UniBanka
UniCredito Italiano Group

Annual Report 2006

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unity

We try together to meet the target – your more comfortable and more pleasant life. We stick together because we will do more in unity.

Opinion of the Supervisory Board


Johann Strobl

For UniBanka the year 2006 was the year of intensive preparation of merger of UniBanka, a. s. and HVB Bank Slovakia with the aim to establish the fourth largest bank on the Slovakian banking market with 93 branches and 172,000 customers. Along with the demanding preparation of consolidation of the two banks, UniBanka continued its strategy of development of new products and facilities for the retail, corporate and private banking. The bank strengthened its position in the area of private banking, where, as the only bank in Slovakia, it offered exclusive services also on the regional level. The bank launched as the first bank in Slovakia a special product in support of the small and medium businessmen. Through the First Combined Investment it offered to its customers better appreciation of their finances, combining a guaranteed deposit with the investment in mutual funds.

The registered capital of UniBanka, a. s. did not change on the year to year basis. The registered capital of the bank was SKK 2,377,062,040 as at December 31, 2006, the number of shares was 12,848,984 pieces of the nominal value of SKK 185 per share.

The Supervisory Board carried out its activity duly, in accordance with the laws valid in the Slovak Republic, Articles of Association, and in close cooperation with the Internal Control and Internal Audit Division. At its sessions held in 2006 it was regularly informed about the financial results of the bank and about the credit portfolio risk development. During the year 2006 it focused its control mainly on the business strategy implementation, on the management of the bank's business strategy as well as on the continuing process of merger of the banks.

Based on its activity, the Supervisory Board confirms that the accounting books and documents of UniBanka, a. s. were kept in compliance with law, Articles of Association and internal regulations of the bank. In the opinion of the Supervisory Board, the 2006 financial statements clearly proved the financial situation and results of the bank, what was confirmed by KPMG, the external auditor.

The Supervisory Board stated that according to the 2006 annual accounts the 2006 net profit of the bank was SKK 315,546,630.70 according to the Slovak accounting standards (SKK 319,134 thousand according to the international accounting standards.).

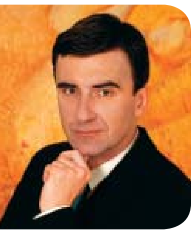
The Supervisory Board agrees with the Management Board proposal for profit distribution of the 2006 net profit in the amount of SKK 315, 546,630.70 and recommends its approval.

Johann Strobl
Chairman of the Supervisory Board

simplicity

As the life is fast and complicated, we try to keep our products and services simple and clear. We wish your life would be just easy.

Supervisory Board, Board of Directors and Management


Jozef Barta

Composition of the Board of Directors from 1 January 2006 to 31 December 2006:

- Chairman: Jozef Barta
- Deputy Chairman: Gianni Franco Papa
- Members: Doc. Ing. Anna Pilková, CSc., MBA


Gianni Franco Papa

Composition of the Supervisory Board from 1 January 2006 to 31 December 2006:

KUNERT Jiří	
FERRARO Carmine	since 26. 4. 2006
MOI Massimiliano	till 24. 4. 2006
DEVOTO Alberto	
IANNACCONE Marco	
VOVK Giuseppe	till 24. 4. 2006
PETERSCHMITT Jean Marc	till 18. 10. 2006
SLIMÁKOVÁ Ingrid	till 18. 7. 2006
NECHOJDOMA Miloslav	
ŠŤASTNÁ Zuzana	
ŤUREK Slavomír	
VASKÁ Viera	
MARINI Carlo	since 26. 4. 2006
GOITINI Elena	since 26. 4. 2006
MAZZA Carmelo	since 18. 10. 2006
STROMENGER Günther	since 18. 10. 2006


Doc. Ing. Anna Pilková, CSc., MBA.

The management of UniBanka worked under the following structure as of 31. 12. 2006:

- General Director – Jozef Barta
- Mortgage administrator – Ing. Soňa Vágnerová
- Internal Control and Audit Division – Stefano Cotini
- Bank Secretariat – PhDr. Rudolf Hanuljak
- Communication Division – Mgr. Katarína Ševčíková
- Information Systems and Technology Division – Ing. Ľuboš Kováčik
- Treasury Division – Ing. Martin Macko
- Legal Division – Mgr. Vladimír Nagy
- Workout Division – JUDr. Marián Áč, PhD.
- Organisation Division – Mgr. Daša Gogaľová

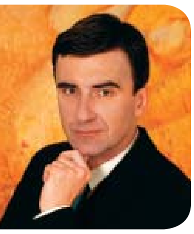
- 1st Deputy General Director – Gianni Franco Papa
- Retail Banking Division – Andrea Pražáková till 30. 6. 2006 (Maurizio Volcich – since 1. 7. 2006 in charge of management)
- Corporate Banking Division – Ing. Miroslav Štrokendl
- Private Banking Division – Jaroslav Víťazka, MBA
- Structured Finance Division – PhDr. Ivica Bachledová, MBA
- Mortgage Banking Department – Ing. Gabriela Hrdlicová
- Human Resource Management Division – Ing. Vladimíra Josefiová, MBA
- Banking Operations and Services Division – Ing. Eduard Rehuš

- Deputy General Director – Doc. Ing. Anna Pilková, CSc., MBA
- Credit Division – Dr. Giorgio Catena
- Risk Management Department – open
- Loan Administration and Monitoring Division – Ing. Danica Hlavatá
- Accounting Division – Ing. Viera Durajová
- Planning and Controlling Division – Ing. Jaroslav Šinák
- Logistics Division – Ing. Anna Habánová

- Team for Macroeconomics and Market Analyses – Ing. Viliam Pätoprstý, MSC
- Compliance officer – Mgr. Oľga Petrovicová

number one
We try to do the things as good as possible. And even little bit better.
We strive to achieve the best possible appraisal in your eyes.

Foreword of the Chairman of the Board of Directors and CEO



Dear shareholders,

The year 2006 in the life of UniBanka was influenced in particular by the process of integration of UniBanka and HVB Bank Slovakia and by the connected preparation of the new bank – UniCredit Bank.

The net profit of UniBanka after taxation in accordance with the IFRS standards achieved in 2006 the amount of SKK 319,134 thousand (according to the Slovak accounting standards SKK 315,547 thousand). Without posting the nonrecurring expense related to the integration processes in the amount of SKK 188,387 thousand the profit would represent the amount of SKK 507,521 thousand, i.e. a +39 % year-to-year increase.

The balance sheet amount of the bank has achieved SKK 50,116 million as at the end of 2006. The development of the balance sheet value was significantly influenced by a special deposit in 2004 – 2006 that was terminated in December 2006. The balance sheet amount of the bank adjusted for the abovementioned special transaction has increased by 18 % against the previous year.

In the area of retail banking the year 2006 showed again the signs of uniqueness. We were the first who launched the First Transparent Mortgage Loan, the interest rate of which was tied to the value of 6 month Bribor. Its change thus does not depend on the decision of the bank, but on the current situation on the market. UniBanka has brought an innovation also in the area of investment products in the form of the First Combined Investment. It comprises of two parts – a structured deposit and an investment to the mutual funds. In the retail banking UniBanka was also in the last year one bank, which did not charge the account entries and therefore its price list was fully transparent.

We have achieved a favorable trend also in corporate banking, where the revenues increased on year-to-year basis by more than 10 %. The returns on deposits took the most significant share in it, in the response to the increasing interest rates on the market. The revenues on foreign payment transactions were another positive factor as well as the related growth of revenues on exchange transactions with customers. The turbulence in the development of the Slovak Koruna exchange rate notably raised the demand for exporters' and importers' exchange rate risk hedging, what improved the attractiveness of the structured hedging tools offered by the bank. In 2006 we strengthened our position in the most dynamically expanding industry – the building industry. The bank has increased the volume of real estate financing almost by 70 %.

We have achieved these attainments also due to the enormous engagement of our staff. We have been continuously trying to increase their qualifications. During the last year the employees of UniBanka completed more than 65 thousand of training lessons.

Dear shareholders,

The aforesaid results allow me to state that the year 2006 was a thriving year for the bank. Thank you for your trust and we are certain that we will not betray your trust even in 2007 already under the new name of UniCredit Bank.

Jozef Barta
Chairman of the Board of Directors and CEO

uniqueness

Professional approach, high quality of services and exceptional reliability, in a word – uniqueness that you are used to expect from us.

Report on Business Operations

1 Economic and Competitive Environment in the SR

Slovak economics continued in gradual improvement of its condition, reaching a real growth by the record-breaking 8.3 % in 2006. The increased economic growth was especially the result of launching of new producing capacities in the automobile and electro technical industry. It is a positive fact that in 2006, after a long period, it has come to a turn when the economic growth was reflected also in the quicker increase of wages and employment in the regions traditionally lagging. The exchange of government relay after parliamentary elections did not bring such a considerable convulsion as was feared by the markets. On the contrary, the political commitment of the government to adopt Euro at the determined date (2009) has brought a gradual return of positive sentiment to markets.

Similarly as in 2005, also in 2006 the cash deficit of the national budget ended up with a half volume as against the plan. This result was predominantly caused by excessive tax collection and it may be anticipated that similar situation shall resume also in 2007, which will be the key factor for the fulfillment of the Maastricht Criterion (in the ESA 95 method). Another key factor will be the decrease of prices of energetic raw materials and energies themselves. This should decrease the year-end inflation from 4.2 % in 2006, when the prices of energies culminated, to 2.5 % interim in 2007. Equally as in the case of deficit of the public finance, this result should qualify the country for the subsequent adoption of Euro. The public debt maintains satisfactory levels in long term – in 2006 it was 31 % of the GDP. For 2006, the deficit of current account achieved 8.3 % of the GDP and in spite of the relatively high value it is structurally sound and predominantly covered by the inflow of direct foreign investments.

The inflow of positive fundamental news – especially the record-breaking growth of economics and pacification of sentiment upon elections – has brought massive evaluation of the Slovak Crown in the second half of the year. That was expressed in quick approaching to the lower limit of the ERMII system – which incurred series of reactions of the NBS against the Crown on a record level of €/SKK 34.1 by the end of 2006. Such development enabled the NBS, inter alia, not to continue in the anticipated increasing of the key interest rates, which thus remained on the level of 4.75 %. The interest line moved adequately to anticipations in the course of the year – until the autumn it was prevailingly growing, subsequently it turned around influenced by the strong rate, while from short maturities up to 5 years it was inverted. The long-term rates remained on the levels safely enabling to fulfill the Maastricht Criterion.

Developments in the banking sector acknowledged only some of the trends from the previous year. Loans continued in a more than 20 % interim growth, while the indebtedness of citizens was growing most quickly; loans to non-financial companies also retained a double-figure growth. On the contrary, the gradual increase of interests in the course of the year reversed the actual trend of outflow of sources from citizens' deposits into funds, therefore, in the course of the year it has come to the increase of the volume of citizens' deposits by approximately 15 %. Also non-financial companies recorded a similar increase of deposits.

Changes of adjustment of the monetary policy during the year led to a slight increase of the average gross interest margin of the banks from 4.4 % to 4.6 %. This was crucial in the increase of banking sector profit, which achieved SKK 15.9 bill. in 2006 (by 14 % more than in 2005). It is a positive fact that the trend is henceforth accompanied by the improvement of the quality of loans, while the share of nonperforming loans in 2006 decreased approximately by 1 percentage point to 3.3 %.

The year 2007 will be the evaluation year for adoption of Euro, therefore the increased attention of markets will be focused on the Crown stability, inflation and economy of the country. We are expecting that the record-breaking increases of economics should rather help the effort to adopt Euro. In the banking sector we are expecting the acknowledgement of trends of 2006 – quick growth of credit market and continuation of increase of deposits, accompanied by further improvement of management of commercial banks.

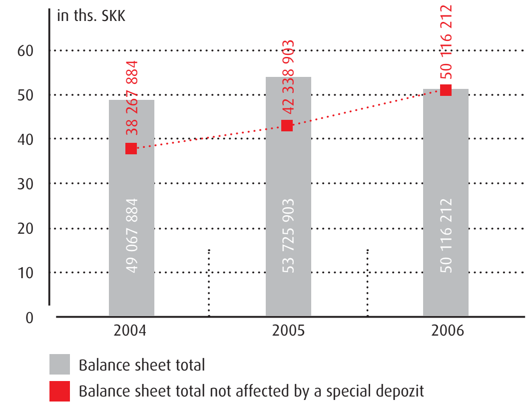
2 Selected Financial Indicators of the Bank in 2006

Fusion of the bank groups of UniCredit Group and HVB Group into one truly European bank is a moment that has considerably influenced the trading income of the UniBanka, a. s. for the year 2006 and will also have an impact on the following years. Whereas in 2006 and partially in 2007 the fusion of two strong banks on the Slovak market, i.e. UniBanka, a. s. and HVB Bank Slovakia, a. s., has and will become evident in a single impact on the costs connected mainly with an integration of the IT systems and affiliated branch network, in the following years, a significant synergy effects can be expected in reduction of duplicate costs, lower investment intensity, as well as in sales growth in consequence of a richer and higher quality range of products and services.
In 2006, the bank's net profit after taxation, in compliance with the IFRS standards, was SKK 319 134 ths.(under the Slovak accounting standards it was SKK 315 547 ths.). Without posting one-off costs connected with the integration processes in amount of SKK 188 387 ths., the profit would be SKK 507 521 ths., i.e. + 39 % year-on-year growth. Also growth in bank's earnings (+SKK 176 230 ths., or +9.23 %) took a significant share in profit formation, a year-on-year growth in operating profit without an influence of one-off integration costs was +70 %.

Balance of the Bank

The bank's balance sheet total was SKK 50 116 mil. by the end of 2006. Development of the balance sheet total is significantly affected by a special deposit in the years 2004 – 2006, which ended in December 2006. Balance position of the bank adjuster for the abovementioned special transaction grew compared to a previous year by SKK 7 777 mil. (+18 %).

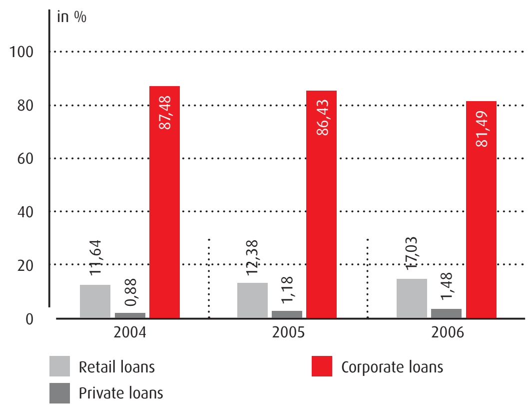
Development of the balance sheet total



Assets

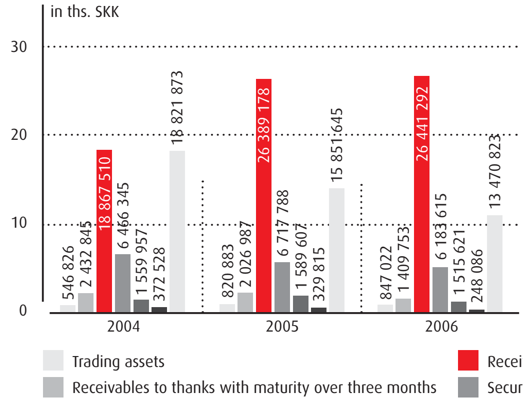
Among the assets, the greatest share (52.76%) have the loans transactions, whose value achieved SKK 26 441 mil. by the end of the year. In 2006, quality of the receivables was enhanced again; a gross amount of the impaired receivables decreased by SKK 625 mil. and constitutes a share of 0.26 % from a total credit portfolio. In a client structure of the loan receivables, a share of the corporate loans in favor of the loans for citizens gradually declines. Despite this trend, a share of the corporate loans still exceeds 80 % of all granted loans.

Loan to clients by the segments



A second biggest item of the assets, in terms of volume, are the transactions with a national bank and other banks with the three months time deposits plus cash assets of the bank. Their volume achieved SKK 13 471 mil., i.e. 26.88 % of volume of all assets. A securities portfolio in amount of SKK 6 184 mil. constitutes 12.3 % of the bank assets, the trading securities there of are cleared in fair value of SKK 1 386 mil.. The income assets constitute 94.6 % from a total assets volume (94.6 % in 2005).

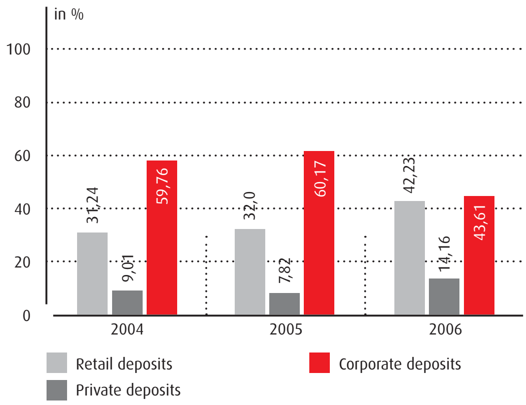
Assets development



Liabilities

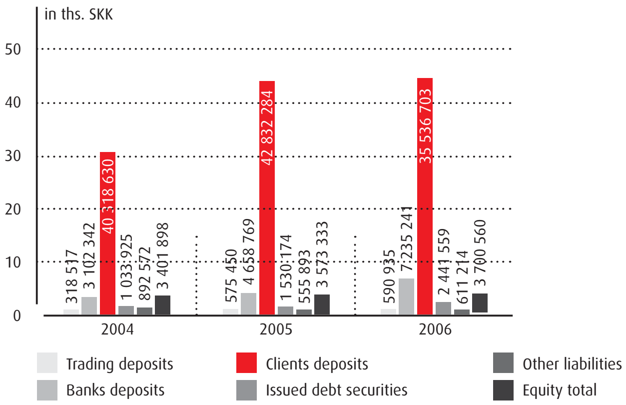
A greatest share, 70.9 %, in total liabilities of the bank have the client deposits. A year-on-year growth of net value of the special deposits (2004: SKK 10 800 mil., 2005: SKK 14 500 mil.) was 13 % and it achieved SKK 35 537 mil.. From a total deposits and other liabilities, the deposits of the retail and private clients constitute more than a 56 %-share.

Deposits to clients by the segments



A volume of the banks deposits increased compared to a year 2005 by 58 % to SKK 6 993 mil.. In October 2006, the bank issued 4th issue of hypothecation bonds in the amount of SKK 900 mil., a total amount of these debt securities is SKK 2 442 mil.

Liabilities development



Equity

Equity of UniBanka, a. s. grew by the end of the year to SKK 3 701 mil., from which the registered capital of the bank formed by 12 848 984 shares with a nominal value of SKK 185 each constitutes SKK 2 377 mil. and other reserves and reserve fund constitute an amount of SKK 1 324 mil.. In 2006, the registered capital remained the same.

3 Risk Management in the Bank

In 2006 the bank has set two principal goals in the field of risk management:

a/ Optimization of risk expenses as well as utilization of capital with respect to the risk profile of the bank activities as well as the methodic changes in the field of calculation of impairments and provisions in compliance with the IFRS requirements,

b/ Continuation in implementation of the Basel II project, particularly in compliance with the new plan elaborated in consideration of the UCI Holding requirement within the framework of the new grouping originated upon acquisition of the HVB financial group.

In terms of the credit risk, the bank achieved a very good level of credit receivables quality, which was reflected in the lowest value of indicator of classified loans share in the total receivables (3.3 %) for the past 10 years of activity of the bank. This condition was achieved due to the continuation of solving of receivables from the old credit portfolio (depreciation, termination of bankruptcies, execution of rights of liens), as well as good macroeconomic development and conservative approach to the new loan provision and utilization of modern tools for evaluation of the customers' ability to repay loan receivables. The scope for management of all phases of the credit risk was presented by the approved credit policy for 2006 which was continuously fulfilled by the bank.

In the course of the year, UniBanka launched several projects in the loan area:

- Implementation of a new approach to calculation of the necessity of impairments for credit risks, particularly in compliance with the requirements of the International Financial Reporting Standards (IFRS). Through implementation of these new procedures it has come to several considerable changes in the approach to assessment of devaluation of loan receivables, while the return to creation of impairments to the standard portfolio may be considered as the most important one.
- Starting of implementation of the new version of the FEBO: instrument for evaluation of the ability to repay loans by the individual applicants in terms of retail banking,
- Implementation of the new version of the ACE for provision of loans to corporate customers,
- Development of the scoring model for small and medium entrepreneurs,
- Development of the new model for enforcement of small receivables, particularly through engagement of the bank Call Center.

UniBanka continued in cooperation with the European Bank for Reconstruction and Development in the field of financing of small and medium entrepreneurs, particularly through drawing of two credit lines as well as technical support, which was provided to the bank in the course of the year by the Shorebank International Ltd.

In terms of market risk management, the bank provided the consistent implementation of the investment policy approved for 2006. The team for market risk management in cooperation with an external company finished the project of automation of the creation of the bank and business book. In 2006, all market risks were in compliance with the investment policy of the bank and its limits. In 2006 the focus of activities in the field of operational risk management was oriented to the collection and evaluation of data on the particular factors of operational risks. The bank proceeded in accordance with valid regulations for operational risk management and observed the valid limitations for this area. In the field of regulation, UniBanka provided consequently the fulfillment of all provisions of the NBS on prudential business.

4 Corporate Banking including Activities of the Structured Finance Division

The continuing positive development of the Slovak economy was manifested also in the yields of corporate banking, which has grown interim by more than 10 %. It was influenced most significantly by the yields from deposits, as a reaction to the growing interest rates on the market. The yields from foreign payment system and the connected growth of yields from exchange rate transactions with customers were other positive factors. Turbulences in the development of the Slovak Crown exchange rate have considerably increased the demand for services of hedging of exchange rate risks of exporters and importers, which increased the attractiveness of the structured hedging instruments offered by the bank.

Upon four years of constantly decreasing interest margins from the provided loans, in 2006 the situation was stabilized and the margins remained unchanged in the course of the year, which has also contributed to the 2006 positive results.

The decision of establishment of the Real Estates Division has enabled the bank to strengthen its position in the most dynamically developing sector – real estates construction. The bank increased the volume of real estates financing almost by 70 % and the loans in this segment achieved SKK 3.4 bill. by the end of 2006.

In the field of new products development, in 2006 the bank has innovated two products for agriculture financing. It has implemented a three-year revolving loan for pre-financing of direct endowments for land, which the agrarians obtain within the Common Agricultural Policy of the EU. The second innovated product was the revolving financing of dock and commodity warrants for the selected agricultural commodities, utilization of which was repeatedly regenerated upon cancellation of the Intervention Agency activity. Through both these products, in 2006 the bank provided loans in the value higher than SKK 2.5 bill.

Also the products from the area of structured financing, particularly the financing and repurchase of domestic and foreign receivables, executed on a regression as well as non-regression basis, are still enjoying an extraordinary interest. In 2006, the bank started a new cooperation with the Czech credit insurance company EGAP, aimed at insurance of transactions in receivables from the Slovak-Czech supplier-customer relations. Moreover, in the effort to offer its customers an added value, UniBanka extended its product portfolio by the Export Manager product, for the purposes of collection of customers' receivables from their foreign purchasers operating in selected countries.

The bank achieved an outstanding success also in the field of project financing and syndicated loans. Compared to the previous year, UniBanka recorded more than a quadruple increase of yields from these transactions. In the structure of syndicated loans, the highest share, approximately 54 %, was presented by the loans for traffic infrastructure financing, especially constructions of highways and expressways. As much as 67 % of the volume of syndicated loans was directed to foreign non-banking subjects. In the field of project financing, the bank provided especially the loans for execution of industrial projects and projects in the field of tourism. By the end of 2006, it has recorded a 28 % increase of yields from this financing compared to 2005. The bank continued providing services to customers connected with financing of projects supported by the EU funds, consulting services and services connected with financial settlement of purchase and sale of real estates through the product of Escrow Account.

In 2006 the bank continued in the activity of depository for the DSS Aegon, a.s., as well as in the provision of administration of Slovak and foreign securities. In this connection, it has arranged close cooperation with a specialized Italian bank 2S Banca S.p.A., which is operating nostro accounts for UniBanka in several foreign currencies, intended exclusively for the purposes of securities administration.

5 Retail Banking

The year 2006 was an extremely positive year for the Retail Banking Division of UniBanka, especially due to the increase of volume of loans and deposits. During the first months of 2006 UniBanka launched a Mortgage Loans Campaign promoting a brand new type of loan. The first transparent mortgage loan has the interest rate linked to the value of 6-month Bribor and its change is thus not dependent from the decision of the bank, but from the actual situation on market.

UniBanka has introduced a novelty also in the field of investment products. The first combined investment was composed of two parts – a customer invested a half of the deposit in a mutual fund and the remaining part in a structured term deposit. For the launch of this product, UniBanka has been awarded the third prize in the competition “Zlatá Minca”, given to the financial institutions for the creation and launch of innovative products in the Slovak Market.

In the course of 2006, the bank doubled the number of issued credit cards, which is confirming the importance of this credit and payment instrument. In compliance with the strategy in the field of retail banking, UniBanka continues in reorganization of the business network model, which is connected especially with the reallocation and opening of new bank outlets. The main goal of these changes was the build up of more modern and more comfortable premises for the broadening of provided services.

6 Private Banking

The year 2006 was only the second year since the time UniBanka approached the model of serving private customers (high net worth individuals) through separate specialized division. The goal of this year was to improve services through an individualization of approach to each private customer, to provide the highest possible confidentiality of information of their property and transactions, and to enable customers to utilize also the products not accessible for common customers. In favor of the bank strategy – to be as close to customers as possible – speaks also the fact that we are operating 12 separate workplaces of private banking throughout Slovakia.

Customers have appreciated such approach through the increase of deposits and shares funds by 14.70 % compared to the previous year. The volume of loans has also considerably grown – important is, however, the fact that the increase concerned especially the loans secured financially or otherwise. This is the evidence that the quality of private customer in the bank is improving and approaching the characteristics of private customers in developed economies.

Compared to the previous year, the total profitability of the segment has increased by 30.20 %. However, to a great extent this is directly interconnected with the positive yield of customers’ investments. For example, in the Asset Management product, the customer shall entrust a pack of money to the bank, which is actively administering it according to the development on financial markets. In this case, the bank is making profit only if the customer’s portfolio is increasing its value. Also the product of 2-week Repo deposit and bill of exchange remains in popularity. Advantage of this product is the transparency and a higher rate than may be achieved by common term deposits or common bills of exchange.

UniBanka is also taking care of non-financial needs of its customers. In 2006 the bank started cooperation with the SOGA Auction House. This enables customers, within the Art Banking services, having a long tradition in the UniCredit Group, to take part in exclusive lectures on art works, to view the sold works in intimate atmosphere and to consult the history and price of a particular work directly with the specialists of the auction house.

7 Treasury

Also in 2006 UniBanka confirmed its stable position and reputation in the field of Treasury and in terms of interbank transactions it was a credible partner for other banks. Also the increasing number of transactions with customers is suggesting a satisfaction of this segment with the services of UniBanka. Positive influence was supported also by affiliation to the UniCredit Group and the forthcoming merger with HVB Bank Slovakia.

On the foreign exchange market, UniBanka operated in compliance with its strategy rather conservatively and maintained its foreign exchange positions within the determined limits. The bank continued improving the quality of its product portfolio, especially in the field of foreign exchange options, utilizing the good relations with partnership banks.

In the course of 2006 UniBanka registered a surplus of the short-term liquidity and fulfilled the obligatory minimum reserves without troubles. The bank managed assets and liabilities in compliance with its investment policy, while traders were maintaining a balanced interest position.

Trading in securities was executed on the account of the bank especially with government securities and treasury bills of the central bank. The market with Slovak government securities, however, was achieving low liquidity, which manifested itself also in the minimum number of transactions in this kind of securities. In spite of that, the government securities formed the majority of the securities portfolio of UniBanka also in 2006.

Similarly to the past, derivatives of the financial market were an important instrument for securing of the positions of the bank in 2006. The bank utilized these kinds of transactions also for structuring of new products for customers.

Products and services of the Customer Desk of UniBanka enjoyed a standard increased interest of customers. Even because of that, similarly as in the previous years, the bank recorded increase of the number of transactions with customers of the Customer Desk. In 2006, it was as much as by 17,8% compared with the year before. The long-term and steady increase of customers' interest in Treasury products is a proof of the permanently sustainable development of the bank in this field. In 2006 customers focused mainly on securing of market risks of their positions, especially in the fields of foreign exchange and interest risk.

8 Electronic Banking and Bank Cards

Last year, the development of electronic banking systems and the field of bank cards was affected especially by the fulfillment of integration goals of the bank. The focus of activities in this field was concentrated especially on analysis of the current situation aimed at adaptation of all systems and processes to the needs of the new bank.

In the previous year, UniBanka extended the INTERNET banking and HOME banking by a new type of domestic payment order, enabling sending of funds within the bank with conversion between accounts operated in various currencies and within Slovakia, sending of funds to other banks also from foreign currency accounts. Through implementation of the Web Services system, the bank enabled interconnection of the electronic banking systems with another, mostly external sources of services and data. The first external source of data was the authorization system of the First Data Slovakia Company, which has enabled to the bank the provision of SMS on-line notification of transactions executed via bank cards. Another changes of electronic banking systems were concerning mostly systemic and technologic changes, enabling another improvement of the transaction processing rate, accessibility of the particular systems, increasing of safety and simplification of administration of the listed systems.

The number of bank customers utilizing the particular systems of electronic banking increased interim by 7.5 %. The greatest interest was still in activation of the INTERNET banking (+19 %) and GSM banking (+6 %) services. In the previous year, the customers executed 3.6 mil. transactions via the particular systems of electronic banking, which presents almost a 53 % share in the total number of executed cashless transactions.

By the end of 2006, the bank acquired a certificate for the issue of the MasterCard Standard chip cards. These chip cards shall provide the customers especially a higher level of payments execution safety and protection against misuse.

The number of bank cards issued by the bank increased interim by 8 %. This increase was supported by the execution of several acquisition and promotional campaigns. In the previous year, 3.0 mil. transactions (+12 %) in a total volume of SKK 7.5 bill. (+ 22%) was executed via these bank cards.

The number of operated ATMs increased interim by 12 % to 91 and of POS terminals by 22 % to 1,066. In the previous year, 2.5 mil. transactions (+16 %) in a total volume of SKK 5.4 bill. (+24 %) was executed via these devices.

All the ATMs and POS terminals (Dionica) of UniBanka accept the VISA chip cards and are ready for acceptance of the MasterCard chip cards. Through the number of issued bank cards, operated ATMs and POS terminals, the bank has reinforced its prominent position in Slovakia among the banks operating in this field.

9 Information Systems and Technologies

In 2006 the main goals in the IT area were focused mainly on adaptation of the current IT environment of the bank for the needs of operation of systems, technologies and applications of the new bank. In common with the HVB Bank Slovakia, UniBanka has built up the optical interconnection of IT environment of both banks on the basis of new iCop safety standards; it has prepared the common server platform; by selective means it has chosen the systems and applications necessary for the new bank; and it has started the process of readdressing of communication appliances and networks. In providing of these activities, the main focus was laid on the improvement of quality of provided services, and on the improvement of the IT safety level and decrease of operational costs.

UniBanka has paid considerable attention also to the improvement of the IT environment of bank outlets. In the selected bank outlets, the bank has implemented new technological and application servers; it has provided their backup and re-migrated the LAN networks of another part of bank outlets to the Ethernet.

Also the field of MIS has passed another qualitative development. Within the Stage III. of the CUBIS system development, the bank has extended this system by new modules and outputs, enabling its users a more detailed view of the bank management and fulfillment of its business goals. Due to the constantly increasing requirements for generation of statistical data (especially for the needs of the National Bank of Slovakia), UniBanka has put into operation a new system of statutory reporting – the StarSTAT. The current DWH became the data base for this system, providing 100 % integrity of all generated data.

10 Human Resources

As at December 31st of 2006, the total number of employees of the bank was 1 026. In the front office positions there were 602 employees working and in the back office positions 353 employees. From the total number of employees, 56 % hold the university-degree. The percentage of employees holding the secondary-level education was 43.9 % and those holding the primary-level education 0.1 %. The average age of bank employees was 39 years. The percentage of women of the registered employees presented 68.2 %.

The continual improvement of employee skills is best demonstrated by the fact that in 2006 there were 858 bank employees who attended obligatory and development trainings focused on the improvement of sales skills, gaining insights into and better service of customer needs, knowing bank products and general improving of knowledge, skills and competencies. These training courses comprised of 65,309 hours altogether.

In 2006 the main focus apart from daily operations was on the integration activities, in which the Human Resources Division played one of the most crucial roles.

11 Sponsoring

In 2006 UniBanka continued in the strategy of supporting especially regional activities and focused its attention mostly on supporting of the traditional Slovak culture and traditions. The bank contributed to organization of the festival of national minorities, the festival European Folk Handicraft 2006, International Folklore Festival in Myjava and the International Folklore Festival Kolovrátok in Heľpa.

Another sponsoring support from the part of the bank was directed again in the field of sports, where it has supported especially junior contingents and tournaments. An example is the traditional connection of the bank with the international tennis cup of players up to 14 years or continuation in supporting the hockey talents within the Sport Club Bratislava. In the previous year UniBanka became also the partner of football players of the Sport Club Slovan Bratislava.

The bank did, however, not forget also the handicapped sportsmen, and within sponsoring has earmarked finance also e.g. for the support of the athletic club of the handicapped citizens in Humenné. Considering young people, the bank sponsored also the establishment and opening the internet café for youth in Veľký Meder or activities of Trenčianska univerzita.

In the field of culture, the bank supported for example the exhibition of models of prestigious fashion designers in Bratislava.

12 Shareholders

The equities of UniBanka, a. s., as at 12/31/2006, as recorded in the Commercial Register of the Bratislava I District Court were SKK 2,377,062,040.

In 2006 no shifts in the amount of the equities of the bank were registered.

UniBanka, a. s., shareholder structure as at 12/31/2006:

Shareholder	Holding %
UniCredito Italiano S.p.A. Genova	97.11
Ministry of Agriculture of the SR	1.09
Domestic shareholders with less than 1 %	1.79
Foreign shareholders with less than 1 %	0.01

clearness

We work every day for your convenience to be your reliable financial partner. We want you to be completely clear who you have by your side.

Branch Offices Network as of 31. 12. 2006

Branch – address	Outlets – address	Phone	Fax	Director/Head of
821 08 Bratislava, Krížna 50		02/49504204	02/55422774	Ing. Eva Markovičová Branch Manager for Retail Banking
		02/49504203	02/55422774	Ing. Monika Kohútová, MBA Branch Manager for Corporate Banking
	811 01 Bratislava, Ventúrska 7	02/59302820	02/59302821	Raymond Kopka Branch Manager for Private Banking
	811 01 Bratislava, Ventúrska 7	02/59206101	02/59206105	Nikola Kovaničová Head of Outlet
	811 03 Bratislava, Panenská 7	02/54418775	02/54413228	Vladimír Mandzák Head of Outlet
	811 06 Bratislava, Kollárovo nám. 20	02/57203089	02/57203085	Mgr. Radoslav Babinčák Head of Outlet
	811 08 Bratislava, Dunajská 32	02/57108412	02/57108405	Ing. Martina Böhmová Head of Outlet
	821 08 Bratislava, Dulovo nám. 13	02/50202061	02/50202066	Ing. Ingrid Demjanová Head of Outlet
	821 01 Bratislava, Tomášikova 30/A	02/43412629	02/43412636	Ing. Darina Mokošová Head of Outlet
	813 33 Bratislava Šancová 1/A	02/49502330	02/49502505	Ing. Ladislav Kompiš Head of Outlet
	851 01 Bratislava, Einsteinova ul. 18, BSC AUPARK	02/68202030	02/68202035	Gabriela Drahošová Head of Outlet
	851 04 Bratislava, Panónska cesta 3	02/62410627	02/62410629	Ing. Eva Káčerová Head of Outlet
	811 06 Bratislava, Poštová 4	02/5920 5021	02/5920 5025	Ing. Anna Vatraľová Head of Outlet
	811 08 Bratislava Dunajská 32 – HypoDom	02/57108406	02/5710 8410	Mária Beladičová Head of Outlet
	813 33 Bratislava Šancová 1/A – BizniDom	02/49502598	02/4950 2595	Ing. Martin Tvrdoň Head of Outlet

Branch – address	Outlets – address	Phone	Fax	Director/Head of
917 00 Trnava, Štefánikova 48		033/5908330	033/5908353	Ing.Kamila Kudličková Branch Manager for Retail Banking
		033/5908330	033/5908353	Ing. Ondrej Jakubec Branch Manager for Corporate Banking
	901 01 Malacky, Záhorácka 51	034/7979201	034/7979279	Ing. Janka Lenčéšová Head of Outlet
	921 01 Piešťany, Hlinku 60	033/7740580	033/7740581	Ing. Magdaléna Urbliková Head of Outlet
	902 01 Pezinok, Holubyho 27	033/6905401	033/6905405	Mgr. Jana Masárová Head of Outlet
	909 01 Skalica, Škarniclovská 1	034/6906121	034/6906125	Ing. Ján Krištofík Head of Outlet
	905 01 Senica, Štefánikova 699	034/6941261	034/6941265	Ing. Ján Blažek Head of Outlet
	920 01 Hlohovec, M. R. Štefánika 4	033/7351011	033/7351015	Helena Romanová Head of Outlet
911 01 Trenčín, Nám. sv. Anny 3		032/6509202	032/6509204	Ing. Pavol Kubečka Branch Manager for Retail Banking
				Ing. Roman Ježík Branch Manager for Corporate Banking
	915 01 Nové mesto n/V, Čsl. Armády 4	032/7484991	032/7484995	Anna Olachová Head of Outlet
	907 01 Myjava, Štefánika 517	034/6215375	034/6215377	Ing. Jana Kocourková Head of Outlet
	971 01 Prievidza, G. Švéniho 3 A	046/5189401	046/5189400	Ing. Ľuboš Maxina Head of Outlet
	957 01 Bánovce n/B, Jesenského 561/3	038/7627011	038/7627015	Ing. Darina Antalová Head of Outlet

Branch – address	Outlets – address	Phone	Fax	Director/Head of
929 01 Dunajská Streda, Hlavná 5599/3 B		031/5905501	031/5905500	Ing. Arpád Egri Branch Manager for Retail Banking
				Ing. Ladislav Pisch, CSc. Branch Manager for Corporate Banking
	924 01 Galanta, Revolučná 1	031/7884501	031/7884505	Ing. Valentín Dolhý Head of Outlet
	930 39 Zlaté Klasy, Pekná cesta 1	031/5692725	031/5692015	Katarína Katonaová Head of Outlet
	927 01 Šaľa, Hlavná 12 A	031/7838701	031/7838700	Ing. Mária Straňáková Head of Outlet
	931 01 Šamorín, Gazdovský rad 49/B	031/5627960	031/5627962	Ing. Timea Bokros Head of Outlet
	903 01 Senec, Lichnerova 30	02/40202052	02/40202055	Ing. Svoreňová Renáta Head of Outlet
	926 01 Sereď, Dionýza Štúra 1012	031/7893094	031/7892707	Ing. Bystrík Horváth Head of Outlet
	945 01 Komárno, Nám. M. R. Štefánika 11	035/7900061	035/7900065	Monika Rudyová Head of Outlet
010 01 Žilina, Národná 12		041/5628201	041/5628204	Ing. Jozef Adamkov Branch Manager for Retail Banking
				Ing.Ladislav Benčík Branch Manager for Corporate Banking
		041/5628227	041/5628204	Milan Malík Branch Manager for Private Banking
	017 01 Pov. Bystrica, Štefanika 161/4	042/4379951	042/4379955	Anna Kňažková Head of Outlet
	036 80 Martin, M. R. Štefánika č. 1	043/4207022	043/4224892	Ing. Miroslav Kucek Head of Outlet
	031 01 Lipt. Mikuláš, Nám. Osloboditeľov 7	044/5475004	044/5475005	Ing. Alojz Maťko Head of Outlet
	010 01 Žilina, Nám. Ľ. Štúra 2	041/5077951	041/5077952	Ing. Róbert Hazda Head of Outlet
	034 01 Ružomberok, Mostová 2	044/4320658	044/4320660	Ing. Gabriela Slamčíková Head of Outlet
	022 01 Čadca, Palárikova 85	041/4302811	041/4302815	Ing. Jozef Maják Head of Outlet

Branch – address	Outlets – address	Phone	Fax	Director/Head of
960 01 Zvolen, nám. SNP 50		045/5248013	045/5320700	Ing. Jaroslav Hazlinger Branch Manager for Retail Banking
		045/5248010	045/5320700	Ing. Viera Vaská Branch Manager for Corporate Banking
	974 01 Banská Bystrica, Na Troskách 25, Europa SC	048/4723002	048/4723000	Ing.Michal Rohn Head of Outlet
	984 01 Lučenec, Železničná 15	047/4324939	047/4323253	Ing.Peter Matej Head of Outlet
	965 01 Žiar nad Hronom, Š. Moyzesa 427	045/6788901	045/6788905	Mgr. Patrícia Gerstnerová Head of Outlet
	977 01 Brezno, ul. ČSA č. 17	048/6700051	048/6700055	Vojtech Nižník Head of Outlet
040 01 Košice, Rooseveltova 10		055/6805121	055/6232741	Ing. Ján Ferko Branch Manager for Retail Banking
		055/6805134	055/6232741	Ing. Zdenka Gacíková Branch Manager for Corporate Banking
	040 01 Košice, Hlavná 116	055/7205111	055/7205115	Mgr.Karol Till Head of Outlet
	040 01 Košice, Toryská 1/C	055/7881861	055/7881860	Klára Žatkovičová Head of Outlet
	071 01 Michalovce, nám. Osloboditeľov 1	056/6880701	056/6880707	Ing. Ľudmila Korinková Head of Outlet
	048 01 Rožňava, Nám. Baníkov 33	058/7880708	058/7880700	Mária Kruteková Head of Outlet
	076 43 Čierna nad Tisou, Hlavná 15	056/6350653	056/6350650	Šarlota Takácsová Head of Outlet
	075 01 Trebišov, M. R. Štefánika 20	056/6670011	056/6670015	Mgr. Lenka Ujhelyiová Head of Outlet

Branch – address	Outlets – address	Phone	Fax	Director/Head of
080 01 Prešov, Hlavná 29		051/7729623	051/7729600	Ing. Gabriela Kuderjavá Branch Manager for Retail Banking
		051/7729601	051/7729600	Ing. Jaroslav Jacko Branch Manager for Corporate Banking
		051/7729609	051/7729600	Milan Bielený Branch Manager for Private Banking
	085 01 Bardejov, Dlhý rad 17	054/4880415	054/4880410	Ing. Igor Hudý Head of Outlet
	066 01 Humenné, Mierová 64/2	057/7862341	057/7862345	Ing. Jaroslav Michálek Head of Outlet
058 01 Poprad, Popradské nábr. 18		052/7870312	052/7721165	Ing. Ján Harabin Branch Manager for Retail Banking
		052/7870311	052/7721165	Ing. Václav Mlynarovič Branch Manager for Corporate Banking
	059 60 Tatranská Lomnica, Dom služieb	052/4780951	052/4780955	Ing. Janka Kiktová Head of Outlet
	060 01 Kežmarok, Hlavné nám. 3	052/4680031	052/4680035	Ing. Tomáš Labanc Head of Outlet
	052 01 Sp.Nová Ves, Zimná 56	053/4197110	053/4425788	Ing. Mária Pavlíková Head of Outlet
	054 01 Levoča, Košická 11	053/4514742	053/4514743	Ing. Rastislav Sloboda Head of Outlet

individual
The individual satisfaction is the basis of a successful whole.
Therefore it is you – the individuals with your dreams –
we want to build on.

Independent Auditors' Report

KPMG Slovensko spol. s r.o.
Mostová 2
P. O. Box 7
820 04 Bratislava 24
Slovakia

Telephone +421 2 59984 111
Fax +421 2 59984 222
Internet www.kpmg.sk

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of UniBanka, a.s.:

We have audited the accompanying financial statements of UniBanka, a.s. ('the Bank'), which comprise the balance sheet as at 31 December 2006, the income statement and the statement of changes in shareholders' equity for the year then ended, and the notes to the financial statements.

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

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

19 February 2007

KPMG Slovensko spol. s r.o.
Licence SKAU No. 96

Slovenská komora audítorov
SKAU
Č.licencie 96
KPMG
Slovensko spol. s r.o.

Dagmar Lukovičová
Licence SKAU No. 754

KPMG Slovensko spol. s r.o., a Slovak limited liability company, is the Slovak member firm of KPMG International, a Swiss cooperative.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka č. 4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

IČO/Registration number: 31 348 238
Evidenčné číslo licencie auditora: 96
Licence number of statutory auditor: 96

We try to make your everyday life more pleasant, to enjoy it as a small anniversary. Come to see us in our new branches of UniCredit Bank and you will feel exactly like this.

Balance Sheet as at 31 December 2006

UniBanka, a. s.

Balance sheet as at 31 December 2006

	Notes	2006 Sk ‘000	2005 Sk ‘000
Assets			
Cash and cash equivalents	6	13,470,823	15,851,645
Trading assets	8	2,232,931	3,570,232
Loans and advances to banks	9	1,409,753	2,026,987
Loans and advances to customers	10	26,441,292	26,389,178
Investment securities	12	4,797,706	3,968,439
Property and equipment	13	1,515,621	1,589,607
Deferred tax asset	23	194,044	266,669
Other assets	14	20,481	16,864
Prepayments and accrued income		33,561	46,282
		50,116,212	53,725,903
Liabilities			
Trading liabilities	8	590,935	575,450
Deposits by banks	15	6,992,686	4,420,014
Customer accounts	16	35,536,703	42,832,284
Loans received	17	242,555	238,755
Debt securities in issue	18	2,441,559	1,530,174
Provisions	19	272,437	165,995
Other liabilities		181,030	381,066
Accruals and deferred income		157,747	8,832
		46,415,652	50,152,570
Share capital and reserves			
Share capital	20	2,377,062	2,377,062
Reserves	21	1,323,498	1,196,271
Share capital and reserves		3,700,560	3,573,333
		50,116,212	53,725,903
Off balance sheet items	22	67,074,046	68,774,334

The financial statements, which include the notes on pages 8 to 53, were approved by the Board of Directors on 19 February 2007 and signed by:

Jozef Barta
Chairman of the Board of Directors
and General Director

Viera Durajová
Director of Accounting

For us, for UniCredit Bank, each and every customer is extremely important and we want each of you to say after our successful cooperation: I made it.

Income Statement
Year ended 31 December 2006

	Notes	2006 ths. SKK	2005 ths. SKK
Interest receivable and similar income arising from debt securities	24	2 540 257	2 091 370
Interest payable	25	(799 861)	(1 192 722)
Net interest income		**1 740 396**	**898 648**
Fees and commissions receivable		553 670	514 107
Fees and commissions payable		(116 575)	(118 112)
Net trading (loss)/income	26	(159 746)	589 867
Other income		67 856	24 861
Operating income		**2 085 601**	**1 909 371**
Administrative expenses	27	(1 333 693)	(1 313 460)
Depreciation	13	(222 676)	(218 042)
Operating expenditure		**(1 556 369)**	**(1 531 502)**
Operating profit before impairment losses and provisions		**529 232**	**377 869**
Impairment losses on loans and advances	11	(23 708)	99 417
Impairment losses on investment securities	12	57	(41)
Impairment losses on property and equipment	13	(13 517)	(60 000)
Impairment losses on other assets	14	6 137	(2 922)
Provisions	19	(106 442)	(8 010)
Profit before taxation		**391 759**	**406 313**
Income tax expense	28	(72 625)	(41 088)
Profit after taxation		**319 134**	**365 225**
Basic and diluted earnings per share (expressed in Sk per share)	**29**	**24.8**	**28.4**

The notes on pages 37 to 78 are an integral part of these financial statements.

Forget this word and you can feel superb due to your cooperation with our professional financial advisers.

Statement of Changes in Shareholders' Equity Year ended 31 December 2006

	Share capital in ths. SKK	Retained earnings in ths. SKK	Legal reserve fund in ths. SKK	Fair value reserve in ths. SKK	Capital fund in ths. SKK	Total in ths. SKK
At 1 January 2005	**2 377 062**	**960 578**	**63 617**	**-**	**641**	**3 401 898**
Transfers	-	(37 603)	37 603	-	-	-
Dividends	-	(192 735)	-	-	-	(192 735)
Net loss on available for-sale assets, net of tax	-	-	-	(414)	-	(414)
Capital fund	-	-	-	-	(641)	(641)
Profit for 2005	-	365 225	-	-	-	365 225
At 31 December 2005	**2 377 062**	**1 095 465**	**101 220**	**(414)**	**-**	**3 573 333**
Dividends	-	(192 735)	-	-	-	(192 735)
Transfers	-	(38 173)	38 173	-	-	-
Net loss on available for-sale assets, net of tax	-	-	-	(580)	-	(580)
Receipts	-	-	-	-	1 408	1 408
Profit for 2006	-	319 134	-	-	-	319 134
At 31 December 2006	**2 377 062**	**1 183 691**	**139 393**	**(994)**	**1 408**	**3 700 560**

See also notes 20 and 21 for details of movements in shareholders' equity accounts during the year.

The notes on pages 37 to 78 are an integral part of these financial statements.

You can be sure with us that we think one step ahead in business.
We want to let you every day have a feeling of financial security with us.

Cash Flow Statement
Year ended 31 December 2006

	Notes	2006 in ths. SKK	2005 in ths. SKK
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	30	713 823	601 198
Decrease/(increase) in trading assets		1 337 301	(851 549)
Decrease in loans and advances to banks		617 234	993 742
Increase in loans and advances to customers		(75 822)	(7 422 251)
Decrease in other assets		2 520	18 612
Decrease/(increase) in prepayments and accrued income		12 721	(19 909)
Increase in trading liabilities		15 485	256 933
Increase in deposits by banks		2 572 672	1 377 301
(Decrease)/increase in customer accounts		(7 295 581)	2 513 654
Decrease in other liabilities		(200 036)	(339 896)
Increase/(decrease) in accruals and deferred income		148 915	(4 793)
Net cash used in operating activities		**(2 150 768)**	**(2 876 958)**
Cash flows from investing activities			
Purchase of investment securities		(829 790)	-
Proceeds from disposal of investment securities		-	325 594
Proceeds from sale of property and equipment		87 063	81 589
Purchase of property and equipment		(211 185)	(394 568)
Net cash (used in)/from investing activities		**(953 912)**	**12 615**
Cash flows from financing activities			
Loans received		3 800	179 126
Issue of debt securities		911 385	496 249
Other funds received		1 408	(641)
Dividends paid		(192 735)	(192 735)
Net cash from financing activities		**723 858**	**481 999**
Net decrease in cash and cash equivalents		**(2 380 822)**	**(2 382 344)**
Cash and cash equivalents at beginning of year		**15 851 645**	**18 233 989**
Cash and cash equivalents at end of year	6	**13 470 823**	**15 851 645**

The notes on pages 37 to 78 are an integral part of these financial statements.

Also in your life it is very important to have a partner by your side, who is a close support to you and with whom you will go so to say one way in your joint ideas and actions. We are intent on going with you.

Notes to the Financial Statements Year ended 31 December 2006

1 General information

UniBanka, a.s. ('the Bank') is a company incorporated in the Slovak Republic. The Bank's registered office is at Šancová 1/A, 813 33 Bratislava. The majority shareholder is UniCredito Italiano S.p.A., a bank incorporated in Italy.

At 31 December 2006, the shareholders structure was as follows:

Shareholder	%
UniCredito Italiano S.p.A. Genova	97.11
Ministry of Agriculture of the Slovak Republic	1.09
Domestic shareholders with less than 1 %	1.79
Foreign shareholders with less than 1 %	0.01

During 2006, UniCredito Italiano increased its shareholding to 97.11% from 77.11% in 2005, purchasing the shares owned by of the European Bank for Reconstruction and Development.

The principal activities of the Bank are the provision of banking operations, securities trading and investment banking services to commercial and private customers resident mainly in the Slovak Republic.

The Bank's headquarters are in Bratislava. The Bank operates through 10 branch offices and 56 sub-branch offices located throughout the Slovak Republic.

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

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.

(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 and 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.

(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 36.

(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.

(A) Foreign currency

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Slovak crowns at the exchange rates ruling on the date 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.

(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.

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 and 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.

(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 and 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 Bank, or economic conditions that correlate with defaults in the Bank.

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 income. 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.

(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 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 profit or loss 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 income under the same income statement line item 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 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.

(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 and 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.

(N) 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:	
Buildings	20 years, straight line
Furniture, fittings and equipment	4 to 12 years, straight line
Software	5 years, reducing balance

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

(O) 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.

(P) 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.

(Q) 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, including accrued interest, using the effective interest method.

(R) 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.

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.

(S) 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.

(T) 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 shareholders 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 shareholders and the weighted average number of ordinary shares outstanding for the effects of any dilutive potential ordinary shares.

(U) 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.

(V) 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 IFRS. Management considers that significant additional disclosures will be required on the Bank's financial risk management objectives, policies and processes.

- 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 disclosures 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

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 member of the Board of Directors responsible for Credit Risk Management.

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) Retail and Private banking – incorporating private customer current accounts, savings, deposits, credit and debit cards, customer loans and mortgages;
c) International markets – incorporating deposits, foreign currency and derivative products;
d) Recovery department – incorporating work out of problematic loans and advances to customers.

	Corporate banking 2006 in ths. SKK	Retail and privat banking 2006 in ths. SKK	International markets 2006 in ths. SKK	Recovery department 2006 in ths. SKK	Unallocated 2006 in ths. SKK	Bank 2006 in ths. SKK
Net interest income	507 885	562 926	568 178	12 160	89 247	1 740 396
Net fees and commissions	238 236	211 488	(10 127)	468	(2 970)	437 095
Net trading (loss)/income	206 116	108 233	(458 419)	235	(15 911)	(159 746)
Other income	-	-	-	-	67 856	67 856
Operating income	952 237	882 647	99 632	12 863	138 222	2 085 601
Administrative expenses	-	-	-	-	(1 333 693)	(1 333 693)
Depreciation	-	-	-	-	(222 676)	(222 676)
Operating expenditure	-	-	-	-	(1 556 369)	(1 556 369)
Operating profit before impairment losses and provisions	952 237	882 647	99 632	12 863	(1 418 147)	529 232
Impairment losses	-	-	-	-	(31 031)	(31 031)
Provisions	-	-	-	-	(106 442)	(106 442)
Profit before taxation	952 237	882 647	99 632	12 863	(1 555 620)	391 759
Income tax expense						(72 625)
Profit after taxation						319 134
Other information						
Assets	22 376 500	4 894 425	20 845 705	71 879	1 927 703	50 116 212
Liabilities	14 574 890	20 039 386	10 267 735	-	5 234 201	50 116 212

	Corporate banking 2005 in ths. SKK	Retail and privat banking 2005 in ths. SKK	International markets 2005 in ths. SKK	Recovery department 2005 in ths. SKK	Unallocated 2005 in ths. SKK	Bank 2005 in ths. SKK
Net interest income	441 506	300 536	432 645	12 770	(288 809)	898 648
Net fees and commissions	241 226	176 739	(8 992)	1 017	(13 995)	395 995
Net trading (loss)/income	182 382	106 535	309 444	2 060	(10 554)	589 867
Other income	-	-	-	-	24 861	24 861
Operating income	865 114	583 810	733 097	15 847	460 447	1 909 371
Administrative expenses	-	-	-	-	(1 313 460)	(1 313 460)
Depreciation	-	-	-	-	(218 042)	(218 042)
Operating expenditure	-	-	-	-	(1 531 502)	(1 531 502)
Operating profit before impairment losses and provisions	865 114	583 810	733 097	15 847	(1 819 999)	377 869
Impairment losses	-	-	-	-	36 454	36 454
Provisions	-	-	-	-	(8 010)	(8 010)
Profit before taxation	865 114	583 810	733 097	15 847	(1 791 555)	406 313
Income tax expense						(41 088)
Profit after taxation						365 225
Other information						
Assets	27 561 648	17 058 103	24 379 893	133 222	1 927 703	53 725 903
Liabilities	27 561 648	17 058 103	6 764 393	-	5 234 201	53 725 903

6 Cash and cash equivalents

	2006 in ths. SKK	2005 in ths. SKK
Cash and balances at the central bank (note 7)	8 044 678	13 980 730
Loans and advances to banks with contractual maturity up to 3 months (note 9)	5 426 145	1 870 915
	13 470 823	**15 851 645**

7 Cash and balances at the central bank

	2006 in ths. SKK	2005 in ths. SKK
Balances with the National Bank of Slovakia		
Compulsory minimum reserve	173 443	979 547
Receivables from repurchase agreements	6 979 170	12 943 320
Term deposits	21 006	34 004
Other	102 419	27 984
	7 276 038	**13 984 855**
Cash in hand	942 083	975 422
	8 218 121	**14 960 277**
Less compulsory minimum reserve (note 9)	(173 443)	(979 547)
	8 044 678	**13 980 730**

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

8 Trading assets and liabilities

	2006 in ths. SKK	2005 in ths. SKK
Trading assets		
Securities (A)	1 385 909	2 749 349
Derivative instruments (B)	847 022	820 883
	2 232 931	**3 570 232**
Trading liabilities		
Derivative instruments (B)	590 935	575 450
(A) Securities		
Slovak government bonds	995 837	2 141 996
Corporate and bank bonds	367 421	584 702
Equity securities	22 651	22 651
	1 385 909	**2 749 349**

(B) Derivative instruments

	Contract/ notional ammount	2006 Fair value		Contract/ notional ammount	2005 Fair value	
		Assets	Liabilities		Assets	Liabilities
	in ths. SKK	in ths. SKK	in ths. SKK	in ths. SKK	in ths. SKK	in ths. SKK
Currency derivatives						
Currency forwards and swaps	10 426 292	328 524	335 096	13 692 120	182 763	160 331
Cross currency swaps	3 564 583	199 576	2 021	4 904 170	241 074	23 635
Options	31 557 161	198 381	198 337	35 440 219	315 137	314 872
Interest rate derivatives						
Interest rate swaps	8 249 183	120 541	55 481	4 796 469	81 909	76 612
	53 797 219	**847 022**	**590 935**	**58 832 978**	**820 883**	**575 450**

9 Loans and advances to banks

	2006 in ths. SKK	2005 in ths. SKK
Repayable on demand	80 175	256 242
Other loans and advances by remaining maturity:		
▶ 3 months or less	5 345 970	1 614 673
▶ 1 year or less but over 3 months	236 310	1 047 440
▶ over 1 year	1 000 000	-
Compulsory minimum reserves (note 7)	173 443	979 547
	6 835 898	**3 897 902**
Less amounts with contractual maturity up to 3 months (note 6)	(5 426 145)	(1 870 915)
	1 409 753	**2 026 987**

10 Loans and advances to customers

	2006 in ths. SKK	2005 in ths. SKK
Repayable on demand	4 046 967	4 092 226
Other loans and advances to customers by remaining maturity:		
▶ 3 months or less	4 387 736	5 127 688
▶ 1 year or less but over 3 months	6 594 945	6 443 000
▶ 5 years or less but over 1 year	8 582 449	9 238 941
▶ over 5 years	3 668 557	2 889 237
	27 280 654	**27 791 092**
Allowances for impairment (note 11)	(839 362)	(1 401 914)
	26 441 292	**26 389 178**

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

	2006 in ths. SKK	2005 in ths. SKK
Agriculture and forestry	3 014 574	2 967 674
Industry:		
▶ Metallurgy and machinery	1 704 231	3 111 092
▶ Transport	1 523 810	1 532 865
▶ Food	1 400 880	1 435 994
▶ Energy	45 719	897 419
▶ Construction	1 108 989	822 856
▶ Chemical and pharmaceutical	334 290	472 333
▶ Other	1 180 509	1 609 509
Trade and services	5 406 801	4 989 801
Mortgage loans	2 584 508	1 960 366
Public administration	1 144 831	2 457 860
Finance and insurance	441 229	322 228
Other industries	7 390 283	5 211 095
	27 280 654	**27 791 092**

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

	2006 in ths. SKK	2005 in ths. SKK
Slovak Republic	24 764 639	25 173 264
Croatia	1 108 439	1 140 541
Turkey	1 040 710	756 805
Hungary	160 710	697 197
Romania	103 451	-
Great Britain	58 985	2 375
Italy	16 634	11 570
Czech Republic	4 241	7 422
Austria	311	-
Germany	248	35
Other	22 286	1 883
	27 280 654	**27 791 092**

11 Impairment losses on loans and advances

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

	2006 in ths. SKK	2005 in ths. SKK
Allowances for impairment		
At 1 January	1 401 914	2 208 655
Impairment losses for the year		
Charge/(release) for the year	23 708	(99 417)
Write-offs	(586 260)	(707 324)
At 31 December	**839 362**	**1 401 914**

12 Investment securities

	2006 in ths. SKK	2005 in ths. SKK
Debt securities held to maturity (A)	4 792 083	3 965 087
Equity shares available for sale (B)	5 623	3 352
	4 797 706	**3 968 439**

(A) Debt securities held to maturity

	2006 in ths. SKK	2005 in ths. SKK
Slovak government bonds	3 552 812	2 706 268
Slovak corporate and bank bonds	1 239 271	1 258 819
	4 792 083	**3 965 087**

At 31 December 2006, the market value of held-to-maturity securities was Sk 4,650.3 million (2005: Sk 3,928.9 million).

(B) Equity shares available for sale

Name	Activity	2006 in ths. SKK	2005 in ths. SKK
Agrobanka, a.s. in liquidation	Financial services	1 256	1 439
RVS, a.s.	Congress and leisure	2 240	2 240
S.W.I.F.T.	International funds transfer	601	476
BCPB, a.s.	Stock exchange	636	636
MasterCard Incorporated	Financial services	2 271	-
Visa Europe Limited	Financial services	1	-
		7 005	**4 791**
Specific allowances for impairment		(1 382)	(1 439)
		5 623	**3 352**

The Bank owns 0.03% (2005: 0.03%) of the issued capital of Agrobanka, a.s. in liquidation and 1.07% of RVS, a.s. Holdings in other companies are less than 1%. SWIFT is registered in Belgium, MasterCard in the USA and Visa in the UK. All other companies are incorporated in the Slovak Republic.

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

	2006 in ths. SKK	2005 in ths. SKK
At 1 January	1 439	1 398
(Release)/charge for the year	(57)	41
At 31 December	**1 382**	**1 439**

The investment in Agrobanka, a.s. is fully impaired.

13 Property and equipment

	Land and buildings in ths. SKK	Furniture fittings and equipment in ths. SKK	Software in ths. SKK	Assets not yet in use in ths. SKK	Total in ths. SKK
Cost					
At 1 January 2005	924 561	994 079	506 030	327 892	2 752 562
Additions	-	75 859	-	546 717	622 576
Transfers	549 546	128 807	48 940	(727 293)	-
Disposals	(170 665)	(88 118)	-	(65 349)	(324 132)
At 31 December 2005	1 303 442	1 110 627	554 970	81 967	3 051 006
At 1 January 2006	1 303 442	1 110 627	554 970	81 967	3 051 006
Additions	-	-	-	211 185	211 185
Transfers	71 442	65 376	28 118	(164 936)	-
Disposals	(49 838)	(130 612)	(10 616)	(8 657)	(199 723)
At 31 December 2006	**1 325 046**	**1 045 391**	**572 472**	**119 559**	**3 062 468**
Depreciation and impairment losses					
At 1 January 2005	164 275	655 527	372 803	-	1 192 605
Charge for the year	52 748	125 647	39 647	-	218 042
Impairment losses	-	25 000	35 000	-	60 000
Disposals	(9 015)	(207)	(26)	-	(9 248)
At 31 December 2005	208 008	805 967	447 424	-	1 461 399
At 1 January 2006	208 008	805 967	447 424	-	1 461 399
Charge for the year	65 846	111 868	44 962	-	222 676
Impairment losses	6 408	(4 959)	12 068	-	13 517
Disposals	(29 553)	(110 576)	(10 616)	-	(150 745)
At 31 December 2006	**250 709**	**802 300**	**493 838**	**-**	**1 546 847**
Net book value					
At 31 December 2006	1 074 337	243 091	78 634	119 559	1 515 621
At 31 December 2005	1 095 434	304 660	107 546	81 967	1 589 607

The recoverable amount of certain of the Bank's hardware and software was assessed following the decision to integrate with HVB Bank a.s. (see note 1). As a consequence, impairment losses of Sk 60,000 thousand in 2005 and Sk 13,517 thousand in 2006 were recognised in order to reduce the carrying amount of equipment and software to the estimated net selling price.

At 31 December 2005, equipment included assets held under finance lease arrangements with a net book value of Sk 46,507 thousand. Deprecation of leased assets amounted to Sk 14,846 thousand. At 31 December 2006, no assets were held under finance leases.

14 Other assets

	2006 in ths. SKK	2005 in ths. SKK
Inventory	6 864	6 765
Operating prepayments	5 088	3 992
Other receivables	1 654	1 734
Other assets	14 465	27 359
	28 071	39 850
Impairment losses	(7 590)	(22 986)
At 31 December	**20 481**	**16 864**

The movements on specific allowances for impairment on other assets were as follows:

	2006 in ths. SKK	2005 in ths. SKK
At 1 January	22 986	20 691
(Release)/charge for the year	(6 137)	2 922
Write-offs	(9 259)	(627)
At 31 December	**7 590**	**22 986**

15 Deposits by banks

	2006 in ths. SKK	2005 in ths. SKK
Repayable on demand	48 803	114 812
Other deposits by banks with remaining maturity:		
▶ 3 months or less	2 907 242	3 610 596
▶ 1 year or less but over 3 months	4 036 641	694 606
	6 992 686	**4 420 014**

16 Customer accounts

	2006 in ths. SKK	2005 in ths. SKK
Repayable on demand	16 935 890	15 665 740
Other deposits with agreed maturity dates or periods of notice, by remaining maturity:		
▶ 3 months or less	14 612 019	24 404 353
▶ 1 year or less but over 3 months	2 691 401	1 843 140
▶ 5 years or less but over 1 year	1 285 868	899 851
▶ over 5 years	11 525	19 200
	35 536 703	**42 832 284**

17 Loans received

	2006 in ths. SKK	2005 in ths. SKK
European Bank for Reconstruction and Development	242 555	227 088
Slovenská záručná a rozvojová banka, a.s.	-	11 667
	242 555	**238 755**

European Bank for Reconstruction and Development

This loan comprises amounts drawn down by the Bank under loan facilities with the European Bank for Reconstruction and Development ('EBRD'). The loan was provided by the EBRD to assist in the development of small and medium-size enterprises (SMEs) in Slovakia.

The Euro loans of € 7 million at the balance sheet date (2005: € 6 million) were provided under two contracts entered dated 22 June 2004 and 25 October 2005. Principal and interest repayments are due semi-annually in the final three years of the loans. The loans mature on 21 June 2009 and 25 April 2010, respectively and bear interest at an annual rate between 3.412% and 4.607%.

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.

18 Debt securities in issue

	2006 in ths. SKK	2005 in ths. SKK
Mortgage bonds		
▶ Issue 1	520 505	519 835
▶ Issue 2	506 389	506 389
▶ Issue 3	502 500	501 770
▶ Issue 4	909 964	-
	2 439 358	**1 527 994**
Long-term bills	2 201	2 180
Debt securities in issue	2 441 559	1 530 174

Issue 1 comprises 5,000 bonds with a nominal value of Sk 100 thousand each, which were issued on 9 February 2004 with a coupon of 4.9% per annum. The bonds will be redeemed on 9 February 2009 from repayments of mortgage loans provided to customers.

Issue 2 comprises 500 bonds with a nominal value of Sk 1,000 thousand each, which were issued on 29 September 2004 with a coupon of 5% per annum. The bonds will be redeemed on 29 September 2015 from repayments of mortgage loans provided to customers.

Issue 3 comprises 5,000 bonds with a nominal value of Sk 100 thousand each, which were issued on 25 May 2005 with a coupon of 6M BRIBOR + 0.07% per annum. The bonds will be redeemed on 25 May 2015 from repayments of mortgage loans provided to customers.

Issue 4 comprises 9,000 bonds with a nominal value of Sk 100 thousand each, which were issued on 13 October 2006 with a coupon of 3M BRIBOR + 0.09% per annum. The bonds will be redeemed on 13 October 2010 from repayments of mortgage loans provided to customers.

19 Provisions

The movements on provisions were as follows:

	Litigation in ths. SKK	Guarantee payments in ths. SKK	Restructuring in ths. SKK	Other in ths. SKK	Total in ths. SKK
At 1 January 2006	151 500	4 154	-	10 341	165 995
Increase/(decrease) for the year	17 470	(4 154)	92 520	606	106 442
At 31 December 2006	**168 970**	**-**	**92 520**	**10 947**	**272 437**

Litigation

This provision relates to claims and court cases where the Bank acts as the defendant.

Restructuring

During 2006, the Board of Directors approved and began the implementation of a plan to restructure the processes and operations of the Bank to accommodate the integration with HVB Bank Slovakia. The provision relates to staff and administrative costs.

Other

This provision relates to credit card and other liabilities.

20 Share capital

	2006 in ths. SKK	2005 in ths. SKK
Authorised, issued and fully paid:		
▶ 12 848 984 ordinary shares of Sk 185 each	**2 377 062**	**2 377 062**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

21 Reserves

	Retained earnings in ths. SKK	Legal reserve fund in ths. SKK	Fair value reserve in ths. SKK	Capital fund in ths. SKK	Total in ths. SKK
At 1 January 2006	1 095 465	101 220	(414)	-	1 196 271
Dividend for 2005 (A)	(192 735)	-	-	-	(192 735)
Transfers (B)	(38 173)	38 173	-	-	-
Net gain on available-for-sale assets, net of tax (D)	-	-	(580)	-	(580)
Capital fund (E)	-	-	-	1 408	1 408
Profit for 2006	319 134	-	-	-	319 134
At 31 December 2006	**1 183 691**	**139 393**	**(994)**	**1 408**	**1 323 498**

(A) Dividends

The General Meeting of Shareholders held on April 2006 resolved that dividends be paid from the profit for the year ended 31 December 2005, in the amount of Sk 192,735 thousand (Sk 15 per share).

(B) Legal reserve fund

The General Meeting also approved the transfer to legal reserve fund of Sk 38,173 thousand 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 shareholders.

(C) Proposed allocation of profit

The Directors will propose the following allocations of the profit for the year ended 31 December 2006:

	in ths. SKK
Transfer to legal reserve fund	31 555
Dividends	192 735

The balance of profit will be retained.

(D) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

(E) Capital fund

The capital fund movement in 2006 represents the nominal value of shares obtained from Visa Europe Limited and Mastercard Incorporated in return for payments made through these companies.

The capital fund movement in 2005 represents the value of land donated to the Bank and subsequently sold during that year.

22 Off balance sheet items

	2006 in ths. SKK	2005 in ths. SKK
Contingent liabilities:		
▶ Bank guarantees	85 565	22 102
▶ Customer guarantees	1 657 769	1 174 220
▶ Customer guarantees, classified	2 080	6 431
▶ Irrevocable letters of credit	227 358	108 841
Commitment:		
▶ Confirmed credit lines	11 304 055	8 629 762
▶ Derivative instruments (note 8)	53 797 219	58 832 978
	67 074 046	**68 774 334**

The Bank is able to cancel the confirmed credit lines.

23 Deferred tax asset

Deferred tax assets and liabilities are attributable to the following:

	Assets/ (Liabilities) 2006 in ths. SKK	Assets/ (Liabilities) 2005 in ths. SKK
Impairment losses on loans and advances to customers	-	180 937
Tax losses carried forward	166 945	77 982
Other deductible temporary differences	31 809	11 652
Other taxable temporary differences	(4 710)	(3 902)
	194 044	**266 669**

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

The movements on deferred tax were as follows:

	2006 in ths. SKK	2005 in ths. SKK
Deferred tax:		
▶ Charge to income statement (note 28)	72 625	41 088

24 Interest receivable and similar income arising from debt securities

	2006 in ths. SKK	2005 in ths. SKK
Interest receivable and similar income arising from:		
▶ Loans and advances to banks	722 663	687 185
▶ Loans and advances to customers	1 454 966	1 054 796
▶ Investment securities	357 864	328 105
▶ Bills of exchange	4 764	21 284
	2 540 257	**2 091 370**

25 Interest payable

	2006 in ths. SKK	2005 in ths. SKK
Deposits by banks	101 536	152 356
Customer accounts	580 119	931 219
Mortgage bonds	118 200	108 293
Long-term bills	6	51
Leasing	-	803
	799 861	**1 192 722**

26 Net trading income/(loss)

	2006 in ths. SKK	2005 in ths. SKK
Net income from foreign exchange operations (A)	355 997	240 114
Net (loss)/income from derivatives (B)	(441 088)	321 385
Net (loss)/income from trading securities (C)	(74 655)	28 368
	(159 746)	**589 867**

(A) Net income from foreign exchange operations

	2006 in ths. SKK	2005 in ths. SKK
Gains from foreign exchange operations	12 343 154	8 661 052
Losses related to foreign exchange operations	(11 987 157)	(8 420 938)
	355 997	**240 114**

(B) Net (loss)/income from derivatives

	2006 in ths. SKK	2005 in ths. SKK
Income from currency derivatives	857 786	2 559 645
Losses relating to currency derivatives	(880 784)	(2 397 271)
Net (loss)/income from currency derivatives	(22 998)	162 374
Income from interest rate derivatives	355 095	704 937
Losses relating to interest rate derivatives	(385 988)	(565 436)
Net (loss)/income from interest rate derivatives	(30 893)	139 501
Income from options	494 964	923 622
Losses relating to options	(882 161)	(904 112)
Net (loss)/income from options	(387 197)	19 510
Net (loss)/income from derivatives	(441 088)	321 385

(C) Net (loss)/income from trading securities

	2006 in ths. SKK	2005 in ths. SKK
Gains from trading securities	6 327	67 940
Losses related to trading securities	(80 982)	(39 572)
	(74 655)	**28 368**

27 Administrative expenses

	2006 in ths. SKK	2005 in ths. SKK
Employee costs:		
▶ Wages and salaries	479 670	452 340
▶ Social insurance	151 352	130 538
▶ Other personnel expenses	57 765	23 372
	688 787	**606 250**
Service related expenses	173 137	147 764
Material related expenses	55 155	53 396
Rent	83 732	60 241
Marketing expenses	61 169	70 504
Operating fees	8 976	11 373
Other services	153 346	173 613
Other administrative expenses	109 391	190 319
	1 333 693	**1 313 460**

At 31 December 2006, the average number of employees (equivalent to full-time staff) was 968 (2005: 991). At 31 December 2006, the Supervisory Board comprised of 12 members (2005: 12 members).

Other administrative expenses include payments to the Deposits Protection Fund of Sk 26,885 thousand in 2006 (2005: Sk 105 843 thousand).

28 Income tax expense

	2006 in ths. SKK	2005 in ths. SKK
Recognised in the income statement		
Current tax expense	-	-
Deferred tax (note 23)		
Origination and reversal of temporary differences	**(72 625)**	**(41 088)**
Total income tax expense	**(72 625)**	**(41 088)**

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

	2006 in ths. SKK	2005 in ths. SKK
Profit before taxation	391 759	406 313
Non-deductible expenses	713 292	564 388
Non-taxable income from securities	(91 959)	(70 861)
Use of allowances on impairment losses		
Other non-taxable income	(1 481 322)	(1 184 836)
Tax base	**(468 230)**	**(284 996)**
Tax at 19%	-	-

29 Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders 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 shareholders (in ths. SKK)	315 547	365 225
Weighted average number of ordinary shares in issue	12 848 984	12 848 984
Basic earning per share (expressed in Sk per share)	**24,6**	**28,4**

Diluted

There were no dilutive factors during either year.

30 Profit before changes in operating assets and liabilities

	2006 in ths. SKK	2005 in ths. SKK
Profit before taxation	391 759	406 313
Adjustments for non-cash items:		
▶ Depreciation	222 676	218 042
▶ (Gain)/loss on disposal of property and equipment	(38 085)	5 287
▶ Impairment losses on loans	23 708	(99 417)
▶ Impairment losses on investment securities	(57)	41
▶ Impairment losses on property and equipment	13 517	60 000
▶ Impairment losses on other assets	(6 137)	2 922
▶ Provisions	106 442	8 010
	713 823	**601 198**
Net cash used in operating activities includes the following cash flows:		
▶ Interest received	2 468 953	2 066 786
▶ Interest paid	(782 775)	(1 182 206)
	1 686 178	**884 580**

31 Assets and liabilities denominated in foreign currencies

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

	Euro in ths. SKK	US dollar in ths. SKK	Other in ths. SKK	Slovak crown in ths. SKK	Total in ths. SKK
Assets					
Cash and cash equivalents	517 538	88 810	318 821	12 545 654	13 470 823
Trading assets	1 016 168	36 661	11 062	1 169 040	2 232 931
Loans and advances to banks	-	-	-	1 409 753	1 409 753
Loans and advances to customers	7 046 738	383 467	389 416	18 621 671	26 441 292
Investment securities	917 173	2 272	-	3 878 261	4 797 706
Deferred tax asset	-	-	-	194 044	194 044
Other assets	815	60	-	19 606	20 481
Prepayments and accrued income	4 127	-	-	29 434	33 561
	9 502 559	**511 270**	**719 299**	**37 867 463**	**48 600 591**

	Euro in ths. SKK	US dollar in ths. SKK	Other in ths. SKK	Slovak crown in ths. SKK	Total in ths. SKK
Liabilities					
Trading liabilities	62 068	36 656	11 057	481 154	590 935
Deposits by banks	2 474 744	434 162	506 047	3 577 733	6 992 686
Customer accounts	3 410 386	618 704	332 598	31 175 015	35 536 703
Loans received	242 555	-	-	-	242 555
Debt securities in issue	-	-	-	2 441 559	2 441 559
Other liabilities	18 978	5 424	1 527	155 101	181 030
Accruals and deferred income	403	-	-	157 344	157 747
	6 209 134	**1 094 946**	**851 229**	**37 987 906**	**46 143 215**

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

	Euro in ths. SKK	US dollar in ths. SKK	Other in ths. SKK	Slovak crown in ths. SKK	Total in ths. SKK
Assets					
Cash and cash equivalents	563 181	105 044	198 839	14 984 581	15 851 645
Trading assets	1 943 534	165 696	3 159	1 457 843	3 570 232
Loans and advances to banks	-	193 434	-	1 833 553	2 026 987
Loans and advances to customers	7 652 765	718 716	485 931	17 531 766	26 389 178
Investment securities	1 026 085	-	-	2 942 354	3 968 439
Deferred tax asset	-	-	-	266 669	266 669
Other assets	745	101	-	16 018	16 864
Prepayments and accrued income	4 796	-	-	41 486	46 282
	11 191 106	**1 182 991**	**687 929**	**39 074 270**	**52 136 296**

	Euro in ths. SKK	US dollar in ths. SKK	Other in ths. SKK	Slovak crown in ths. SKK	Total in ths. SKK
Liabilities					
Trading liabilities	74 916	195	3 765	496 574	575 450
Deposits by banks	2 097 477	47 070	41 557	2 233 910	4 420 014
Customer accounts	2 783 520	645 424	281 652	39 121 688	42 832 284
Loans received	227 088	-	-	11 667	238 755
Debt securities in issue	-	-	-	1 530 174	1 530 174
Other liabilities	16 733	4 558	2 734	357 041	381 066
Accruals and deferred income	208	-	-	8 624	8 832
	5 199 942	**697 247**	**329 708**	**43 759 678**	**49 986 575**

32 Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by UniCredito Italiano S.p.A. (incorporated in Italy), which owned 97.11% of the ordinary shares at 31 December 2006 (2005: 77.11%).

In the normal course of business, the Bank is engaged in transactions with related parties. These transactions, which include the taking and placing of deposits, loans and foreign currency operations are conducted on an arm's length basis.

(A) Shareholders

Amounts due from and to the majority shareholder, UniCredito Italiano S.p.A., were as follows:

	2006 in ths. SKK	2005 in ths. SKK
Assets		
Loans and advances to banks	-	71 921
Liabilities		
Deposits by banks	2 409 491	1 451 983
Transactions during the year were as follows:		
▶ Interest received and receivable	1 372	1 931
▶ Interest paid and payable	(28 730)	(32 690)
▶ Fees and commissions receivable	111	36
▶ Fees and commissions payable	(1)	(1)

(B) Enterprises related to the majority shareholder of the Bank

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

	2006 in ths. SKK	2005 in ths. SKK
Assets		
Loans and advances to banks	1 068 151	1 100
Loans and advances to customers	3 702	219 633
Liabilities		
Deposits by banks	838 805	309 243
Customer accounts	37 827	4 131
Transactions during the year were as follows:		
▶ Interest received and receivable	44 699	10 567
▶ Interest paid and payable	(5 808)	(6 424)
▶ Fees and commissions receivable	23 086	17 614
▶ Fees and commissions payable	(252)	(304)

(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 in ths. SKK	2005 in ths. SKK
Assets		
Loans and advances to customers	7 523	8 729
Liabilities		
Customer accounts	9 733	12 962
Transactions during the year were as follows:		
▶ Interest received and receivable	354	367
▶ Interest paid and payable	(246)	(135)
▶ Fees and commissions receivable	5	4

Interest rates charged on loans are 58% of rates that would be charged in an arm's length transaction. The mortgages and loans are secured by 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 in ths. SKK	2005 in ths. SKK
Short-term employee benefits	5 496	5 510
Post employment benefits	30	30
	5 526	**5 540**

In addition to their salaries, the Bank also provides non-cash benefits to directors and executive officers and contributes to a supplementary annuity insurance plan (see note 34).

33 Custodial services

The Bank administers securities and other valuables totalling Sk 3,497 million (2005: Sk 4,231 million), which have been received from customers into the Bank's custody.

34 Supplementary retirement annuity insurance plan

Since 1998, the Bank has participated in a supplementary retirement annuity insurance plan for its employees. Supplementary retirement annuity insurance is voluntary and is based on the contractual relationship between employee, employer and the supplementary retirement annuity insurance plan.

Contributions for both the employee and the Bank are fixed and defined in the benefit plan.

For the year ended 31 December 2006, the Bank paid Sk 4.1 million (2005: Sk 3.7 million) and employees paid Sk 4.6 million (2005: Sk 4.2 million) under this plan.

35 Maturity analysis

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

	Within 1 year in ths. SKK	1-5 years in ths. SKK	More than 5 years in ths. SKK	Not specified in ths. SKK	Total in ths. SKK
Monetary assets					
Cash and cash equivalents	13 470 823	-	-	-	13 470 823
Trading assets	669 768	693 489	-	869 674	2 232 931
Loans and advances to banks	236 310	1 000 000	-	173 443	1 409 753
Loans and advances to customers	14 079 520	8 582 449	3 668 557	110 766	26 441 292
Investment securities	397 246	2 035 987	2 358 850	5 623	4 797 706
Deferred tax asset	194 044	-	-	-	194 044
Other assets	1 654	-	-	18 827	20 481
Prepayments and accrued income	-	-	-	33 561	33 561
	29 049 365	**12 311 925**	**6 027 407**	**1 211 894**	**48 600 591**
Monetary liabilities					
Trading liabilities	-	-	-	590 935	590 935
Deposits by banks	6 992 686	-	-	-	6 992 686
Customer accounts	34 236 422	1 285 868	11 525	2 888	35 536 703
Loans received	-	242 555	-	-	242 555
Debt securities in issue	42 968	1 398 591	1 000 000	-	2 441 559
Other liabilities	35 129	-	-	145 901	181 030
Accruals and deferred income	152 407	-	-	5 340	157 747
	41 459 612	**2 927 014**	**1 011 525**	**745 064**	**46 143 215**

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

	Within 1 year in ths. SKK	1-5 years in ths. SKK	More than 5 years in ths. SKK	Not specified in ths. SKK	Total in ths. SKK
Monetary assets					
Cash and cash equivalents	15 851 645	-	-	-	15 851 645
Trading assets	293 436	2 429 751	3 511	843 534	3 570 232
Loans and advances to banks	1 047 440	-	-	979 547	2 026 987
Loans and advances to customers	14 071 219	9 238 941	2 889 389	189 629	26 389 178
Investment securities	609 765	1 905 009	1 450 312	3 353	3 968 439
Deferred tax asset	157 097	88 890	-	20 682	266 669
Other assets	-	-	-	16 864	16 864
Prepayments and accrued income	-	-	-	46 282	46 282
	32 030 602	**13 662 591**	**4 343 212**	**2 099 891**	**52 136 296**
Monetary liabilities					
Trading liabilities	-	-	-	575 450	575 450
Deposits by banks	4 386 882	-	-	33 132	4 420 014
Customer accounts	41 850 311	899 851	19 200	62 922	42 832 284
Loans received	-	238 755	-	-	238 755
Debt securities in issue	30 072	500 102	1 000 000	-	1 530 174
Other liabilities	38 699	-	-	342 367	381 066
Accruals and deferred income	-	-	-	8 832	8 832
	46 305 964	**1 638 708**	**1 019 200**	**1 022 703**	**49 986 575**

36 Financial risk management

Strategy in using financial instruments

The Bank accepts deposits from customers at fixed rates and for different periods (although short-term periods of up to 3 months are most common). The Bank seeks to earn margins by investing these funds in quality assets such as State bonds, Euro-denominated corporate bonds, treasury bills and loans to customers with acceptable credit risk. Corporate loans are most common, but retail lending is steadily increasing and the Bank has a licence for granting mortgage loans. Margins are achieved either through lending for longer periods or by using special funds with fixed rates, while liquidity risk is managed within approved limits which follow both National Bank of Slovakia ("NBS") and UniCredito Italiano Bank requirements.

The Bank also trades in financial instruments (mainly state bonds and foreign currencies) where it takes positions to take advantage of short-term market movements in bond and currency prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Financial risk management

The Bank faces and manages the following types of financial risk: liquidity risk, market risk and credit risk. The major component of the Bank's financial risk derives from credit risk. Risk management is carried out by the Treasury Department and the Risk Management Sub-department in close cooperation with other business departments. The Bank's risk management policies are consistent with both regulatory requirements and UniCredito Italiano Bank's risk management system.

The Board of Directors is responsible for overall risk management: it approves specific policies in all areas of financial risk management and decides on the allocation of excessive liquidity and capital. Overall bank risks are regularly reviewed with measurements being provided by the ALCO and Credit Committee.

Regulatory requirements

The Bank is subject to the regulatory requirements of the National Bank of Slovakia. These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, credit exposure with clients of the Bank and liquidity. These requirements apply to all banks in Slovakia and compliance is determined based on the Bank's financial reporting under Slovak statutory accounting and banking regulations.

A summary of the applicable requirements is as follows:

- Capital adequacy required to be at least 8% of risk weighted assets;
- Minimum capital of SKK 500,000,000;
- Credit exposure against one non-banking customer may not exceed 25% of the Bank's capital;
- Credit exposure to a related party may not exceed 20% of the Bank's capital;
- Obligatory reserves are calculated as 2 % of primary deposits;
- Exposure to one customer or Bank (over 10%) may not exceed 800% of the Bank's capital and reserves.
- The Bank's capital defined for the purpose of these requirements includes registered capital, non-distributable reserves and retained earnings less equity investments;
- The exposure of a person connected with the bank should not exceed specified percentages of the Bank's capital:
  - 2% for an individual
  - 10% for companies and countries
  - 25% for banks in OECD member countries.

Capital adequacy

To monitor the adequacy of its capital, the Bank applies ratios determined by the National Bank of Slovakia and UniCredito Italiano Bank. These ratios measure capital adequacy (minimum 8% required by NBS; 10.15 % required by UniCredito Italiano) by comparing either the Bank's regulatory capital or its eligible capital in accordance with UniCredito Italiano Bank requirements with its balance sheet assets and off-balance sheet commitments at weighted amounts to reflect their relative risk. In accordance with the regulatory requirements of the National Bank of Slovakia, these ratios reflect market risk.

In accordance with regulatory requirements for the weighting of assets, four categories of risk weights are applied: 0%, 20%, 50%, and 100%.

Credit risk

The Bank has exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank manages credit risk by:

a) applying established, clear rules for individual credit risk exposures,

b) credit portfolio risk management.

The Bank's credit risk exposure rules include: a) the placing of limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, based mainly on regulatory requirements; b) strict rules with respect to connected lending; c) rules for granting and monitoring loans; and d) rules for the collection of past due loans.

Total exposure towards one client or group of clients includes all credit risk bearing products and individual limits can be adjusted in response to a client's declining financial or non-financial position. Limit utilisation is monitored on a monthly basis.

Exposure to credit risk is managed and minimised via the Bank's policy of granting loans that are collateralised by liquid assets. Personal lending is based mainly on a client's history with the Bank (if any) and creditworthiness measured by the Bank's own scoring system.

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets). This credit risk exposure is managed as part of the overall lending limits with customers and counterparties, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Market risk

The Bank is exposed to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which depend on general and specific market movements. The Bank applies limits based on regulatory requirements of the National Bank of Slovakia and of UniCredito Italiano Bank based on the application of the methodology "Value at Risk" (VaR). Its aim is, on the basis of evaluation of various changes of market indicators, to estimate the market risk of the maintained positions and the maximum expected losses. The Board of Directors approves acceptable VaR limits which are monitored on a daily basis.

Currency risk

The Bank also has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank mainly manages its currency exposures within the VaR limits given by Board of Directors and by UniCredito Italiano Bank Risk Management.

VaR methodology for spot foreign exchange positions is based on historical simulation and allows daily estimates of market value at risk with a confidence level set at 99%. The Board of Directors sets limits on the level of exposure by currency and in total of both overnight and intra-day positions, which are monitored daily.

Assets and liabilities denominated in foreign currencies are set out in note 31.

Liquidity Risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan and overdraft draw-downs, guarantees and from margin and other calls e.g. cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of accuracy. The Bank has a reliable historical database on withdrawals which enables it to perform a relatively accurate analysis on the stability of these types of withdrawals.

The Bank's liquidity risk management framework is governed by regulations of the National Bank of Slovakia and by internal procedures established by the Bank for liquidity management, taking into consideration the requirements of liquidity management of the UniCredito Italiano Bank.

The National Bank of Slovakia's liquidity regulatory framework is based on compliance with the following ratios:

- Ratio of fixed and non-liquid assets to own resources and reserves of the Bank should not exceed 1;
- Obligatory reserves should amount to a minimum of 2% of the primary deposits and deposits of non-resident clients (bank and non-bank clients);

The remaining maturity of assets and liabilities at the balance sheet date is set out in note 35.

Interest Rate Risk

The Bank has exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may decrease or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a monthly basis.

The Bank's interest rate risk policy reflects Slovak financial market conditions. To a large extent the Bank applies natural hedging as far as the structure and pricing of assets and liabilities is concerned. Interest rate risk is monitored and managed using repricing gap analysis, report variance analysis and spread analysis on a monthly basis. The Bank has set a limit for the total mismatch of interest rate repricing.

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 in ths. SKK	1 year or less but over 3 months in ths. SKK	1-5 years in ths. SKK	Over 5 years in ths. SKK	Total in ths. SKK
Interest-bearing assets						
Cash and cash equivalents	4,75	11 870 221	-	-	-	11 870 221
Trading assets	4,01	1 099 814	128	69 098	-	1 169 040
Loans and advances to banks	3,97	-	409 753	1 000 000	-	1 409 753
Loans and advances to customers	5,16	15 411 404	2 479 356	704 826	26 085	18 621 671
Investment securities	4,26	377 622	1 092 320	1 107 877	1 300 442	3 878 261
		28 759 061	**3 981 557**	**2 881 801**	**1 326 527**	**36 948 946**
Interest-bearing liabilities						
Deposits by banks	3,32	2 024 747	1 552 986	-	-	3 577 733
Customer accounts	4,47	27 905 402	2 020 747	1 237 344	11 522	31 175 015
Debt securities in issue	3,32	933 530	509 438	498 591	500 000	2 441 559
		30 863 679	**4 083 171**	**1 735 935**	**511 522**	**37 194 307**
Off balance sheet items		(633 197)	(270 000)	435 000	-	(468 197)
Interest rate repricing gap		(2 737 815)	(371 614)	1 580 866	815 005	(713 558)
Cumulative interest rate repricing gap		(2 737 815)	(3 109 429)	(1 528 563)	(713 558)	-

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 in ths. SKK	1 year or less but over 3 months in ths. SKK	1-5 years in ths. SKK	Over 5 years in ths. SKK	Total in ths. SKK
Interest-bearing assets						
Cash and cash equivalents	3,02	351 145	-	-	-	351 145
Trading assets	7,63	51 887	394 874	569 408	-	1 016 169
Loans and advances to customers	4,77	5 418 920	1 494 078	56 455	77 285	7 046 738
Investment securities		475	38 947	877 751	-	917 173
		5 822 427	**1 927 899**	**1 503 614**	**77 285**	**9 331 225**
Interest-bearing liabilities						
Deposits by banks	3,77	385 994	2 088 750	-	-	2 474 744
Customer accounts	1,11	3 193 107	189 275	28 003	1	3 410 386
Loans received	4,00	-	544	242 011	-	242 555
		3 579 101	**2 278 569**	**270 014**	**1**	**6 127 685**
Off balance sheet items		712 549	(69 146)	(518 595)	(124 808)	-
Interest rate repricing gap		2 955 875	(419 816)	715 005	(47 524)	3 203 540
Cumulative interest rate repricing gap		2 955 875	2 536 059	3 251 064	3 203 540	-

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 in ths. SKK	1 year or less but over 3 months in ths. SKK	1-5 years in ths. SKK	Over 5 years in ths. SKK	Total in ths. SKK
Interest-bearing assets						
Cash and cash equivalents	3,00	14 250 112	-	-	-	14 250 112
Trading assets	3,27	1 324 650	128	129 554	3 511	1 457 843
Loans and advances to banks	3,50	-	1 833 553	-	-	1 833 553
Loans and advances to customers	4,78	14 734 870	1 962 585	800 565	33 746	17 531 766
Investment securities		536 858	1 095 066	1 111 362	199 068	2 942 354
		30 846 490	**4 891 332**	**2 041 481**	**236 325**	**38 015 628**
Interest-bearing liabilities						
Deposits by banks	3,30	2 233 910	-	-	-	2 233 910
Customer accounts	1,.90	37 145 072	1 173 689	788 593	14 334	39 121 688
Loans received	4,00	-	-	11 667	-	11 667
Debt securities in issue	3,30	21 913	508 159	500 102	500 000	1 530 174
		39 400 895	**1 681 848**	**1 300 362**	**514 334**	**42 897 439**
Off balance sheet items		(2 365 700)	1 855 000	645 000	-	134 300
Interest rate repricing gap		(10 920 105)	5 064 484	1 386 119	(278 009)	(4 747 511)
Cumulative interest rate repricing gap		(10 920 105)	(5 855 621)	(4 469 502)	(4 747 511)	-

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 in ths. SKK	1 year or less but over 3 months in ths. SKK	1-5 years in ths. SKK	Over 5 years in ths. SKK	Total in ths. SKK
Interest-bearing assets						
Cash and cash equivalents	2,07	393 449	-	-	-	393 449
Trading assets	6,90	50 033	47 972	1 845 529	-	1 943 534
Loans and advances to customers	3,74	5 312 849	1 497 953	841 963	-	7 652 765
Investment securities		780	42 637	793 646	189 022	1 026 085
		5 757 111	**1 588 562**	**3 481 138**	**189 022**	**11 015 833**
Interest-bearing liabilities						
Deposits by banks	2,20	1 397 225	687 991	-	-	2 085 216
Customer accounts	0,90	2 642 295	53 788	83 000	4 437	2 783 520
Loans received	4,00	-	-	227 088	-	227 088
		4 039 520	**741 779**	**310 088**	**4 437**	**5 095 824**
Off balance sheet items		756 960	287 040	(1 044 000)	-	-
Interest rate repricing gap		2 474 551	1 133 823	2 127 050	184 585	5 920 009
Cumulative interest rate repricing gap		2 474 551	3 608 374	5 735 424	5 920 009	-

37 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 in ths. SKK	Fair value 2006 in ths. SKK	Carrying value 2005 in ths. SKK	Fair value 2005 in ths. SKK
Financial assets				
Cash and cash equivalents	13 470 823	13 470 823	15 851 645	15 851 645
Trading assets	2 232 931	2 232 931	3 570 232	3 570 232
Loans and advances to banks	1 409 753	1 215 904	2 026 987	1 995 235
Loans and advances to customers	26 441 292	26 167 829	26 389 178	25 994 528
Investment securities	4 797 706	4 655 923	3 968 439	3 932 252
Financial liabilities				
Trading liabilities	590 935	590 935	575 450	575 450
Deposits by banks	6 992 686	6 992 686	4 420 014	4 420 014
Customer accounts	35 536 703	35 442 271	42 832 284	42 756 399
Loans received	242 555	198 004	238 755	207 073
Debt securities in issue	2 441 559	2 179 075	1 530 174	1 450 469

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

Trading assets

The fair values of trading assets are calculated using quoted market prices or theoretical prices determined by the 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 allowances for impairment. 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 debt securities are set out in note 12. Non-quoted equity shares are stated net of allowances for impairment.

Trading liabilities

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

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.