(59,894)	11,845	(13)	207	194	12,039
Effect of written-off and ceded receivables	–	–	–	–	–	–	(10)
Net foreign exchange gains/losses	(6,638)	(231)	(6,869)	–	–	–	(6,859)
At 31 December 2006	**152,224**	**2,350**	**154,574**	**24,215**	**1,178**	**25,393**	**179,967**
	(Note 5)	(Note 14)		(Note 11)	(Note 14)		

9. Tangible and intangible assets, net

The movements during the current year are:

SKK thousand	Non-current intangible assets	Goodwill	Land	Buildings	Machinery, fittings and fixtures	Acquisition of assets	Total
Cost at 1 January 2005	35,806	29,491	3,370	34,211	137,709	788	241,375
Transfer to assets held for sale	–	–	(3,274)	(24,258)	–	–	(27,532)
Additions (+)	9,877	–	–	1,779	10,861	21,729	44,246
Disposals (-)	–	–	–	–	(28,522)	(22,517)	(51,039)
Cost at 31 December 2005	**45,683**	**29,491**	**96**	**11,732**	**120,048**	**–**	**207,050**
Accumulated depreciation at 1 January 2005	33,499	29,491	–	6,738	114,015	–	183,743
Transfer of accumulated depreciation to held for sale	–	–	–	(6,303)	–	–	(6,303)
Depreciation (+)	3,535	–	–	1,653	9,294	–	14,482
Net book value written off at sale	–	–	–	–	6	–	6
Disposals	–	–	–	–	(28,522)	–	(28,522)
Accumulated depreciation at 31 December 2005	**37,034**	**29,491**	**–**	**2,088**	**94,793**	**–**	**163,406**
Net book value at 31 December 2005	**8,649**	**–**	**96**	**9,644**	**25,255**	**–**	**43,644**
Cost at 1 January 2006	45,683	29,491	96	11,732	120,048	–	207,050
Transfer from Assets held for sale	–	–	–	3,206	–	–	3,206
Additions (+)	1,657	–	–	3,043	4,631	9,822	19,153
Disposals (-)	(10,365)	(29,491)	–	–	(17,337)	(9,331)	(66,524)
Cost at 31 December 2006	**36,975**	**–**	**96**	**17,981**	**107,342**	**491**	**162,885**
Accumulated depreciation at 1 January 2006	37,034	29,491	–	2,088	94,793	–	163,406
Transfer of accumulated depreciation to held for sale	–	–	–	625	–	–	625
Depreciation (+)	4,483	–	–	767	10,165	–	15,415
Net book value written off at sale	–	–	–	–	6	–	6
Disposals	(10,365)	(29,491)	–	–	(17,337)	–	(57,193)
Accumulated depreciation at 31 December 2006	**31,152**	**–**	**–**	**3,480**	**87,627**	**–**	**122,259**
Net book value at 31 December 2006	**5,823**	**–**	**96**	**14,501**	**19,715**	**491**	**40,626**

Goodwill presented by the Bank in 2005 arose in 1995 when the Bank has acquired Interbanka a.s., a Slovak banking institution, and paid premium over the net assets of Interbanka at the time of acquisition. This transaction was carried out in order to obtain a full banking licence that enabled the Bank to start carrying out commercial banking activities earlier than would otherwise be possible under normal licence approval procedures of NBS.

After Slovakia joined the European Union in 2004, and the alternative arose of applying the banking licence of the Parent Bank in order to carry out banking activities in another member state, the Bank reviewed the goodwill for impairment and identified the need to provision the remaining balance of the goodwill in the amount of SKK 11,679 thousand as at 31 December 2004. Related expense were presented in *"Depreciation and other provisions"* of the profit and loss of the year 2004.

In 2006, the Bank derecognized such assets, since they had not been used and were fully written-off.

10. Assets held for sale

SKK thousand	2006	2005
Assets held for sale	–	21,229
Less: Impairment	–	(703)
Total	–	**20,526**

In accordance with the Bank's intentions to dispose of selected of buildings and land within 12 months, in 2005 the management of the Bank decided to classify these assets with net book value SKK 21,229 thousand, in accordance with IFRS 5, as being held for sale.

The assets concerned (an operating building in Banská Bystrica together with land and an ancillary flat in Bratislava) were not used and were expected to be sold within one year. The depreciation of assets has been discontinued since their classification as held for sale.

The management of the Bank has estimated the net realizable value of the property and recorded an impairment loss amounting to SKK 703 thousand as at 31 December 2005 in the statement of profit and loss line *"Depreciation and other provisions"*.

Under a Bank decision, in May 2006 buildings and land in Banská Bystrica were sold at the selling price of SKK 19,000 thousand. In accordance with IFRS 5, these assets were classified in the held-for-sale portfolio at a net book value of SKK 18,648 thousand in 2005, and a provision of SKK 703 thousand was recorded for the estimated market price, which was released after the sale in 2006 and recognized in *"Depreciation and other provisions"* through profit or loss.

The remaining portion of the held-for-sale portfolio (the Company's apartment in Bratislava at a net book value of SKK 2,581 thousand) was reclassified to current operating assets under a decision of the Bank's Board of Directors in August 2006, because the Bank counts on its further operating use.

11. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

SKK thousand	2006	2005
Prepaid expenses and accrued revenues	1,551	2,265
Other assets	27,731	8,579
Positive fair value of derivative transactions (Note 25)	100,125	65,966
Settlement account balances	733	–
Income tax	8,590	–
Less: provisions (Note 8)	(24,215)	(69)
Total	**114,515**	**76,741**

Included in the amount of positive fair value of derivatives is SKK 22,383 thousand of interest rate swaps that qualify for cash-flow hedges.

12. Amounts owed to financial institutions

Amounts due to financial institutions comprise:

SKK thousand	2006	2005
Term accounts of other banks	1,245,952	2,273,253
Deposits of other financial institutions	251,696	30,478
Loans received from other financial institutions	39,716	86,659
Total	**1,537,364**	**2,390,390**

Current accounts of other banks bear interest at rates between 0% and 1.5% per annum (31 December 2005: 1.0% per annum). Term deposits received from other banks bear interest at rates varying between 3.45% and 7.15% per annum (31 December 2005: 2.0% and 5.15% per annum).
Loans received from other financial institutions amounting to SKK 39,716 thousand as at 31 December 2006 represent a short-term loan received from Eximbanka to provide specific purpose loans to finance exports by customers of the Bank (31 December 2005: SKK 86,659 thousand). In 2006, the loan bore an interest rate of 1.80% p.a. (2005: 1.80% p.a.)

13. Amounts owed to customers

Amounts owed to customers comprise:

SKK thousand	2006	2005
Current accounts	1,481,979	1,180,167
Term deposits	1,546,795	1,693,545
Saving accounts	6,911	14,059
Other accounts payable to clients	169,469	95,923
Total	**3,205,154**	**2,983,694**

Current accounts represent customer deposits payable upon request. As of 31 December 2006, these bear interest at rates varying between 0.1% and 0.5% per annum (31 December 2005: between 0.1% and 0.5% per annum).
Term deposits include customer funds with a specified maturity date. As of 31 December 2006, term deposits bear interest at rates varying between 0.4% and 3.3% per annum depending on the amount and the maturity of the deposit (as of 31 December 2005: 0.17% and 3.25% per annum).

Amounts owed to customers by type of customer:

SKK thousand	2006	2005
Private businesses	2,514,576	2,246,573
Individuals	194,035	279,519
Other financial institutions	111,004	17,782
Non-residents	35,928	51,081
Insurance companies	178,900	173,325
Entrepreneurs – individuals	–	117,873
Other	170,711	97,541
Total	**3,205,154**	**2,983,694**

As at 31 December 2006 three major deposits from private businesses represent 33% of the amounts owed to customers (2005: 34%).

14. Accrued expenses, other provisions and other liabilities

Accrued expenses, other provisions and other liabilities include:

SKK thousand	2006	2005
Settlement account balances	–	18
Other accounts payable	26,134	35,819
Accrued expenses	2,144	2,914
Other provisions and reserves (Note 8)	1,178	971
Provisions for guarantees (Notes 8 and 26)	2,350	62,475
Negative fair value of derivative transactions (Note 25)	79,688	42,558
Deferred tax (Notes 23)	6,251	6,765
Income tax	–	6,476
Total	**117,745**	**157,996**

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

The 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 realized 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 and a remaining maturity period of over 1 year represent an insignificant portion (8%) of the total carrying value and hence the fair value of total loans and advances to customers does not significantly differ from the carrying values as of the balance sheet date. Provisions are 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 of the 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 summarizes 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	Carrying value 2006	Fair value 2006	Carrying value 2005	Fair value 2005
Financial assets				
Cash and balances with the National Bank of Slovakia	213,979	213,979	136,988	136,988
Due from financial institutions	1,636,267	1,636,267	2,908,167	2,908,167
Loans and advances to customers, net	3,652,216	3,652,216	3,083,766	3,083,766
Investments held to maturity	20,633	23,461	20,633	24,311
Financial liabilities				
Amounts owed to financial institutions	1,537,364	1,537,364	2,390,390	2,390,390
Amounts owed to customers	3,205,154	3,205,154	2,983,694	2,983,694

16. Equity

Registered capital

Registered capital consists of 5,000 approved and fully paid shares with a par value of SKK 100,000 per share.
The reserve fund represents reserves apportioned from profits in accordance with legal requirements or decisions of the General Meeting of Shareholders.

Reserve fund

As at 31 December 2006 and 2005, the reserves are represented by the legal reserve fund. Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Bank is obliged to contribute an amount to the fund each year which is not less than 10% of its annual net profit (calculated in accordance with Slovak accounting regulations) until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve fund is not available for distribution to shareholders.

17. Interest income

Interest income comprises:

SKK thousand	2006	2005
Interest income received from:		
– Loans extended to clients	152,403	100,963
– Loans and deposits with financial institutions	158,382	118,324
– Fixed income securities	1,700	1,700
Total	**312,485**	**220,987**

The loans and deposits with financial institutions in the amount of SKK 158,382 thousand include interest income from hedging derivatives in the amount of SKK 46,834 thousand (2005: SKK 21,583 thousand). In 2006 and 2005, the fixed income securities only included interest income from securities held to maturity.

18. Interest expense

Interest expense comprises:

SKK thousand	2006	2005
Interest paid on:		
– Loans and deposits with financial institutions	124,229	69,047
– Amounts owed to customers	64,383	48,996
Total	**188,612**	**118,043**

The Loans and deposits with financial institutions in the amount of SKK 124,229 thousand include interest expense from hedging derivatives in the amount of SKK 40,126 thousand (2005: SKK 15,553 thousand).

19. Net fees and commissions

Fees and commissions consist of:

SKK thousand	2006	2005
Fees and commissions income	81,812	61,785
Fees and commissions expense	(6,555)	(6,985)
Total	**75,257**	**54,800**

20. Net profit/(loss) on financial operations

Profit/(loss) on financial operations consists of:

SKK thousand	2006	2005
Loss from interest rate derivates – trading	(72)	(2,286)
Profit from foreign currency trading	36,842	21,614
Profit from securities	–	–
Total	**36,770**	**19,328**

21. Administrative expenses

Administrative expenses comprise:

SKK thousand	2006	2005
Wages and salaries	60,373	57,359
Social costs	14,453	14,039
Other administrative costs	65,909	67,852
Total	**140,735**	**139,250**

22. Income taxes

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

SKK thousand	2006	2005
Current tax expense	914	7,500
Deferred tax expense/(income)	1,278	(733)
Total income tax expense	**2,192**	**6,767**

The corporate tax rate for 2006 is 19% (2005: 19%). 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	2006	2005
Profit before tax	**68,543**	**8,186**
Theoretical tax credit calculated at a tax rate of 19% (2005: 19%)	13,023	1,555
Income/expense not deductible for tax purposes	(64,070)	55,614
– Provisions for loans	(13,542)	(2,928)
– Provisions for guarantees	(59,687)	57,914
– Profit from securities	–	–
– Other	9,159	628
Tax base	**4,473**	**63,800**
Income tax (19%)	850	12,122
Movement on deferred tax recognized in profit and loss	1,278	(733)
Adjustment of prior year tax	64	(4,622)
Total income tax expense	**2,192**	**6,767**

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 is not included in the tax base.
Amendments to legal regulations covering provisions in the banking sector resulted in recognition of a tax-deductible item.
Current tax payable amounts to SKK 850 thousand.
Further information about deferred tax is presented in Note 23.

23. Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rate effective for the following year, that is 19% (2005: 19%).

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

SKK thousand	2006	2005
At beginning of period	6,765	2,680
Change in deferred income tax	(514)	4,085
At end of period (Note 14)	**6,251**	**6,765**

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

SKK thousand	2006	2005
Deferred income tax liabilities		
Unrealized profit on securities and financial instruments hedging	(5,346)	(4,817)
Net book value of non-current assets	(460)	–
Other temporary differences	(1,130)	(1,948)
Deferred income tax liability	**(6,936)**	**(6,765)**
Deferred income tax assets		
Loan loss provisions	–	2,567
Unrealized losses on securities and financial instruments hedging	685	166
Non-current assets depreciation	–	863
Deferred income tax asset	**685**	**3,596**
Net deferred income tax liability before adjustment	**(6,251)**	**(3,169)**
Adjustment for uncertain realization of deferred tax asset	**–**	**(3,596)**
Net deferred income tax liability	**(6,251)**	**(6,765)**

The Bank does not have tax losses to carry forward into future accounting periods.
Deferred tax liabilities from unrealized profit on hedging financial instruments of SKK 3,711 thousand were directly recognized in hedging reserve as part of shareholders' equity (see Note 25) (2005: SKK 4,187 thousand).
The final deferred tax liability as reported by the Bank was calculated from the revaluation of hedging derivates at fair value, from legal reserves arising from the difference between the book and tax carrying amounts and potential future taxation of an aliquot portion of interest income from bonds registered in assets as at 31 December 2003, which resulted from amendments to the Income Tax Act, and the tax rate of 19% was applied (31 December 2005: 19% tax rate).
The deferred tax asset resulting from unrealized loss on hedging financial instruments of SKK 685 thousand was directly recognized in the hedging reserve as part of shareholders' equity (see Note 25). In 2005, the Bank recorded no deferred tax asset.

24. Financial instruments

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset), or the obligation to deliver cash or another financial asset to another party (financial liability).
Financial instruments may result in certain risks to the Bank. The Risk Management in KB uses an integrated concept that takes into consideration standards applied the risk management within Société Générale Group as well as legal and regulatory norms, adherence to which is determined and required by the National Bank of Slovakia and other regulatory bodies. The procedures applied by the Bank allow for development related to all types of risks, i.e. credit risks, market risks, liquidity risks as well as operational and environment risks.

The most significant risks the Bank faces include:

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on – and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Collateral and corporate and personal guarantees are also partially taken into consideration in the credit risk analysis.

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions. The Bank's net open foreign exchange positions as at 31 December 2006 and 2005 are shown in Note 27.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. It arises due to different maturities and the re-pricing dates of assets and liabilities. To measure the interest rate risk, GAP analysis methodology is applied by the Risk Management function. The Bank's exposure to interest rate risk is described in Note 29.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Bank's liquidity position is monitored and managed based on expected cash inflows and outflows, and adjusting interbank deposits and placements accordingly. The Bank's liquidity risk as at 31 December 2006 and 2005 is shown in Note 28.

25. 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 in derivative transactions with its clients. The Bank operates market risk management and limit systems that are designed to limit both market and credit risks related to financial derivatives.

In 2006 the Bank performed the following hedging transactions:

1. Cash flows hedging to hedge:

a) Interest risk on reverse REPO transactions with the NBS and on short-term interbank deposits – the subject of the transaction is a receivable from a current and expected (with high probability) two-week reverse REPO transaction with the NBS (hedged item) that bears variable interest (at an interest rate reached in REPO tenders organized by the NBS). An interest rate swap is the hedging instrument used to hedge risk related to cash flows and arising from a variable interest rate, where the Bank pays a variable rate (BRIBOR 1M) and receives a fixed rate (medium market value).

b) Interest risk on short term deposits from clients – the subject of the transaction is payable from the current and expected (with high probability) client time deposits which bear a variable interest rate (an interest rate reflecting a present short-term interbank rate). An interest rate swap is the hedging instrument used to hedge risk related to cash flows and arising from a variable interest rate, where the Bank receives a variable rate (BRIBOR 1M) and pays a fixed rate.

2. Fair value hedging to hedge the interest risk generated by the "zero risk" interest rate of clients' deposits which bear fixed interest. An interest rate swap is the hedging instrument used to hedge changes in the fair value of the loan resulting from the change in the "zero risk" interest rate, where the Bank receives a variable rate (BRIBOR 1M) and pays a fixed rate.

As of 31 December 2006, all three groups of hedging transactions referred to above remain open.
In accordance with the requirements of IAS 39 each hedging derivative and every hedging transaction has to be approved by the KBB ALCO, documented at inception of the hedging relationship, with the hedging effectiveness proof of the cash flow hedging transactions calculated every 3 months. Both the 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 2006 and 31 December 2005 are as follows:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Foreign currency instruments (unquoted):								
Currency swaps	1,404,832	931,834	1,370,258	912,217	37,010	22,933	3,990	4,334
Currency forwards	672,582	508,031	705,369	527,842	3,187	79	34,548	18,876
Cross currency swaps	881,805	914,137	881,805	914,137	25,613	4,027	25,613	4,256
Call options	601,592	2,960,510	587,402	3,037,048	11,929	14,105	–	–
Put options	587,402	3,037,048	601,592	2,960,510	–	–	11,929	14,105
Interest rate instruments (unquoted):								
Interest rate options	150,720	156,959	150,720	156,959	3	231	–	–
Interest rate swaps	–	–	–	–	–	–	–	–
Total	4,298,933	8,508,519	4,297,146	8,508,713	77,742	41,375	76,080	41,571

An analysis of hedging financial derivative instruments at notional and fair value as at 31 December 2006 and 2005 is as follows:

SKK thousand	Notional value of assets		Notional value of liabilities		Fair value (positive)		Fair value (negative)	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Interest rate swaps	1,211,018	1,044,377	1,211,018	1,044,377	22,383	24,591	3,608	987
Total	1,211,018	1,044,377	1,211,018	1,044,377	22,383	24,591	3,608	987

The Bank recognized the changes in the fair value of qualifying cash-flow hedges of SKK 12,899 thousand (fair value: SKK 17,976 thousand; accruals: SKK 2,051 thousand and deferred tax liability: SKK 3,026 thousand, Note 23) that was determined to be an effective hedge in the "Hedging reserve" of the shareholders' equity.

Maturity analysis of derivatives at notional value:

	2006		2005	
	Receivables	Liabilities	Receivables	Liabilities
Hedging Interest rate swaps				
Up to 1 month	13,400	13,400	12,000	12,000
From 1 to 3 months	–	–	–	–
From 3 to 12 months	265,600	265,600	20,650	20,650
From 1 to 5 years	546,933	546,933	738,626	738,626
Over 5 years	385,085	385,085	273,102	273,102
Total hedging derivatives	**1,211,018**	**1,211,018**	**1,044,378**	**1,044,378**
Derivatives held for trading				
Currency swaps				
Up to 1 month	834,244	834,605	166,497	165,166
From 1 to 3 months	99,030	94,737	488,299	479,719
From 3 to 12 months	328,992	304,367	277,038	267,332
From 1 to 5 years	142,566	136,549	–	–
Over 5 years	–	–	–	–
Currency forwards				
Up to 1 month	102,756	104,283	93,113	94,581
From 1 to 3 months	128,670	132,711	301,374	310,201
From 3 to 12 months	304,367	326,098	113,544	123,060
From 1 to 5 years	136,789	142,277	–	–
Over 5 years	–	–	–	–
Call options				
Up to 1 month	35,118	33,701	1,219,397	1,257,262
From 1 to 3 months	132,061	133,402	864,596	900,838
From 3 to 12 months	315,764	303,310	876,517	878,948
From 1 to 5 years	118,649	116,989	–	–
Over 5 years	–	–	–	–
Put options				
Up to 1 month	33,701	35,118	1,257,262	1,219,397
From 1 to 3 months	133,402	132,061	900,838	864,596
From 3 to 12 months	303,310	315,764	878,948	876,517
From 1 to 5 years	116,989	118,649	–	–
Over 5 years	–	–	–	–
Cross currency swaps				
Up to 1 month	–	–	–	–
From 1 to 3 months	–	–	–	–
From 3 to 12 months	575,445	575,445	–	–
From 1 to 5 years	306,360	306,360	914,137	914,137
Over 5 years	–	–	–	–
Interest rate swaps				
Up to 1 month	–	–	–	–
From 1 to 3 months	–	–	–	–
From 3 to 12 months	–	–	–	–
From 1 to 5 years	150,720	150,720	156,959	156,959
Over 5 years	–	–	–	–
Total derivatives held for trading	**4,298,933**	**4,297,146**	**8,508,519**	**8,508,713**
Total	**5,509,951**	**5,508,164**	**9,552,897**	**9,553,091**

26. Commitments and contingent liabilities

a) Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2006. Pursuant to a review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of SKK 1,178 thousand for these legal disputes (31 December 2005: SKK 971 thousand) see note 14.

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 to cover losses included in balances of undrawn loan commitments, guarantees and letters of credit, which are recognized in off-balance sheet accounts.

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

The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorizations 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 authorized 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	2006	2005
Non-payment guarantees	60,963	250,198
Payment guarantees	**213,758**	**117,211**
Letters of credit – covered	–	30,000
Letters of credit – uncovered	3,236	–
Subtotal	**277,957**	**397,409**
Committed facilities – bank guarantees	11,850	261,242
Undrawn credit commitments	778,369	361,895
Unutilized overdraft loans	464,391	240,380
Other revocable and irrevocable commitments	**1,254,610**	**863,517**
Total revocable and irrevocable commitments	**1,532,567**	**1,260,926**

As of 31 December 2006, the Bank accounted for provisions for risks arising from commitments from the issuance of guarantees of SKK 3 thousand (2005: SKK 61,783 thousand) and provisions for risks arising from the undrawn credit commitments and the unutilized overdraft loans of SKK 2,347 thousand (2005: SKK 692 thousand) – refer to Notes 8 and 14.

As of 31 December 2005 the Bank reported a provision amounting to SKK 61,783 thousand for a guarantee (performance bond) granted to a client for a performance bond towards his customer. The total amount of the guarantee was SKK 211 million of which SKK 56 million was covered by a securing guarantee of Société Générale.

The Bank has assessed the probability of the client's exercising the guarantee granted to the client, as well as the amounts potentially claimed, and has created a provision amounting to 40% of the net exposure of the Bank as at 31 December 2005. Under a beneficiary call, in August 2006 the Bank started to exercise the bank guarantee granted to a client in the amount of SKK 132,132 thousand (EUR 3,500 thousand). The realized execution of the guarantee is recognized by the Bank as a loss loan receivable (the client is in bankruptcy proceedings), for which a provision of SKK 76,108 thousand was recorded (EUR 2,016 thousand). At the same time, the provision for provided guarantees was released. The difference between the exercised guarantee and recorded provision is covered by the bank guarantee received from Société Générale.
The total effect of the aforementioned transaction on the Bank's profit or loss for 2006 was SKK 14,325 thousand, recognized in *"Provisions for losses from loans and guarantees"* through profit or loss.

27. Net currency exposure

The table below provides an analysis of the Bank's foreign currency exposures as of 31 December 2006 and 31 December 2005.

SKK thousand	Slovak Crown	Czech Crown	US Dollar	CH Frank	Euro	Other	Total
Assets							
Cash and balances with National Bank of Slovakia	195,963	4,008	1,527	875	9,815	1,791	213,979
Due from financial institutions	1,633,327	–	–	–	–	2,940	1,636,267
Loans and advances to customers, net	2,486,175	67,583	61,335	–	1,037,123	–	3,652,216
Receivables from derivatives fair value	99,326	–	–	–	799	–	100,125
Securities held to maturity	20,633	–	–	–	–	–	20,633
Tangible and intangible assets, net	40,626	–	–	–	–	–	40,626
Prepayments, accrued income and other assets	13,763	89	–	–	538	–	14,390
Total assets	**4,489,813**	**71,680**	**62,862**	**875**	**1,048,275**	**4,731**	**5,678,236**
Liabilities and shareholders' equity							
Amounts owed to financial institutions	1,535,407	–	–	–	12	1,945	1,537,364
Amounts owed to customers	2,392,318	78,834	51,938	–	682,202	(138)	3,205,154
Commitments from derivatives fair value	79,688	–	–	–	–	–	79,688
Accrued expenses, other provisions and other liabilities	36,263	1,057	–	–	737	–	38,057
Shareholder's equity	817,973	–	–	–	–	–	817,973
Total liabilities and shareholders' equity	**4,861,649**	**79,891**	**51,938**	–	**682,951**	**1,807**	**5,678,236**
Net balance sheet position	**(371,836)**	**(8,211)**	**10,924**	**875**	**365,324**	**2,924**	–
Off-balance sheet assets	2,184,470	428,547	175,703	–	1,376,250	61,824	4,226,794
Off-balance sheet liabilities	1,811,628	420,219	185,925	–	1,743,790	62,724	4,224,286
Net off-balance sheet position	**372,842**	**8,328**	**(10,222)**	–	**(367,540)**	**(900)**	**2,396**
Net currency exposure at 31 December 2006	**1,006**	**117**	**702**	**875**	**(2,216)**	**2,024**	**2,508**
Net currency exposure at 31 December 2005	**66,797**	**(2,095)**	**184**	**75**	**(65,351)**	**179**	**(211)**

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

28. Liquidity risk

Liquidity risk is a measure of the Bank's failure to meet its liabilities when they become due.
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 to 3 months	From 3 to 12 months	From 1 to 5 years	From 5 years and over	Not specified	Total
Assets							
Cash and balances with National Bank of Slovakia	213,979	–	–	–	–	–	213,979
Due from financial institutions	1,636,267	–	–	–	–	–	1,636,267
Loans and advances to customers, net	594,927	530,191	1,522,432	773,247	171,712	59,707	3,652,216
Securities held to maturity	–	–	633	20,000	–	–	20,633
Receivables from derivatives fair value	–	–	–	–	–	100,125	100,125
Tangible and intangible assets, net (incl. held for sale)	–	–	–	–	–	40,626	40,626
Prepayments, accrued income and other assets	–	–	8,590	–	–	5,800	14,390
Total assets	**2,445,173**	**530,191**	**1,531,655**	**793,247**	**171,712**	**206,258**	**5,678,236**
Liabilities and shareholders' equity							
Amounts owed to financial institutions	1,499,719	4,142	33,503	–	–	–	1,537,364
Amounts owed to customers	3,141,610	45,502	16,112	1,930	–	–	3,205,154
Accrued expenses, other provisions and other liabilities	–	1,635	–	–	–	36,422	38,057
Commitments from derivatives at fair value	–	–	–	–	–	79,688	79,688
Shareholders' equity	–	–	–	–	–	817,973	817,973
Total liabilities and shareholders' equity	**4,641,329**	**51,279**	**49,615**	**1,930**	**–**	**934,083**	**5,678,236**
Off-balance sheet assets	1,005,819	493,163	1,827,878	514,993	–	–	3,841,853
Off-balance sheet liabilities	1,007,707	492,911	1,824,984	514,464	–	–	3,840,066
Liquidity risk of off-balance sheet at 31 December 2006	**(1,888)**	**252**	**2,894**	**529**	**–**	**–**	**1,787**
Cumulative liquidity risk at 31 December 2006	**(2,198,044)**	**(1,718,880)**	**(233,946)**	**557,900**	**729,612**	**1,787**	**–**
Cumulative liquidity risk at 31 December 2005	**(1,279,858)**	**(1,145,158)**	**(400,472)**	**498,475**	**666,728**	**(194)**	**–**

Off-balance sheet assets and liabilities include only derivatives with the real exchange of the notional value.

29. 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 to 12 months	From 1 to 5 years	From 5 years and over	Not specified	Total
Assets						
Cash and balances with National Bank of Slovakia	184,527	–	–	–	29,452	213,979
Due from financial institutions	1,636,267	–	–	–	–	1,636,267
Loans and advances to customers, net	2,509,595	843,904	285,353	13,364	–	3,652,216
Securities held to maturity	–	633	20,000	–	–	20,633
Receivables from derivatives fair value	–	–	–	–	100,125	100,125
Tangible and intangible assets, net (incl. held for sale)	–	–	–	–	40,626	40,626
Prepayments, accrued income and other assets	–	–	–	–	14,390	14,390
Total assets	**4,330,389**	**844,537**	**305,353**	**13,364**	**184,593**	**5,678,236**
Liabilities and shareholders' equity						
Amounts owed to financial institutions	1,537,364	–	–	–	–	1,537,364
Amounts owed to customers	1,538,842	14,864	–	–	1,651,448	3,205,154
Commitments from derivatives at fair value	–	–	–	–	79,688	79,688
Accrued expenses, other provisions and other liabilities	–	–	–	–	38,057	38,057
Shareholders' equity	–	–	–	–	817,973	817,973
Total liabilities and shareholders' equity	**3,076,206**	**14,864**	**–**	**–**	**2,587,166**	**5,678,236**
Net balance sheet position	**1,254,183**	**829,673**	**305,353**	**13,353**	**(2,402,573)**	**–**
Off-balance sheet interest rate assets	644,618	884,985	357,440	356,500	–	2,243,543
Off-balance sheet interest rate liabilities	616,014	1,237,117	376,137	14,275	–	2,243,543
Net off-balance sheet position	**28,604**	**(352,132)**	**(18,697)**	**342,225**	**–**	**–**
Net interest rate risk at 31 December 2006	**1,282,787**	**477,541**	**286,656**	**355,589**	**(2,402,573)**	**–**
Cumulative interest rate risk at 31 December 2006	**1,282,787**	**1,760,328**	**2,046,984**	**2,402,573**	**–**	**–**
Cumulative interest rate risk at 31 December 2005	**994,717**	**1,388,744**	**1,965,334**	**1,965,367**	**–**	**–**

30. Related party transactions

Related parties as defined in IAS 24 are those counterparties that represent:

a) Entities that directly or indirectly (through one or more intermediaries) control the reporting entity, or are controlled by the reporting entity, or are referred to as jointly controlled entities (this includes holding companies, subsidiaries and fellow subsidiaries);
b) Associates – entities in which the Bank has a significant influence and which are neither subsidiaries nor joint ventures of the investor;
c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them a significant influence over the Bank, and anyone expected to influence or be influenced by these individuals in dealings with the Bank;
d) Key management personnel, i.e. persons holding authority and responsibility for the planning, management and controlling of the activities of the Bank, including directors and officers of the Bank and their close family; and

e) Entities in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in paragraphs (c) or (d) above or over which such a person is able to exercise significant influence. These include entities owned by directors or key shareholders of the Bank, and entities that have a member of the key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.
The Bank enters into numerous banking transactions with related parties within the ordinary course of its business. Banking transactions are carried out on an arm's length basis and at market prices.
The Bank is controlled by Komerční banka, a.s., Prague, which holds 100% of the voting rights of the Bank. Related parties also include Société Générale Group, which owns 60.35% of the voting rights of Komerční banka, a.s., Prague.

Assets, liabilities, income, expenses, commitments and contingent liabilities in respect of the related parties:

SKK thousand	2006	2005
Assets		
Cash and balances with National Bank of Slovakia	5,032	3,350
Komerční banka, a.s., Prague	2,983	3,040
SG Group	2,049	310
Amounts due from financial institutions	41,291	–
Komerční banka, a.s., Prague	41,291	–
Loans and advances to customers, net	231,335	232,976
SG Group	229,288	230,711
Management	2,047	2,265
Prepayments, accrued income and other assets	90,413	49,139
Komerční banka, a.s., Prague	88,764	45,997
SG Group	1,649	3,142
Total	**368,071**	**285,465**
Liabilities		
Amounts owed to financial institutions	1,151,965	2,161,589
Komerční banka, a.s., Prague	903,337	2,131,191
SG Group	248,628	30,398
Amounts owed to customers	85,805	3,404
SG Group	83,430	–
Management	2,375	3,404
Accrued expenses and other liabilities	21,326	16,637
Komerční banka, a.s., Prague	8,393	7,144
SG Group	12,933	9,493
Total	**1,259,096**	**2,181,630**

Income and expenses from related parties include the following:

SKK thousand	2006	2005
Interest income	48,864	32,221
Komerční banka, a.s., Prague	48,593	23,270
SG Group	271	8,951
Interest expense	(101,568)	(50,217)
Komerční banka, a.s., Prague	(100,171)	(50,217)
SG Group	(1,397)	–
Net fees and commissions	1,619	1,790
Komerční banka, a.s., Prague	1,669	1,212
SG Group	(50)	578
Net (loss)/profit on financial operations	33,103	(4,105)
Komerční banka, a.s., Prague	33,103	(4,105)
Other income	120	120
Komerční banka, a.s., Prague	120	120
Administrative expenses	(25,481)	(22,301)
Komerční banka, a.s., Prague	(12,301)	(9,011)
SG Group	(948)	–
Management	(12,232)	(13,290)
Total	(43,343)	(42,492)

Included in *"Administrative expense"* is remuneration of members of the Board of Directors and Supervisory Board paid out during 2006, amounting to SKK 12,232 thousand (2005: SKK 13,290 thousand).
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.
As of 31 December 2006, the Bank recognized an amount of SKK 288,133 thousand (31 December 2005: SKK 342,952 thousand) in off-balance sheet receivables from accepted guarantees from related parties. Guarantees provided to related parties amounted to SKK 1,987 thousand (31 December 2005: SKK 560 thousand). Loan commitments to related parties granted as of 31 December 2006 and recorded in the off-balance sheet amounted to SKK 206,627 thousand (31 December 2005: SKK 60,178 thousand).

31. Post balance sheet events

No significant events occurred between the balance sheet date and the date these financial statements were authorized for issue with would require adjustment or additional disclosures.

These financial statements were approved by the Board of Directors on 14 February 2007.

Signed on behalf of the Board of Directors:

Jaromír Chabr
Chairman of the Board of Directors
and CEO

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

Komerční banka Bratislava, a.s.
Medená 6, P.O. Box 137
810 00 Bratislava
Slovak Republic
tel.: +421 259 277 328, 259 277 338
fax: +421 252 961 959, 252 964 801
e-mail: koba@koba.sk
internet: www.koba.sk

The photographs on the cover and page 15 are
from the National Theatre Archive in Prague.
Photographer: Hana Smejkalová
cover: performance of La clemenza di Tito
page 15: performance of Samson et Dalila