# HVB Bank Slovakia a. s.

## Separate financial statements

Prepared in accordance with
International Financial Reporting Standards

## Year ended 31 December 2006

February 2007

*This report contains 52 pages*

## Contents

## Independent Auditors' Report

# Balance sheet at 31 December 2006

| | Notes | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 14,196,471 | 25,555,187 |
| Trading assets | 8 | 1,737,336 | 1,305,583 |
| Derivative assets held for risk management | 9 | 146,282 | 16,450 |
| Loans and advances to banks | 10 | 3,441,123 | 2,243,795 |
| Loans and advances to customers | 11 | 45,051,471 | 37,362,706 |
| Investment securities | 13 | 7,251,596 | 8,953,311 |
| Investments in subsidiaries | 14 | - | 64,926 |
| Property and equipment | 15 | 280,681 | 404,633 |
| Corporate income tax receivable | 20 | - | 12,592 |
| Deferred tax asset | 25 | 31,689 | 29,722 |
| Other assets | | 41,954 | 33,693 |
| | | 72,178,603 | 75,982,598 |
| **Liabilities** | | | |
| Trading liabilities | 8 | 728,169 | 254,816 |
| Derivative liabilities held for risk management | 9 | 53,023 | 12,189 |
| Deposits by banks | 16 | 18,572,618 | 33,000,363 |
| Customer accounts | 17 | 38,020,727 | 29,584,634 |
| Loans received | 18 | 3,519,197 | 2,819,342 |
| Debt securities in issue | 19 | 2,280,753 | 2,023,120 |
| Corporate income tax payable | 20 | 2,247 | - |
| Provisions | 21 | 217,410 | 216,354 |
| Other liabilities | | 336,807 | 117,906 |
| | | 63,730,951 | 68,028,724 |
| **Share capital and reserves** | | | |
| Share capital | 22 | 2,576,250 | 2,576,250 |
| Reserves | 23 | 5,871,402 | 5,377,624 |
| Share capital and reserves | | 8,447,652 | 7,953,874 |
| | | 72,178,603 | 75,982,598 |
| **Off balance sheet items** | 24 | 52,055,009 | 42,117,690 |

The separate financial statements, which include the notes on pages 8 to 52, were approved by the Board of Directors on 19 February 2007 and signed on its behalf by:

| | |
|---|---|
| Helmut Horvath<br>Member of the Board of Directors | Friedrich Plail<br>Member of the Board of Directors |

**HVB Bank Slovakia a.s.**

# Income statement
# Year ended 31 December 2006

| | Notes | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|---|
| Interest receivable and similar income arising from debt securities | 26 | 3,249,003 | 2,638,623 |
| Interest payable | 27 | (1,904,571) | (1,414,940) |
| **Net interest income** | | 1,344,432 | 1,223,683 |
| Fees and commissions receivable | | 422,027 | 381,660 |
| Fees and commissions payable | | (88,630) | (75,305) |
| Net trading income | | 439,430 | 465,696 |
| Other operating expense | | (8,783) | - |
| **Operating income** | | 2,108,476 | 1,995,734 |
| Administrative expenses | 28 | (914,453) | (821,015) |
| Depreciation | 15 | (121,078) | (179,614) |
| **Operating expenditure** | | (1,035,531) | (1,000,629) |
| **Operating profit before impairment losses and provisions** | | 1,072,945 | 995,105 |
| Impairment losses on loans and advances | 12 | (215,198) | 1,586 |
| Impairment losses on investment securities | 13 | 10 | (2,710) |
| Impairment losses on investments in subsidiaries | 14 | 22,440 | (32,440) |
| Impairment losses on property and equipment | 15 | (73,341) | - |
| Provisions | 21 | (7,082) | (151,011) |
| **Profit before taxation** | | 799,774 | 810,530 |
| Income tax expense | 29 | (171,840) | (87,436) |
| **Profit after taxation** | | 627,934 | 723,094 |
| **Basic and diluted earnings per share (expressed in Sk per share)** | 30 | 2,437 | 2,807 |

The notes on pages 8 to 52 are an integral part of these separate financial statements.

# Statement of changes in shareholder's equity
# Year ended 31 December 2006

| | Share capital Sk '000 | Retained earnings Sk '000 | Legal reserve fund Sk '000 | Reval-uation reserve Sk '000 | Cash flow hedge reserve Sk '000 | Capital fund Sk '000 | Total Sk '000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2005** | 2,576,250 | 4,030,587 | 365,163 | 177,199 | - | 18,472 | 7,167,671 |
| Transfers | - | (50,945) | 50,945 | - | | - | - |
| Net gain on available for-sale assets, net of tax | - | - | - | 59,657 | - | - | 59,657 |
| Net gain from cash flow hedge, net of tax | - | - | - | - | 3,452 | - | 3,452 |
| Profit for 2005 | - | 723,094 | - | - | - | - | 723,094 |
| **At 31 December 2005** | 2,576,250 | 4,702,736 | 416,108 | 236,856 | 3,452 | 18,472 | 7,953,874 |
| Transfers | - | (75,287) | 75,287 | - | - | - | - |
| Net loss on available for-sale assets, net of tax | - | - | - | (207,670) | - | - | (207,670) |
| Net gain from cash flow hedge, net of tax | - | - | - | - | 73,514 | - | 73,514 |
| Profit for 2006 | - | 627,934 | - | - | - | - | 627,934 |
| **At 31 December 2006** | 2,576,250 | 5,255,383 | 491,395 | 29,186 | 76,966 | 18,472 | 8,447,652 |

See also notes 22 and 23 for details of movements in shareholder's equity accounts during the year.

The notes on pages 8 to 52 are an integral part of these separate financial statements.

# Cash flow statement
# Year ended 31 December 2006

| | Notes | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before changes in operating assets and liabilities | 31 | 1,174,206 | 1,154,046 |
| Increase in trading assets | | (431,753) | (225,205) |
| Increase in derivative assets held for risk management | | (56,318) | (12,998) |
| (Increase)/decrease in loans and advances to banks | | (1,197,328) | 2,218,581 |
| Increase in loans and advances to customers | | (7,903,963) | (6,317,808) |
| (Increase)/decrease in other assets | | (8,261) | 121,070 |
| Increase in trading liabilities | | 473,353 | 27,852 |
| Increase in derivative liabilities held for risk management | | 40,834 | 12,189 |
| (Decrease)/increase in deposits by banks | | (14,427,745) | 7,882,854 |
| Increase in customer accounts | | 8,436,093 | 1,799,710 |
| (Increase)/decrease in other liabilities | | 218,901 | (108,709) |
| Income tax paid | | (168,484) | (217,181) |
| ***Net cash from/( used in) operating activities*** | | (13,850,465) | 6,334,401 |
| **Cash flows from investing activities** | | | |
| Disposal/(acquisition) of investment securities | | 1,503,571 | (829,135) |
| Disposal/(acquisition) of investments in subsidiaries | | 87,366 | (43,297) |
| Proceeds from sale of property and equipment | | 68,170 | 187,385 |
| Purchase of property and equipment | | (124,846) | (278,260) |
| ***Net cash from/ (used in) investing activities*** | | 1,534,261 | (963,307) |
| **Cash flows from financing activities** | | | |
| Loans received | | 699,855 | 1,027,790 |
| Issue of debt securities | | 257,633 | 1,010,236 |
| ***Net cash from financing activities*** | | 957,488 | 2,038,026 |
| ***Net (decrease)/increase in cash and cash equivalents*** | | (11,358,716) | 7,409,120 |
| ***Cash and cash equivalents at beginning of year*** | | 25,555,187 | 18,146,067 |
| **Cash and cash equivalents at end of year** | 6 | 14,196,471 | 25,555,187 |

The notes on pages 8 to 52 are an integral part of these separate financial statements.

# Notes to the separate financial statements
# Year ended 31 December 2006

## 1. General information

HVB Bank Slovakia a.s. is a wholly-owned subsidiary of Bank Austria AG, Vienna, a bank incorporated in Austria. The ultimate parent company is Bayerische Hypo-und Vereinsbank Aktiengesellschaft Munich, a bank incorporated in Germany.

At 31 December 2006, the Bank had the following subsidiary (a company incorporated in the Slovak Republic):

| **Name** | **Activity** | **Holding %** |
|---|---|---|
| HVB Factoring s.r.o. | Factoring and forfeiting | 80 |

The principal activities of the Bank are the provision of banking and financial services to commercial and private customers resident mainly in the Slovak Republic.

Following the merger of UniCredito Italiano and the Bayerische Hypo- und Vereinsbank group in 2005, it is expected that HVB Bank Slovakia a.s. will integrate with UniBanka, a.s. during 2007.

The Bank operates through a network of 27 branches. There are six branches located in Bratislava, two branches in Košice, two branches in Banská Bystrica and one branch each in Dunajská Streda, Malacky, Martin, Michalovce, Liptovský Mikuláš, Lučenec, Nitra, Nové Zámky, Piešťany, Poprad, Prešov, Prievidza, Senica, Trenčín, Trnava, Zvolen and Žilina.

## 2. Basis of preparation

### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

These financial statements are prepared as separate financial statements for Slovak statutory purposes and for the information of the shareholder of the Bank.

These are the Bank's first separate financial statements and IFRS 1 has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Bank is provided in the note 39.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value.

### (c) Functional and presentation currency

These financial statements are presented in Slovak crowns, which is the Bank's functional currency. Except as indicated, financial information presented in Slovak crowns has been rounded to the nearest thousand.

## 2. Basis of preparation continued

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4 and 37.

### (e) Comparative figures

The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2005 for the purposes of the transition to IFRSs.

### (a) Foreign currency

*Foreign currency transactions*
Transactions denominated in foreign currencies are translated into Slovak crowns at the exchange rates ruling on the base of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date. All resulting gains and losses are recorded in Dealing profits in the income statement.

### (b) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented, together with all other changes in the fair value of trading assets and liabilities, in net trading income.

## .3. Significant accounting policies continued

**(c) Fees and commission**

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawn-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

**(d) Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

**(e) Dividends**

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

**(f) Lease payments made**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under the finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(g) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 3. Significant accounting policies continued

### (g) Income tax expense continued

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### (h) Financial assets and liabilities

*(i) Recognition*
The Bank initially recognises loans and advances, deposits by banks, customer accounts, loans received and debt securities in issue on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value though profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

*(ii) Derecognition*
The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

*(iii) Offsetting*
Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

*(iv) Amortised cost measurement*
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

*(v) Fair value measurement*
The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable-prices exist and valuation models. The Bank uses widely recognised valuation models for determining the fair value of the more common financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

## 3. Significant accounting policies continued

### (h) Financial assets and liabilities continued

*(vi) Identification and measurement of impairment*
At each balance sheet date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the income statement. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the income statement.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

### (i) Cash and cash equivalents

Cash and cash equivalents comprises cash, unrestricted balances held with the National Bank of Slovakia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the balance sheet.

## 3. Significant accounting policies continued

**(j) Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to income. All changes in fair value are recognised as part of net trading income in the income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

**(k) Derivatives held for risk management purposes**

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet. The treatment of changes in their fair value depends on their classification into the following categories:

*(i) Fair value hedge*
When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in income together with the changes in the fair value of the hedged item that are attributable to the hedged risk (in the same income statement line item as the hedged item).

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to income as part of the recalculated effective interest rate of the item over its remaining life.

*(ii) Cash flow hedge*

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in income in the same period as the hedged cash flows affect the income statement under the same income statement line as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in equity is recognised immediately in the income statement.

*(iii) Other non-trading derivatives*
When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in income as a component of net income on the other financial instruments carried at fair value.

## 3. Significant accounting policies continued

### (k) Derivatives held for risk management purposes continued

*(iv) Embedded derivatives*
Derivatives may be embedded in another contractual arrangement (a 'host contract'). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through income, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the balance sheet together with the host contract.

### (l) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the agreement is presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo or stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

### (m) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

*(i) Held-to-maturity*
Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Bank from classifying investments securities as held-to-maturity for the current and the following two financial years.

*(ii) Available-for-sale*
Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in income using the effective interest method. Dividend income is recognised in income when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in income.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in income.

## 3. Significant accounting policies continued

### (n) Investments in subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The Bank recognises shares in subsidiaries valued at acquisition cost less impairment.

### (o) Property and equipment

*(i) Recognition and measurement*
Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

*(ii) Subsequent costs*
The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in income as incurred.

*(iii) Depreciation*
Depreciation is recognised in income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | Rates |
|---|---|
| Buildings | 2% |
| Furniture, fittings and equipment | 5% - 25% |
| Motor vehicles | 12.5% |
| Software | 25% |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### (p) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership, are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases and the leased assets are not recognised on the Bank's balance sheet.

## 3. Significant accounting policies continued

### (q) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (r) Deposits, customer accounts, debt securities in issue and loans received

Deposits, customer accounts, debt securities in issue and loans received are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' agreement to repurchase the asset (or a similar asset) at a fixed price on future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits, customer accounts, debt securities in issue, and loans received are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

### (s) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

## 3. Significant accounting policies continued

**(s) Provisions continued**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

**(t) Employee benefits**

*(i) Defined contribution plans*
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

*(ii) Termination benefits*
Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

*(iii) Short-term benefits*
Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

**(u) Earnings per share**

The Bank presents basic and diluted earnings per share (‘EPS’) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholder and the weighted average number of ordinary shares outstanding for the effects of any dilutive potential ordinary shares.

**(v) Segment reporting**

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank’s primary format for segment reporting is based on business segments.

**(x) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements:

- IFRS 7 *Financial Instruments: Disclosures,* effective from 1 January 2007, will require increased disclosure in respect of the Bank’s financial instruments. This supersedes IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and is applicable to all entities that prepare financial statements in accordance with IFRSs. Management considers that the significant additional disclosures will be required on the Bank’s financial risk management objectives, policies and processes.

## 3. Significant accounting policies continued

### (x) New standards and interpretations not yet adopted continued

- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, effective from 1 January 2007. As a complementary amendment rising from IFRS 7 (see above), the standard will require increased disclosure in respect of the Bank's capital. This amendment will require significantly greater disclosure regarding the capital structure of the Bank.

- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and, in particular, the accounting for deferred tax. IFRIC 7, which becomes mandatory for 2007 financial statements, is not expected to have any impact on the Bank's financial statements.

- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the 2007 financial statements, with retrospective application required. IFRIC 8 is not expected to have any impact on the Bank's financial statements.

- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes madatory for the 2007 financial statements, is not expected to have any impact on the Bank's financial statements.

- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for 2007 financial statements and is not expected to have any impact on the Bank's financial statements.

## 4. Use of estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management.

### Key sources of estimation uncertainty

*Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3 (h)(iv).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Management.

## 4. Use of estimates and judgements continued

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

*Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (h)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**Critical accounting judgements in applying the Bank's accounting policies**

Critical accounting judgements made in applying the Bank's accounting policies include:

*Financial asset and liability classification*

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'trading', Management has determined that the Bank meets the description of trading assets and liabilities set out in accounting policy 3 (j).
- In classifying financial assets as held-to-maturity, Management has determined that the Bank has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3 (m)(i).

## 5. Segment reporting

Segment reporting is presented in respect of the Bank's business segments. The Bank principally operates in Slovakia. Operations outside Slovakia are not significant.

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes. Transactions between segments are conducted at arm's length.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise cash, taxes, other assets and prepayments, provisions and other liabilities.

**Business segments**

a) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities;
b) International markets – incorporating deposits, foreign currency and derivative products; and
c) Retail banking – incorporating private customer current accounts, savings, deposits, credit and debit cards, customer loans and mortgages.

## 5. Segment reporting continued

| | Corporate banking | | International markets | | Retail banking | | Unallocated | | Bank | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006 Sk '000** | **2005 Sk '000** | **2006 Sk '000** | **2005 Sk '000** | **2006 Sk '000** | **2005 Sk '000** | **2006 Sk '000** | **2005 Sk '000** | **2006 Sk '000** | **2005 Sk '000** |
| Interest receivable and similar income arising from debt securities | 1,241,506 | 1,014,821 | 1,474,614 | 1,364,140 | 409,403 | 251,028 | 123,480 | 8,634 | 3,249,003 | 2,638,623 |
| Interest payable | (538,410) | (336,035) | (1,228,431) | (990,058) | (137,730) | (88,999) | - | 152 | (1,904,571) | (1,414,940) |
| **Net interest income** | 703,096 | 678,786 | 246,183 | 374,082 | 271,673 | 162,029 | 123,480 | 8,786 | 1,344,432 | 1,223,683 |
| Fees and commissions receivable | 279,614 | 243,359 | 61,586 | 52,802 | 90,266 | 85,498 | (9,439) | - | 422,027 | 381,659 |
| Fees and commissions payable | (62,220) | (50,077) | (8,428) | (3,635) | (17,982) | (17,594) | - | (3,999) | (88,630) | (75,305) |
| Dealing profits | 184,464 | 197,745 | 213,841 | 226,784 | 41,125 | 34,106 | - | 6,577 | 439,430 | 465,697 |
| Other expense | - | 8,230 | (7,576) | - | (1,207) | - | - | - | (8,783) | - |
| **Operating income** | 1,104,954 | 1,070,298 | 505,607 | 650,033 | 383,875 | 264,039 | 114,041 | 11,364 | 2,108,476 | 1,995,734 |
| Administrative expenses | (525,980) | (438,624) | (95,897) | (111,800) | (292,576) | (270,591) | - | - | (914,453) | (821,015) |
| Depreciation | (65,883) | (107,676) | (11,567) | (2,311) | (43,628) | (69,627) | - | - | (121,078) | (179,614) |
| **Operating expenditure** | (591,863) | (546,300) | (107,464) | (114,111) | (336,204) | (340,218) | - | - | (1,035,531) | (1,000,629) |
| **Operating profit before impairment losses and provisions** | 513,091 | 523,998 | 398,142 | 535,922 | 47,671 | (76,179) | 114,041 | 11,364 | 1,072,945 | 995,105 |

## 5. Segment reporting continued

| | Corporate banking | | International markets | | Retail banking | | Unallocated | | Bank | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | Sk'000 | Sk'000 | Sk'000 | Sk'000 | Sk'000 | Sk'000 | Sk'000 | Sk'000 | Sk'000 | Sk'000 |
| Impairment losses on loans and advances | (204,756) | 27,083 | (756) | - | (9,686) | (25,497) | - | - | (215,198) | 1,586 |
| Impairment losses on investment securities | - | - | 10 | - | - | - | - | (2,710) | 10 | (2,710) |
| Impairment losses on investments in subsidiaries | - | - | 22,440 | (32,440) | - | - | - | - | 22,440 | (32,440) |
| Impairment losses on property and equipment | - | - | - | - | - | - | (73,341) | - | (73,341) | - |
| Provisions | 53,653 | (121,393) | - | (14,625) | - | (14,993) | (60,735) | - | (7,082) | (151,011) |
| **Profit before taxation** | 361,988 | 429,688 | 419,836 | 488,857 | 37,985 | (116,669) | (20,035) | 8,654 | 799,774 | 810,530 |
| Taxation | | | | | | | | | (171,840) | (87,436) |
| **Profit after taxation** | | | | | | | | | 627,934 | 723,094 |
| **Other information:** | | | | | | | | | | |
| Assets | 41,910,276 | 36,592,544 | 26,134,427 | 35,660,885 | 3,822,749 | 2,873,701 | 311,151 | 855,468 | 72,178,603 | 75,982,598 |
| Liabilities | 28,823,649 | 21,796,094 | 25,197,628 | 38,203,029 | 9,301,895 | 9,789,313 | 8,855,431 | 194,162 | 72,178,603 | 75,982,598 |

## 6. Cash and cash equivalents

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Cash and balances at the central bank (note 7) | 7,026,757 | 20,251,579 |
| Loans and advances to banks with contractual maturity up to 3 months (note 10) | 7,169,714 | 5,303,608 |
| | 14,196,471 | 25,555,187 |

## 7. Cash and balances at the central bank

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| *Balances with the National Bank of Slovakia:* | | |
| Compulsory minimum reserve | 1,741,735 | 1,083,697 |
| Receivables from repurchase agreements | 2,991,073 | 15,932,200 |
| Other | 3,615,906 | 3,993,157 |
| | 8,348,714 | 21,009,054 |
| Cash in hand | 419,778 | 326,222 |
| | 8,768,492 | 21,335,276 |
| Less compulsory minimum reserve (note 10) | (1,791,735) | (1,083,697) |
| | 7,026,757 | 20,251,579 |

The compulsory minimum reserve balance is maintained in accordance with the requirements of the National Bank of Slovakia.

## 8. Trading assets and liabilities

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| **Trading assets** | | |
| Debt securities (a) | 583,231 | 890,566 |
| Derivative instruments (b) | 1,154,105 | 415,017 |
| | 1,737,336 | 1,305,583 |
| **Trading liabilities** | | |
| Derivative instruments (b) | 728,169 | 254,816 |

## 8. Trading assets and liabilities continued

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| *(a) Debt securities* | | |
| Slovak government bonds | 583,231 | 653,015 |
| Foreign corporate securities | - | 237,551 |
| | 583,231 | 890,566 |

*(b) Derivative instruments*

| | Contract/ notional amount Sk '000 | 2006 Fair value Assets Sk '000 | 2006 Fair value Liabilities Sk '000 | Contract/ notional amount Sk '000 | 2005 Fair value Assets Sk'000 | 2005 Fair value Liabilities Sk'000 |
|---|---|---|---|---|---|---|
| **Currency derivatives** | | | | | | |
| Forward exchange contracts | 14,654,639 | 512,094 | 525,048 | 22,830,703 | 2,340 | 31,168 |
| Currency and cross-currency swaps | 3,771,660 | 463,628 | 6,716 | 3,038,250 | (7,871) | - |
| Options | 2,345,641 | 23,047 | 23,047 | 2,238,737 | 8,747 | 8,747 |
| **Interest rate derivatives** | | | | | | |
| Interest rate swaps | 17,093,333 | 129,272 | 147,001 | 4,435,960 | 401,197 | 204,404 |
| Interest rate options | 4,978,166 | 26,064 | 26,064 | 2,270,880 | 10,497 | 10,497 |
| Forward rate agreements | 1,800,000 | - | 293 | 4,100,000 | 107 | - |
| | 44,643,439 | 1,154,105 | 728,169 | 38,914,530 | 415,017 | 254,816 |

## 9. Derivative assets and liabilities held for risk management

| | Contract/ notional amount Sk '000 | 2006 Fair value Assets Sk '000 | 2006 Fair value Liabilities Sk '000 | Contract/ notional amount Sk '000 | 2005 Fair value Assets Sk'000 | 2005 Fair value Liabilities Sk'000 |
|---|---|---|---|---|---|---|
| **Derivative instruments held for risk management** | | | | | | |
| Designated as cash flow hedges: | | | | | | |
| Interest rate swaps | 6,911,570 | 146,282 | 51,262 | 3,203,160 | 16,450 | 12,189 |
| Designated as fair value hedges | | | | | | |
| Interest rate swaps | 500,000 | - | 1,761 | - | - | - |
| | 7,411,570 | 146,282 | 53,023 | 3,203,160 | 16,450 | 12,189 |

## 10. Loans and advances to banks

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| Repayable on demand | 861,646 | 336,221 |
| Other loans and advances by remaining maturity: | | |
| - 3 months or less | 6,924,663 | 5,474,480 |
| - 1 year or less but over 3 months | 1,082,793 | 653,005 |
| Compulsory minimum reserves (note 7) | 1,741,735 | 1,083,697 |
| | 10,610,837 | 7,547,403 |
| Less amounts with contractual maturity up to 3 months (note 6) | (7,169,714) | (5,303,608) |
| | 3,441,123 | 2,243,795 |

## 11. Loans and advances to customers

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| Repayable on demand | 10,155,780 | 4,397,090 |
| Other loans and advances to customers by remaining maturity: | | |
| - 3 months or less | 9,809,602 | 11,238,584 |
| - 1 year or less but over 3 months | 3,698,454 | 2,816,516 |
| - 5 years or less but over 1 year | 12,306,726 | 8,639,015 |
| - over 5 years | 9,939,741 | 10,931,431 |
| | 45,910,303 | 38,022,636 |
| Allowances for impairment (note 12) | (858,832) | (659,930) |
| | 45,051,471 | 37,362,706 |

## 11. Loans and advances to customers continued

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

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Manufacturing companies | 8,189,190 | 12,144,376 |
| Trading companies | 20,004,311 | 19,598,594 |
| Other industries | 14,114,032 | 3,413,384 |
| Small businesses | 299,470 | 135,769 |
| Private individuals | 3,303,300 | 2,730,513 |
| | 45,910,303 | 38,022,636 |

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

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Slovak Republic | 45,332,890 | 35,487,788 |
| Austria | 333,232 | 413,674 |
| Belarus | 74,315 | - |
| Czech Republic | 56,110 | 58,277 |
| Russia | 35,501 | - |
| Great Britain | 24,560 | - |
| Germany | 17,191 | 116,880 |
| Croatia | 11,246 | 6,372 |
| Netherlands | 9,521 | 10,755 |
| Cyprus | - | 1,892,022 |
| Other | 15,737 | 36,868 |
| | 45,910,303 | 38,022,636 |

## 12. Impairment losses on loans and advances

The movements on impairment losses on loans and advances to customers were as follows:

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| At 1 January | 659,930 | 664,462 |
| Exchange rate movement | (16,296) | (2,946) |
| Charge for the year | 215,198 | (1,586) |
| At 31 December | 858,832 | 659,930 |

## 13. Investment securities

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Debt securities held to maturity (a) | 2,179,173 | 2,742,189 |
| Debt securities available for sale (b) | 4,992,069 | 6,130,768 |
| Equity shares available for sale (c) | 80,354 | 80,354 |
| | 7,251,596 | 8,953,311 |

*(a) Debt securities held to maturity*

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Slovak government securities | 1,515,378 | 1,750,087 |
| Slovak corporate and bank bonds | 663,795 | 690,796 |
| Foreign corporate bonds | - | 301,306 |
| | 2,179,173 | 2,742,189 |

At 31 December 2006, the market value of held-to-maturity securities was Sk 2,269.5 million (2005: Sk 2,953.4 million).

*(b) Debt securities available for sale*

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Slovak government securities | 3,489,167 | 4,452,884 |
| Slovak corporate and bank bonds | 1,502,902 | 1,677,884 |
| | 4,992,069 | 6,130,768 |

*(c) Equity shares available for sale*

| Name | Activity | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|---|
| CAC Leasing Slovakia, a.s. | Leasing | 80,172 | 80,172 |
| RVS, a.s. | Congress and leisure | 2,700 | 2,700 |
| SWIFT | International funds transfer | 182 | 182 |
| Stern Education Foundation | Charitable foundation | - | 10 |
| | | 83,054 | 83,064 |
| Specific allowances for impairment | | (2,700) | (2,710) |
| | | 80,354 | 80,354 |

## 13. Investment securities continued

The Bank owns 19.9% (2005: 19.9%) of the issued capital of CAC Leasing Slovakia, a.s. and holdings in other companies are less than 1%. Except for SWIFT, which is registered in Belgium, all companies are incorporated in the Slovak Republic.

During 2006 the Bank has disposed of its share in Stern Education Foundation.

The movements on specific allowances for impairment on investment securities were as follows:

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| At 1 January | 2,710 | - |
| (Release)/charge for the year | (10) | 2,710 |
| At 31 December | 2,700 | 2,710 |

## 14. Investments in subsidiaries

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| HVB Factoring s.r.o. | 10,000 | 10,000 |
| HVB Immobilie spol. s.o. | - | 56,116 |
| HVB Finančné služby spol. s r.o. | - | 31,250 |
| | 10,000 | 97,366 |
| Specific allowances for impairment | (10,000) | (32,440) |
| | - | 64,926 |

At 31 December 2006, the investments in subsidiaries comprise 80% of the issued capital of HVB Factoring s.r.o., a company incorporated in the Slovak Republic, which is engaged in factoring and forfeiting. Based on a decision of the Bank, the assets and liabilities of HVB Factoring will be transferred to the Bank on 1 January 2007.

Based on the decision of the Bank, HVB Immobilie Slovakia spol. s r.o. and HVB Finančné služby spol. s r.o. entered into liquidation on 1 November 2005 and 1 May 2006, respectively.

The movements on specific allowances for impairment on investments in subsidiaries were as follows:

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| At 1 January | 32,440 | - |
| (Release)/charge for the year | (22,440) | 32,440 |
| At 31 December | 10,000 | 32,440 |

### 15. Property and equipment

| | Land and buildings Sk '000 | Furniture fittings and equipment Sk '000 | Motor vehicles Sk '000 | Software Sk '000 | Assets not yet in use Sk '000 | Total Sk '000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2005 | 196,612 | 553,183 | 25,783 | 569,381 | 43,618 | 1,388,577 |
| Additions | 31,661 | 79,211 | 1,263 | 59,824 | 106,301 | 278,260 |
| Transfers | - | - | - | - | - | - |
| Disposals | (29,793) | (38,387) | (10,309) | (12,360) | (148,404) | (239,253) |
| At 31 December 2005 | 198,480 | 594,007 | 16,737 | 616,845 | 1,515 | 1,427,584 |
| At 1 January 2006 | 198,480 | 594,007 | 16,737 | 616,845 | 1,515 | 1,427,584 |
| Additions | 108 | 10,091 | 125 | 20,952 | 93,570 | 124,846 |
| Transfers | - | - | - | - | - | - |
| Disposals | (16,136) | (249,701) | (5,409) | (34,153) | (33,446) | (338,845) |
| At 31 December 2006 | 182,452 | 354,397 | 11,453 | 603,644 | 61,639 | 1,213,585 |
| **Depreciation and impairment losses** | | | | | | |
| At 1 January 2005 | 85,021 | 367,421 | 8,622 | 454,814 | - | 915,878 |
| Charge for the year | 23,267 | 72,732 | 13,391 | 70,224 | - | 179,614 |
| Disposals | (29,158) | (20,714) | (10,309) | (12,360) | - | (72,541) |
| At 31 December 2005 | 79,130 | 419,439 | 11,704 | 512,678 | - | 1,022,951 |
| At 1 January 2006 | 79,130 | 419,439 | 11,704 | 512,678 | - | 1,022,951 |
| Charge for the year | 30,571 | 39,819 | 3,613 | 47,075 | - | 121,078 |
| Impairment losses | 54,345 | 18,996 | - | - | - | 73,341 |
| Disposals | (18,357) | (226,843) | (5,416) | (33,850) | - | (284,466) |
| At 31 December 2006 | 145,689 | 251,411 | 9,901 | 525,903 | - | 932,904 |
| **Net book value:** | | | | | | |
| At 31 December 2006 | 36,763 | 102,986 | 1,552 | 77,741 | 61,639 | 280,681 |
| At 31 December 2005 | 119,350 | 174,568 | 5,033 | 104,167 | 1,515 | 404,633 |

The recoverable amount of certain of the Bank's land and buildings and furniture, fittings and equipment was assessed following the decision to integrate the Bank with UniBanka, a.s. (see note 1). As a consequence, impairment losses of Sk 73,341 thousand were recognised in order to reduce the carrying amount of land and buildings and furniture, fittings and equipment, to estimate net selling price.

## 16. Deposits by banks

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Repayable on demand | 1,358,948 | 1,401,548 |
| Other deposits by banks with remaining maturity: | | |
| - 3 months or less | 9,305,662 | 21,280,234 |
| - 1 year or less but over 3 months | 2,236,471 | 5,678,578 |
| - 5 years or less but over 1 year | 3,572,837 | 2,541,603 |
| - over 5 years | 2,098,700 | 2,098,400 |
| | 18,572,618 | 33,000,363 |

## 17. Customer accounts

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Repayable on demand | 16,177,678 | 15,358,725 |
| Other deposits with agreed maturity dates or periods of notice, by remaining maturity: | | |
| - 3 months or less | 20,880,191 | 13,594,050 |
| - 1 year or less but over 3 months | 923,916 | 623,245 |
| - 5 years or less but over 1 year | 13,351 | 6,737 |
| - over 5 years | 25,591 | 1,877 |
| | 38,020,727 | 29,584,634 |

## 18. Loans received

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| European Investment Bank | 2,597,445 | 1,894,580 |
| Slovenská záručná a rozvojová banka, a.s. | 223,958 | 163,205 |
| Bank of New York | 697,794 | 761,557 |
| | 3,519,197 | 2,819,342 |

***European Investment Bank***

The amounts due to the European Investment Bank ('EIB') comprise of two loans of € 25 million each, drawn down by the Bank under loan facilities arranged by the NBS with EIB. Both loans were provided by the EIB to assist in the development of infrastructure, agriculture and tourism in Slovakia.

The Euro loan of € 25 million at the balance sheet date (2005: € 25 million) was provided under a contract entered into on 14 December 1999. Interest repayments are quarterly for the first tranche of € 25 million and twice annually for the second tranche of € 5 million. The loan bears interest at an annual rate equivalent to the EIB six-monthly interest rate plus 0.5%.

## 18. Loans received continued

The Euro loan of € 25 million at the balance sheet date (2005: € 25 million) was provided under a contract entered into on 28 March 2003. The Bank can draw up to € 50 million under this contract. Interest is payable quarterly. The loan bears interest at an annual rate equivalent to the EIB six-monthly interest rate plus 0.5%.

***Slovenská záručná a rozvojová banka, a.s.***

The loans from Slovenská záručná a rozvojová banka, a.s. ('SZRB') were obtained under the programme Rozvoj for long and medium term assistance to small-to-medium size enterprises.

Under the Rozvoj programme, separate loan agreements are entered into between the Bank and SZRB for loans provided to customers. Interest is currently from 3.2% to 3.5% per annum and the repayment terms are in accordance with each individual contract. Should the customer default, the Bank is responsible for full repayment of the loan provided by SZRB.

Under the terms of the programme, SZRB may request early repayment in the event of non-fulfilment of several conditions, including if loans are not used for the specified use or if there is delay in repayment of principal.

***Bank of New York***

The amount due to the Bank of New York ("BoNY") comprises a loan of € 20 million drawn down on 4 October 2005. The loan bears interest of 3.7% per annum (2005: 2.46% per annum).

## 19. Debt securities in issue

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| Mortgage bonds | | |
| Issue 1 | 507,944 | 507,944 |
| Issue 2 | 502,292 | 502,292 |
| Issue 3 | 250,364 | - |
| | 1,260,600 | 1,010,236 |
| Other bonds | 1,020,153 | 1,012,884 |
| Debt securities in issue | 2,280,753 | 2,023,120 |

Issue 1 comprises 50 bonds with a nominal value of Sk 10,000 thousand each, which were issued on 2 December 2004 with a coupon of 4.45% per annum. The bonds will be redeemed on 2 December 2008 from repayments of mortgage loans.

Issue 2 comprises 5,000 bonds with a nominal value of Sk 100 thousand each, which were issued on 28 August 2003 with a coupon of 4.65% per annum. The bonds will be redeemed on 28 August 2014 from repayments of mortgage loans.

Issue 3 comprises 100 bonds with a nominal value of Sk 2,500 thousand each, which were issued on 21 December 2006 with a coupon of 6M BRIBOR paid semi-annually. The bonds will be redeemed on 21 December 2011 from repayments of mortgage loans.

Other bonds comprise of 100 bonds with nominal value of Sk 10,000,000 issued on 20 July 2005. These bonds bear interest of 2.85% per annum and will be redeemed on 18 July 2007.

## 20. Corporate income tax

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Tax payable for the current period (note 29) | 183,323 | 182,076 |
| Tax prepayments | (181,076) | (194,668) |
| Income tax payable/(receivable) | 2,247 | (12,592) |

## 21. Provisions

The movements on provisions were as follows:

| | Guarantee payments Sk '000 | Restruc-turing Sk '000 | Total Sk '000 |
|---|---|---|---|
| At 1 January 2006 | 159,582 | 56,772 | 216,354 |
| Exchange rate movement | (1,113) | (4,913) | (6,026) |
| (Decrease)/increase for the year | (53,653) | 60,735 | 7,082 |
| At 31 December 2006 | 104,816 | 112,594 | 217,410 |

In December 2005, the Board of Directors of the Bank approved a formal restructuring plan of its branches for the year 2006 and 2007. The plan was formally approved by the Supervisory Board on 30 December 2005. In addition the Board of Directors approved a formal restructuring plan as a result of the planned integration of the Bank with UniBanka, a.s. in 2007 on xxxx. The provision of Sk --------- thousand relates to staff and administrative expenses.

## 22. Share capital

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 500 ordinary shares of Sk 1,000,000 each | 500,000 | 500,000 |
| 51,550 ordinary shares of Sk 10,000 each | 515,500 | 515,500 |
| 156,075 ordinary shares of Sk 10,000 each | 1,560,750 | 1,560,750 |
| | 2,576,250 | 2,576,250 |

The shareholder is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Bank.

## 23. Reserves

| | Retained earnings Sk '000 | Legal reserve fund Sk '000 | Reval-uation reserve Sk '000 | Cash flow hedge reserve Sk '000 | Other capital funds Sk'000 | Total Sk'000 |
|---|---|---|---|---|---|---|
| At 1 January 2005 | 4,702,736 | 416,108 | 236,856 | 3,452 | 18,472 | 5,377,624 |
| Dividend for 2005 (a) | - | - | - | - | - | - |
| Transfers (b) | (75,287) | 75,287 | - | - | - | - |
| Net loss on available-for-sale assets, net of tax (d) | - | - | (207,670) | - | - | (207,670) |
| Net gain on cash flow hedge, net of tax (e) | - | - | - | 73,514 | - | 73,514 |
| Profit for 2006 | 627,934 | - | - | - | - | 627,934 |
| At 31 December 2006 | 5,255,383 | 491,395 | 29,186 | 76,966 | 18,472 | 5,871,402 |

*(a) Dividends*
The General Meeting of Shareholder held on 15 June 2006 resolved that no dividends will be paid from the profit for the year ended 31 December 2005.

*(b) Legal reserve fund*
The General Meeting also approved the transfer to legal reserve fund of Sk 75 million from 2005 profit. 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 until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve fund is not distributable to shareholder.

*(c) Proposed allocation of profit*
The Directors will propose the following allocation of the profit for the year ended 31 December 2006:

| | Sk '000 |
|---|---|
| Transfer to legal reserve fund | 62,793 |
| Dividends | - |
| Retained earnings | 565,141 |
| | 627,934 |

*(d) Revaluation reserve*
The revaluation reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

## 23. Reserves continued

*(e) Cash flow hedge reserve*
The cash flow hedge reserve comprises the effective portion of cumulative net changes in the fair value of the derivatives designated as a hedge of the variability in cash flows.

## 24. Off balance sheet items

| | 2006 Sk '000 | 2005 Sk '000 |
|---|---|---|
| *Contingent liabilities:* | | |
| Guarantees | 2,593,090 | 3,891,369 |
| Irrevocable letters of credit | 56,492 | 12,066 |
| *Commitments:* | | |
| Confirmed credit lines | 18,564,473 | 19,843,384 |
| *Derivative instruments:* | | |
| Trading assets and liabilities (note 8) | 44,643,439 | 38,914,530 |
| Held for risk management (note 9) | 7,411,570 | 3,203,160 |
| *Other:* | | |
| Tax relief contingency (note 29) | - | 354,865 |
| | 52,055,009 | 42,117,690 |

## 25. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

| | Assets/ (liabilities) 2006 Sk '000 | Assets/ (liabilities) 2005 Sk '000 |
|---|---|---|
| Available for sale portfolio | (6,846) | (14,574) |
| Held to maturity portfolio | - | (4,469) |
| Property and equipment | 1,347 | 1,996 |
| Impairment loss on property | 13,934 | - |
| Restructuring provision | 21,393 | 10,787 |
| Provision for guarantees | 19,915 | 30,321 |
| Origination fees | - | 6,471 |
| Cash flow hedge | (18,054) | (810) |
| | 31,689 | 29,722 |

The deferred tax assets and liabilities have been calculated using a corporate income tax rate of 19% (2005: 19%).

## 25. Deferred tax continued

The movements on deferred tax were as follows:

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| *Deferred tax:* | | |
| Charge to income statement (note 29) | 11,483 | 45,106 |
| Charge to equity | (9,516) | (15,384) |
| | 1,967 | 29,722 |

## 26. Interest receivable and similar income arising from debt securities

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| *Interest receivable and similar income arising from:* | | |
| Loans and advances to banks | 913,346 | 701,387 |
| Loans and advances to customers | 1,770,426 | 1,461,825 |
| Debt securities | 394,890 | 475,411 |
| Derivative instruments held for risk management | 170,341 | - |
| | 3,249,003 | 2,638,623 |

## 27. Interest payable

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| Deposits by banks | 1,015,051 | 931,690 |
| Customer accounts | 587,124 | 392,693 |
| Debt securities in issue | 126,668 | 90,557 |
| Derivative instruments held for risk management | 175,728 | - |
| | 1,904,571 | 1,414,940 |

## 28. Administrative expenses

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| *Employee costs:* | | |
| Wages and salaries | 312,798 | 299,428 |
| Social insurance | 69,145 | 68,315 |
| | 381,943 | 367,743 |
| Operating lease rentals | 114,062 | 136,495 |
| Other operating expenses | 418,448 | 316,777 |
| | 914,453 | 821,015 |

At 31 December 2006, the average number of employees was 427 (2005: 441).

## 29. Income tax expense

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| *Recognised in the income statement* | | |
| Current tax expense | 183,323 | 182,076 |
| Overprovision in respect of prior year | - | (49,534) |
| Deferred tax (note 25) | (11,483) | (45,106) |
| Total income tax expense | 171,840 | 87,436 |

The accounting profit before taxation is reconciled to the tax base as follows:

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| Profit before taxation | 799,774 | 810,530 |
| Revaluation of securities, net | (78,000) | (83,437) |
| Release of legal provision | 56,822 | 56,822 |
| Non-deductible expenses | 300,988 | 232,666 |
| Other non-taxable income | (114,724) | (58,286) |
| Tax base | 964,860 | 958,295 |
| Tax at 19% | 183,323 | 182,076 |

## 30. Earnings per share

***Basic***

Basic earnings per share is calculated by dividing the net profit attributable to the shareholder by the weighted average number of ordinary shares in issue during the year, excluding the average number of any ordinary shares purchased by the Bank and held as treasury shares.

| | **2006** | **2005** |
|---|---|---|
| Profit attributable to shareholder (Sk '000) | 627,934 | 723,094 |
| Weighted average number of ordinary shares in issue | 257,625 | 257,625 |
| Basic earning per share (expressed in Sk per share) | 2,437 | 2,807 |

***Diluted***

There were no dilutive factors during either years.

## 31. Profit before changes in operating assets and liabilities

| | **2006 Sk '000** | **2005 Sk '000** |
|---|---|---|
| Profit before taxation | 799,774 | 810,530 |
| Adjustments for non-cash items: | | |
| Depreciation | 121,078 | 179,614 |
| Profit on disposal of property and equipment | (13,791) | (20,673) |
| Impairment losses on loans and advances | 215,198 | (1,586) |
| Impairment losses on investment securities | (10) | 2,710 |
| Impairment losses on investments in subsidiaries | (22,440) | 32,440 |
| Impairment losses on property and equipment | 73,341 | - |
| Unrealised foreign exchange profit | (6,026) | - |
| Provisions | 7,082 | 151,011 |
| | 1,174,206 | 1,154,046 |
| Net cash used in operating activities includes the following cash flows: | | |
| Interest received | 2,944,432 | 2,541,016 |
| Interest paid | (1,584,028) | (1,214,925) |
| | 1,360,404 | 1,326,091 |

## 32. Lease commitments

| | **2006 Sk '000** | **2005 Sk '000** |
|---|---|---|
| Non-cancellable commitments under operating leases | 71,070 | 70,980 |

## 33. Assets and liabilities denominated in foreign currencies

The Bank had the following foreign exchange positions at 31 December 2006:

| | Euro Sk '000 | US dollar Sk '000 | Other Sk '000 | Slovak crown Sk'000 | Total Sk '000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 2,884,371 | 31,834 | 869,464 | 10,410,802 | 14,196,471 |
| Trading assets | - | - | - | 1,737,336 | 1,737,336 |
| Derivative assets held for risk management | 47,703 | - | - | 98,579 | 146,282 |
| Loans and advances to banks | 95,138 | - | 938,994 | 2,406,991 | 3,441,123 |
| Loans and advances to customers | 16,888,569 | 398,430 | 483,721 | 27,280,751 | 45,051,471 |
| Investment securities | 1,630,492 | - | - | 5,621,104 | 7,251,596 |
| Deferred tax asset | - | - | - | 31,689 | 31,689 |
| Other assets | - | - | - | 41,954 | 41,954 |
| | 21,546,273 | 430,264 | 2,292,179 | 47,629,206 | 71,897,922 |
| **Liabilities** | | | | | |
| Trading liabilities | 187,503 | 415,183 | 26,270 | 99,213 | 728,169 |
| Derivative liabilities held for risk management | 21,037 | - | - | 31,986 | 53,023 |
| Deposits by banks | 8,370,240 | 1,332,710 | 275,203 | 8,594,465 | 18,572,618 |
| Customer accounts | 9,198,109 | 1,158,155 | 932,894 | 26,731,569 | 38,020,727 |
| Loans received | 3,295,237 | - | - | 223,960 | 3,519,197 |
| Debt securities in issue | - | - | - | 2,280,753 | 2,280,753 |
| Corporate income tax payable | - | - | - | 2,247 | 2,247 |
| Other liabilities | 75,627 | - | - | 261,180 | 336,807 |
| | 21,147,753 | 2,906,048 | 1,234,367 | 38,225,373 | 63,513,541 |

After taking off-balance sheet foreign exchange contracts into account, there were no significant open foreign currency positions at year end.

## 33. Assets and liabilities denominated in foreign currencies continued

The Bank had the following foreign exchange positions at 31 December 2005:

| | Euro<br>Sk '000 | US dollar<br>Sk '000 | Other<br>Sk '000 | Slovak crown<br>Sk'000 | Total<br>Sk '000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 3,216,829 | 51,167 | 171,416 | 22,115,775 | 25,555,187 |
| Trading assets | - | - | - | 1,305,583 | 1,305,583 |
| Derivative assets held for risk management | - | - | - | 16,450 | 16,450 |
| Loans and advances to banks | - | - | - | 2,243,795 | 2,243,795 |
| Loans and advances to customers | 19,708,593 | 755,119 | 877,649 | 16,021,345 | 37,362,706 |
| Investment securities | 2,025,123 | - | - | 6,928,188 | 8,953,311 |
| Investments in subsidiaries | - | - | - | 64,926 | 64,926 |
| Corporate income tax receivable | - | - | - | 12,592 | 12,592 |
| Deferred tax asset | - | - | - | 29,722 | 29,722 |
| Other assets | - | - | - | 33,693 | 33,693 |
| | 24,950,545 | 806,286 | 1,049,065 | 48,772,069 | 75,577,965 |
| **Liabilities** | | | | | |
| Trading liabilities | - | - | - | 254,816 | 254,816 |
| Derivative liabilities held for risk management | - | - | - | 12,189 | 12,189 |
| Deposits by banks | 17,458,571 | - | 197,984 | 15,343,808 | 33,000,363 |
| Customer accounts | 6,043,931 | 1,130,549 | 258,560 | 22,151,594 | 29,584,634 |
| Loans received | 2,656,137 | - | - | 163,205 | 2,819,342 |
| Debt securities in issue | - | - | - | 2,023,120 | 2,023,120 |
| Other liabilities | - | - | - | 117,906 | 117,906 |
| | 26,158,639 | 1,130,549 | 456,544 | 40,066,638 | 67,812,370 |

## 34. Related party transactions

In the normal course of business, the Bank is engaged in transactions with other members of the HVB Group. These transactions, which include the taking and placing of deposits, foreign currency operations and the provision of management and technology services, are conducted on an arm's length basis.

### (a) Shareholder

Amounts due from and to the sole shareholder, Bank Austria Creditanstalt, were as follows:

| | **2006**<br>**Sk '000** | **2005**<br>**Sk '000** |
|---|---|---|
| ***Assets*** | | |
| Loans and advances to banks | 1,135,707 | 155,621 |
| ***Liabilities*** | | |
| Deposits by banks | 13,853,090 | 25,852,752 |

*Transactions during the year were as follows:*

| | | |
|---|---|---|
| Interest received and receivable | 64,748 | 15,668 |
| Interest paid and payable | (522,948) | (453,111) |

### (b) Enterprises related to the shareholder of the Bank

Amounts due from and to companies related to the shareholder were as follows:

| | **2006**<br>**Sk '000** | **2005**<br>**Sk '000** |
|---|---|---|
| ***Assets*** | | |
| Loans and advances to banks | 1,808,118 | 369,327 |
| Loans and advances to customers | 8,608,866 | 6,553,324 |
| ***Liabilities*** | | |
| Deposits by banks | 1,244,138 | 3,749,905 |
| Customer accounts | 153,264 | 105,724 |

*Transactions during the year were as follows:*

| | | |
|---|---|---|
| Interest received and receivable | 329,848 | 177,083 |
| Interest paid and payable | (23,314) | (62,933) |
| Information technology and communication expenses | (57,103) | (51,965) |
| Software acquired | (68,409) | (39,297) |

## 34. Related party transactions continued

### (c) Key management personnel

Amounts due from and to directors, senior management or close relatives or companies in which they have a substantial interest, of the Bank were as follows:

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| ***Assets*** | | |
| Loans and advances to customers | 15,244 | 6,691 |
| ***Liabilities*** | | |
| Customer accounts | 13,446 | 9,420 |
| *Transactions during the year were as follows:* | | |
| Interest received and receivable | 559 | 257 |
| Interest paid and payable | (330) | (232) |

Interest rates charged on outstanding are rates charged in an arm's length transaction. The mortgages and secured loans are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

During the period, the Bank did not record impairment losses for loans and advances provided to related parties and no specific allowances have been made for impairment losses to related parties.

Key management personnel compensation for the period comprised:

| | 2006<br>Sk '000 | 2005<br>Sk '000 |
|---|---|---|
| Short-term employee benefits | 35,903 | 28,909 |

In addition to their salaries, the Bank also provides non-cash benefits to directors and executive officers.

## 35. Custodial services

The Bank administers securities and other valuables totalling Sk 57,827.5 million (2005: Sk 43,545.6 million), which have been received from customers into the Bank's custody.

## 36. Maturity analysis

The remaining period to maturity of monetary assets and liabilities at 31 December 2006 was as follows:

| | Within 1 year Sk '000 | 1-5 years Sk '000 | More than 5 years Sk '000 | Not specified Sk'000 | Total Sk '000 |
|---|---|---|---|---|---|
| **Monetary assets** | | | | | |
| Cash and cash equivalents | 14,196,471 | - | - | - | 14,196,471 |
| Trading assets | 1,737,336 | - | - | - | 1,737,336 |
| Derivative assets held for risk management | 146,282 | - | - | - | 146,282 |
| Loans and advances to banks | 3,367,566 | - | - | 73,557 | 3,441,123 |
| Loans and advances to customers | 22,507,883 | 12,306,726 | 9,939,741 | 297,121 | 45,051,471 |
| Investment securities | 654,690 | 3,380,295 | 3,136,256 | 80,355 | 7,251,596 |
| Deferred tax asset | 31,689 | - | - | - | 31,689 |
| Other assets | 41,954 | - | - | - | 41,954 |
| | 42,683,871 | 15,687,021 | 13,075,997 | 451,033 | 71,897,922 |
| **Monetary liabilities** | | | | | |
| Trading liabilities | 728,169 | - | - | - | 728,169 |
| Derivative liabilities held for risk management | 53,023 | - | - | - | 53,023 |
| Deposits by banks | 13,071,943 | 3,500,675 | 2,000,000 | - | 18,572,618 |
| Customer accounts | 37,981,707 | 13,351 | 1,877 | 23,792 | 38,020,727 |
| Loans received | 3,519,197 | - | - | - | 3,519,197 |
| Debt securities in issue | 1,030,253 | 750,500 | 500,000 | - | 2,280,753 |
| Corporate income tax payable | 2,247 | - | - | - | 2,247 |
| Other liabilities | 336,807 | - | - | - | 336,807 |
| | 56,723,346 | 4,264,526 | 2,501,877 | 23,792 | 63,513,541 |

## 36. Maturity analysis continued

The remaining period to maturity of monetary assets and liabilities at 31 December 2005 was as follows:

| | Within 1 year Sk '000 | 1-5 years Sk '000 | More than 5 years Sk '000 | Not specified Sk'000 | Total Sk '000 |
|---|---|---|---|---|---|
| **Monetary assets** | | | | | |
| Cash and cash equivalents | 25,555,187 | - | - | - | 25,555,187 |
| Trading assets | 1,305,583 | - | - | - | 1,305,583 |
| Derivative assets held for risk management | 16,450 | - | - | - | 16,450 |
| Loans and advances to banks | 2,243,795 | - | - | - | 2,243,795 |
| Loans and advances to customers | 17,814,570 | 8,622,695 | 10,925,441 | - | 37,362,706 |
| Investment securities | 511,612 | 2,506,670 | 5,854,675 | 80,354 | 8,953,311 |
| Investments in subsidiaries | - | - | - | 64,926 | 64,926 |
| Corporate income tax receivable | 12,592 | - | - | - | 12,592 |
| Deferred tax asset | 29,722 | - | - | - | 29,722 |
| Other assets | 33,693 | - | - | - | 33,693 |
| | 47,523,204 | 11,129,365 | 16,780,116 | 145,280 | 75,577,965 |
| **Monetary liabilities** | | | | | |
| Trading liabilities | 254,816 | - | - | - | 254,816 |
| Derivative liabilities held for risk management | 12,189 | - | - | - | 12,189 |
| Deposits by banks | 28,360,360 | 2,541,603 | 2,098,400 | - | 33,000,363 |
| Customer accounts | 29,576,020 | 6,737 | 1,877 | - | 29,584,634 |
| Loans received | 2,819,342 | - | - | - | 2,819,342 |
| Debt securities in issue | - | 1,515,176 | 507,944 | - | 2,023,120 |
| Other liabilities | 117,906 | - | - | - | 117,906 |
| | 61,140,633 | 4,063,516 | 2,608,221 | - | 67,812,370 |

## 37. Financial instruments

The Bank uses a wide range of financial instruments. A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Examples include loans, deposits, debt securities and equity shares.

Derivatives are also financial instruments which are so called because their value is derived from the value of an underlying instrument, index or reference rate. The principal categories of derivatives are forwards, including futures, options and swaps.

The main derivative financial instruments used by the Bank during the year were forward foreign exchange contracts and currency swaps, which were entered into to manage foreign exchange risk, and forward rate agreements and interest rate swaps, which were entered into to manage interest rate risk.

**Risks associated with financial instruments**

The use of financial instruments generally involves the assumption or transfer of risk. The main types of risks are credit risk, market risk (including interest rate risk and foreign exchange risk), liquidity risk and operational risks.

The Bank assigns the highest priority to risk management and has established clear and comprehensive risk policies, procedures and control systems, which are reviewed regularly by the Board of Directors.

***Credit risk***

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Credit risk is strictly controlled through a structure involving the credit risk department, the credit committee, the Board of Directors and the executive committee of the Bank's parent company.

The Bank's procedures for managing credit risk include the establishment of concentration limits by borrower, counterparty, industrial sector and product. Credit appraisal procedures are performed before individual borrower and counterparty limits are approved and collateral is obtained to reduce credit risk. The Bank also continually monitors performance of the portfolio to ensure that prompt action can be taken to minimise potential losses.

***Interest rate risk***

Interest rate risk is the potential impact on the value of financial assets and liabilities arising from changes in market interest rates.

Interest rate risk is monitored by the Bank's treasury department on a daily basis using various tools, including value-at-risk, basis point value and gap reporting. Most of the financial instruments used are short term in nature and have floating interest rates.

## 37. Financial instruments continued

The average effective interest rates at 31 December 2006 and the periods in which interest-bearing assets and liabilities denominated in Slovak crowns reprice were as follows:

| | Effective interest rate % | 3 months or less Sk '000 | 1 year or less but over 3 months Sk '000 | 1 – 5 years Sk '000 | Over 5 years Sk '000 | Total Sk '000 |
|---|---|---|---|---|---|---|
| **Interest-bearing assets** | | | | | | |
| Cash and cash equivalents | 3.82 | 10,151,111 | - | - | - | 10,151,111 |
| Trading assets | 3.91 | 219,653 | 323,129 | - | - | 542,782 |
| Loans and advances to banks | 2.17 | 1,724,595 | 450,000 | - | - | 2,174,595 |
| Loans and advances to customers | 5.49 | 15,966,602 | 2,461,732 | 7,433,879 | 1,190,899 | 27,053,112 |
| Investment securities | 4.84 | 401,040 | 804,672 | 1,061,481 | 3,026,455 | 5,293,648 |
| | | 28,463,001 | 4,039,533 | 8,495,360 | 4,217,354 | 45,215,248 |
| **Interest-bearing liabilities** | | | | | | |
| Deposits by banks | 4.47 | 2,192,269 | 900,000 | 3,500,000 | 2,000,000 | 8,592,269 |
| Customer accounts | 2.38 | 25,853,187 | 775,979 | 10,991 | 1,800 | 26,641,957 |
| Loans received | 3.49 | 223,894 | - | - | - | 223,894 |
| Debt securities in issue | 4.60 | 1,000,000 | 250,000 | 500,000 | 500,000 | 2,250,000 |
| | | 29,269,350 | 1,925,979 | 4,010,991 | 2,501,800 | 37,708,120 |
| Off balance sheet items | 4.55 | 3,900,000 | 1,750,000 | 5,900,000 | 1,800,000 | 13,350,000 |
| Interest rate repricing gap | | (4,706,349) | 363,554 | (1,415,631) | (84,446) | (5,842,872) |
| Cumulative interest rate repricing gap | | (4,706,349) | (4,342,795) | (5,758,426) | (5,842,872) | (5,842,872) |

# Notes to the separate financial statements
# Year ended 31 December 2006

## 37. Financial instruments continued

The average effective interest rates at 31 December 2006 and the periods in which interest-bearing assets and liabilities denominated in Euro reprice were as follows:

| | Effective interest rate % | 3 months or less Sk '000 | 1 year or less but over 3 months Sk '000 | 1 – 5 years Sk '000 | over 5 years Sk '000 | Total Sk '000 |
|---|---|---|---|---|---|---|
| **Interest-bearing assets** | | | | | | |
| Cash and cash equivalents | 3.48 | 2,850,172 | - | - | - | 2,850,172 |
| Loans and advances to banks | 4.9 | 15,280 | 884 | - | - | 16,164 |
| Loans and advances to customers | 4.47 | 13,661,776 | 1,352,409 | 1,570,395 | 207,652 | 16,792,232 |
| Investment securities | 6.01 | - | - | 1,551,293 | - | 1,551,293 |
| | | 16,527,228 | 1,353,293 | 3,121,688 | 207,652 | 21,209,861 |
| **Interest-bearing liabilities** | | | | | | |
| Deposits by banks | 4.50 | 1,968,376 | 900,000 | 3,500,000 | 2,000,000 | 8,368,376 |
| Customer accounts | 2.51 | 9,113,638 | 58,271 | - | - | 9,171,909 |
| Loans received | 3.66 | 3,284,435 | - | - | - | 3,284,435 |
| | | 14,366,449 | 958,271 | 3,500,000 | 2,000,000 | 20,824,720 |
| Off balance sheet items | 3.29 | - | - | 5,939,641 | 691,460 | 6,631,101 |
| Interest rate repricing gap | | 2,160,779 | 395,022 | (6,317,953) | (2,483,808) | (6,245,960) |
| Cumulative interest rate repricing gap | | 2,160,779 | 2,555,801 | (3,762,152) | (6,245,960) | (6,245,960) |

## 37. Financial instruments continued

The average effective interest rates at 31 December 2005 and the periods in which interest-bearing assets and liabilities denominated in Slovak crowns reprice were as follows:

| | Effective interest rate % | 3 months or less Sk '000 | 1 year or less but over 3 months Sk '000 | 1 – 5 years Sk '000 | Over 5 years Sk '000 | Total Sk '000 |
|---|---|---|---|---|---|---|
| **Interest-bearing assets** | | | | | | |
| Cash and cash equivalents | 2.76 | 21,675,484 | - | - | - | 21,675,484 |
| Trading assets | 3.25 | 890,566 | - | - | - | 890,566 |
| Loans and advances to banks | 2.32 | 1,583,697 | 650,000 | - | - | 2,233,697 |
| Loans and advances to customers | 4.53 | 6,102,087 | 3,616,837 | 3,800,603 | 736,684 | 14,256,211 |
| Investment securities | 4.71 | - | 301,339 | 1,893,852 | 4,650,170 | 6,845,361 |
| | | 30,251,834 | 4,568,176 | 5,694,455 | 5,386,854 | 45,901,319 |
| **Interest-bearing liabilities** | | | | | | |
| Deposits by banks | 3.46 | 9,386,310 | - | 2,500,000 | 2,000,000 | 13,886,310 |
| Customer accounts | 1.26 | 20,944,507 | 349,128 | 4,198 | 1,800 | 21,299,633 |
| Loans received | 3.48 | 163,174 | - | - | - | 163,174 |
| Debt securities in issue | 3.70 | - | - | 1,500,500 | 500,000 | 2,000,500 |
| | | 30,493,991 | 349,128 | 4,004,698 | 2,501,800 | 37,349,617 |
| Off balance sheet items | 2.87 | 1,000,000 | - | 1,700,000 | 1,200,000 | 3,900,000 |
| Interest rate repricing gap | | (1,242,157) | 4,219,048 | (10,243) | 1,685,054 | 4,651,702 |
| Cumulative interest rate repricing gap | | (1,242,157) | 2,976,891 | 2,966,648 | 4,651,702 | 4,651,702 |

## 37. Financial instruments continued

The average effective interest rates at 31 December 2005 and the periods in which interest-bearing assets and liabilities denominated in Euro reprice were as follows:

| | Effective interest rate % | 3 months or less Sk '000 | 1 year or less but over 3 months Sk '000 | 1 – 5 years Sk '000 | over 5 years Sk '000 | Total Sk '000 |
|---|---|---|---|---|---|---|
| **Interest-bearing assets** | | | | | | |
| Cash and cash equivalents | 2.51 | 3,065,688 | - | - | - | 3,065,688 |
| Loans and advances to customers | 3.58 | 8,820,590 | 5,357,952 | 3,989,406 | 85,915 | 18,253,863 |
| Investment securities | 6.37 | - | 200,828 | 411,988 | 1,412,307 | 2,025,123 |
| | | 11,886,278 | 5,558,780 | 4,401,394 | 1,498,222 | 23,344,674 |
| **Interest-bearing liabilities** | | | | | | |
| Deposits by banks | 2.39 | 11,737,006 | 5,677,200 | - | - | 17,414,206 |
| Customer accounts | 1.04 | 5,863,468 | 38,400 | - | - | 5,901,868 |
| Loans received | 2.44 | 2,649,360 | - | - | - | 2,649,360 |
| | | 20,249,834 | 5,715,600 | - | - | 25,965,434 |
| Off balance sheet items | 3.13 | 267,678 | 1,033,913 | 2,081,640 | - | 3,383,231 |
| Interest rate repricing gap | | (8,631,234) | (1,190,733) | 2,319,754 | 1,498,222 | (6,003,991) |
| Cumulative interest rate repricing gap | | (8,631,234) | (9,821,967) | (7,502,213) | (6,003,991) | (6,003,991) |

### *Foreign exchange risk*

Foreign exchange risk arises from the impact on the value of financial assets and liabilities from changes in foreign exchange rates.

The policy of the Bank is to maintain minimal net exposures to foreign exchange risk. Limits are set for individual foreign currencies and the Bank also uses forward foreign currency contracts to hedge balance sheet positions.

Assets and liabilities denominated in foreign currencies are set out in note 33.

## 37. Financial instruments continued

***Liquidity risk***

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk is managed as part of the Bank's asset and liability management process. Procedures include the regular monitoring of the timing of future cash flows on a currency-by-currency basis.

The remaining maturity of assets and liabilities at the balance sheet date is set out in note 37.

***Operational risks***

Operational risk is a risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management with each business unit. This responsibility is supported by the development of overall Bank's standards for the management of operational risk.

## 38. Fair values

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

| | **Carrying value 2006 Sk '000** | **Fair value 2006 Sk '000** | **Carrying value 2005 Sk '000** | **Fair value 2005 Sk '000** |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| Cash and cash equivalents | 14,196,471 | 14,196,471 | 25,555,187 | 25,555,187 |
| Trading assets | 1,737,336 | 1,737,336 | 1,305,583 | 1,305,583 |
| Derivative assets held for risk management | 146,282 | 146,282 | 16,450 | 16,450 |
| Loans and advances to banks | 3,441,123 | 3,439,720 | 2,243,795 | 2,243,795 |
| Loans and advances to customers | 45,051,471 | 47,628,681 | 37,362,706 | 39,005,726 |
| Investment securities | 7,251,596 | 7,341,880 | 8,953,311 | 9,164,519 |
| Investments in subsidiaries | - | - | 64,926 | 64,926 |

## 38. Fair values continued

| | Carrying value 2006 Sk '000 | Fair value 2006 Sk '000 | Carrying value 2005 Sk '000 | Fair value 2005 Sk '000 |
|---|---|---|---|---|
| ***Financial liabilities*** | | | | |
| Trading liabilities | 728,169 | 728,169 | 254,816 | 254,816 |
| Derivative liabilities held for risk management | 53,023 | 53,023 | 12,189 | 12,189 |
| Deposits by banks | 18,572,618 | 18,761,709 | 33,000,363 | 33,427,061 |
| Customer accounts | 38,020,727 | 38,003,007 | 29,584,634 | 29,525,710 |
| Loans received | 3,519,197 | 3,509,367 | 2,819,342 | 2,968,367 |
| Debt securities in issue | 2,280,753 | 2,279,301 | 2,023,120 | 2,089,013 |

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

***Trading assets and derivative assets held for risk management***
The fair values of trading assets and derivative assets held for risk management are calculated using quoted market prices or theoretical prices determined by present value method. Present value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

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

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

***Investment securities***
The quoted market prices for investment securities are set out in note 13.

***Investments in subsidiaries***
The investments in subsidiaries are valued at acquisition cost less impairment.

***Trading liabilities and derivative liabilities held for risk management***
The fair values of trading liabilities and derivative liabilities held for risk management are calculated using quoted market prices or theoretical prices determined by present value method. Present value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

## 38. Fair values continued

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

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

***Loans received***
The fair values of loans received are calculated by discounting the future cash flows using current interbank rates.

***Debt securities in issue***
The fair values of debt securities in issue are calculated by discounting the future cash flows using current interbank rates.

## 39. Explanation of transition to IFRSs

As stated in note 2 (a), these are the Bank's first separate financial statements prepared in accordance with IFRSs.

The accounting policies set out note 2 have applied in preparing the financial statements for the year ended 31 December 2006, the comparative information presented in these separate financial statements for the year ended 31 December 2005 and in the preparation of an opening IFRS balance sheet at 1 January 2005 (the Bank's date of transition).

In preparing its opening IFRS balance sheet, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with Slovak accounting regulations. An explanation of how the transition from Slovak accounting regulations to IFRSs has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

As the Bank became a first-time adopter for its separate financial statements later than for its consolidated financial statements, it measured its assets and liabilities at the same amounts as in the consolidated financial statements, except for consolidation adjustments.

## 39. Explanation of transition to IFRSs continued

| | Notes | 01 January 2005 | | | 31 December 2005 | | |
|---|---|---|---|---|---|---|---|
| **Assets** | | **Slovak Accounting** | **Effect of transition to IFRS** | **IFRS** | **Slovak Accountin g** | **Effect of transition to IFRS** | **IFRS** |
| | | **Sk '000** | **Sk '000** | **Sk '000** | **Sk '000** | **Sk '000** | **Sk '000** |
| Cash and cash equivalents | | 18,146,067 | - | 18,146,067 | 25,555,187 | - | 25,555,187 |
| Trading assets | | 1,072,596 | 7,782 | 1,080,378 | 1,305,583 | - | 1,305,583 |
| Derivative assets held for risk management | | - | - | - | 16,450 | - | 16,450 |
| Loans and advances to banks | | 4,462,376 | - | 4,462,376 | 2,243,795 | - | 2,243,795 |
| Loans and advances to customers | | 31,077,709 | (34,397) | 31,043,312 | 37,413,802 | (51,096) | 37,362,706 |
| Investment securities | | 8,010,033 | 31,937 | 8,041,970 | 8,931,141 | 22,170 | 8,953,311 |
| Investments in subsidiaries | | 54,069 | - | 54,069 | 64,926 | - | 64,926 |
| Property and equipment | | 472,697 | - | 472,697 | 404,633 | - | 404,633 |
| Corporate income tax receivable | | - | - | - | - | 12,592 | 12,592 |
| Deferred tax asset | | - | 7,229 | 7,229 | - | 29,722 | 29,722 |
| Other assets | | 154,763 | - | 154,763 | 33,693 | - | 33,693 |
| | | 63,450,310 | 12,551 | 63,462,861 | 75,969,210 | 13,388 | 75,982,598 |
| **Liabilities** | | | | | | | |
| Trading liabilities | | 226,964 | - | 226,964 | 254,816 | - | 254,816 |
| Derivative liabilities held for risk management | | - | - | - | 12,189 | - | 12,189 |
| Deposits by banks | | 25,117,509 | - | 25,117,509 | 33,000,363 | - | 33,000,363 |
| Customer accounts | | 27,784,924 | - | 27,784,924 | 29,584,634 | - | 29,584,634 |
| Loans received | | 1,791,552 | - | 1,791,552 | 2,819,342 | - | 2,819,342 |
| Debt securities in issue | | 1,010,236 | - | 1,010,236 | 2,023,120 | - | 2,023,120 |
| Provisions | | 65,343 | - | 65,343 | 216,354 | - | 216,354 |
| Current tax liability | | 72,047 | - | 72,047 | 5,792 | (5,792) | - |
| Deferred tax liability | | 43,546 | (43,546) | - | 4,670 | (4,670) | - |
| Other liabilities | | 226,615 | - | 226,615 | 117,906 | - | 117,906 |
| | | 56,338,736 | (43,546) | 56,295,190 | 68,039,186 | (10,462) | 68,028,724 |
| **Share capital and reserves** | | | | | | | |
| Share capital | | 2,576,250 | - | 2,576,250 | 2,576,250 | - | 2,576,250 |
| Reserves | | 4,535,324 | 56,097 | 4,591,421 | 5,353,774 | 23,850 | 5,377,624 |
| Share capital and reserves | | 7,111,574 | 56,097 | 7,167,671 | 7,930,024 | 23,850 | 7,953,874 |
| | | 63,450,310 | 12,551 | 63,462,861 | 75,969,210 | 13,388 | 75,982,598 |

## 39. Explanation of transition to IFRSs continued

***Notes to the reconciliation of equity***

The impact on deferred tax of the adjustments described below is set out in note (d).

**(a) Trading assets**

In accordance with IFRSs, trading assets and all derivative financial instruments have been recognised at fair value. Certain trading assets were valued at amortised cost in accordance with Slovak accounting regulation.

The effect of measuring the trading assets at fair value is to increase trading assets at 1 January 2005 by Sk 7,782 thousand (31 December 2005: none) and to decrease net trading income for the year ended 31 December 2005 by Sk 7,782 thousand.

**(b) Loans and advances to customers**

In accordance with IFRSs, the interest income on loans and advances to customers have been recognised in the income statement using the effective interest method.

The effect of recognising the interest income using the effective interest method is to decrease loans and advances to customers at 1 January 2005 by Sk 34,397 thousand (31 December 2005: Sk 51,096 thousand) and to decrease interest receivable and similar income arising from debt securities for the year ended 31 December 2005 by Sk 16,699 thousand.

**(c) Investment securities**

In accordance with IFRSs, available-for-sale investments have been recognised as assets at fair value.

The effect of measuring the available-for-sale assets at fair value is to increase investment securities at 1 January 2005 by Sk 31,397 thousand (31 December 2005: Sk 22,170 thousand) and to decrease interest receivable and similar income arising from debt securities for the year ended 31 December 2005 by Sk 9,767 thousand.

**(d) Income tax**

The above changes increased the deferred tax asset as follows based on a tax rate of 19%:

| | 1 December 2005 Sk '000 | 31 December 2005 Sk '000 |
|---|---|---|
| Trading assets | (1,479) | - |
| Loans and advances to customers | 6,535 | 9,708 |
| Investment securities | (6,068) | (4,212) |
| Increase in deferred tax asset | 467 | 5,496 |

## 39. Explanation of transition to IFRSs continued

### (d) Income tax continued

The effect on the income statement for the year ended 31 December 2005 was to decrease the previously reported tax charge by Sk 18,384 thousand.

Furthermore, under Slovak accounting regulations the Bank recognised a deferred tax liability for a legal reserve previously created for loans and advances for customers and subsequently released. This had no impact on the deferred tax under IFRS. This resulted in a deferred tax liability of Sk 50,308 thousand at 1 January 2005 and Sk 28,896 thousand at 31 December 2005.

### (e) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

| | Note | 1 January 2005 Sk '000 | 31 December 2005 Sk '000 |
|---|---|---|---|
| Trading assets | | 7,782 | - |
| Loans and advances to customers | | (34,397) | (51,096) |
| Investment securities | | 31,937 | 22,170 |
| Corporate income tax | | - | 18,384 |
| Deferred tax | | 50,775 | 34,392 |
| | | 56,097 | 23,850 |

## 39. Explanation of transition to IFRSs continued

### Reconciliation of profit for 2005

| | Notes | 31 December 2005 Slovak Accounting Sk '000 | Effect of transition to IFRS Sk '000 | IFRS Sk '000 |
|---|---|---|---|---|
| Interest receivable and similar income arising from debt securities | | 2,665,089 | (26,466) | 2,638,623 |
| Interest payable | | (1,414,940) | - | (1,414,940) |
| **Net interest income** | | 1,250,149 | (26,466) | 1,223,683 |
| Fees and commissions receivable | | 381,660 | - | 381,660 |
| Fees and commissions payable | | (75,305) | - | (75,305) |
| Net trading income | | 473,478 | (7,782) | 465,696 |
| **Operating income** | | 2,029,982 | (7,782) | 1,995,734 |
| Administrative expenses | | (853,455) | - | (821,015) |
| Depreciation | | (179,614) | - | (179,614) |
| **Operating expenditure** | | (1,033,069) | - | (1,033,069) |
| **Operating profit before impairment losses and provisions** | | 996,913 | (34,248) | 995,105 |
| Impairment losses on loans and advances | | 1,586 | - | 1,586 |
| Impairment losses on investment securities | | (2,710) | - | (2,710) |
| Impairment losses on investments in subsidiaries | | - | - | (32,440) |
| Impairment losses on property and equipment | | - | - | - |
| Provisions | | (151,011) | - | (151,011) |
| **Profit before taxation** | | 844,778 | (34,248) | 810,530 |
| Income tax expense | | (89,437) | 2,001 | (87,436) |
| **Profit after taxation** | | 755,868 | (32,247) | 723,094 |