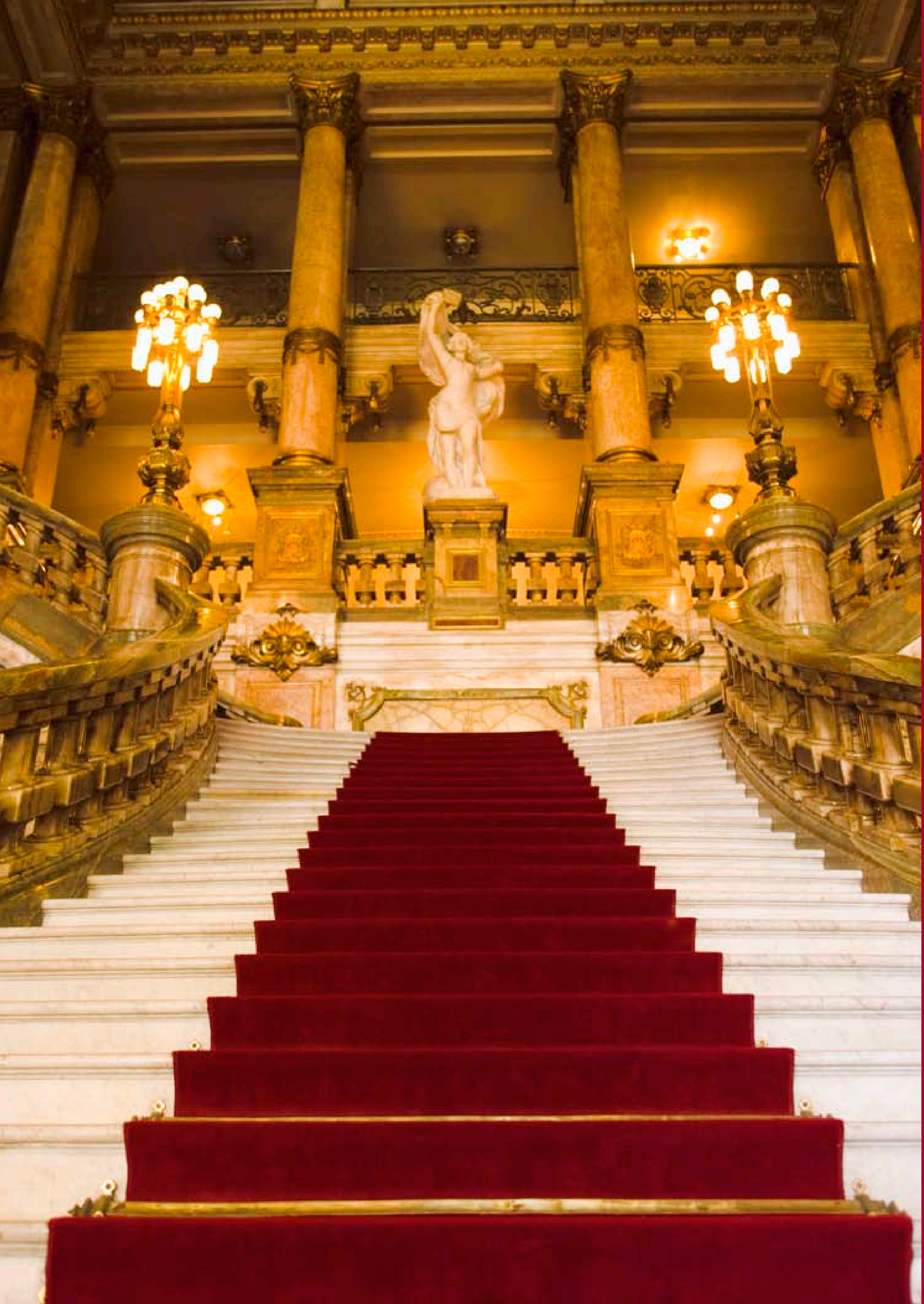

PRIVATBANKA | 2006
Privatbanka





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## Introduction

In 2006 Privatbanka continued pursuing its core business policy of providing private banking services.

2006 was the Bank's most successful year so far in terms of its economic results and key financial indicators. The balance sheet increased to SKK 7.5 bln in 2006, which represents an increase of approximately 40% growth of the Bank compared to 2005 (SKK 5.4 bln). This year, the Bank achieved a record profit figure - SKK 64 million, which is SKK 22 million more than in 2005.

The Corporate Banking division contributed significantly to Bank's outstanding year. Regarding lending operations, in 2006 the volume of loans granted increased significantly. At the same time, the existing clientele were maintained and new high-net-worth clients were raised, both for corporate loans as well as for individual loans.

The Private Banking division also had a major share in the Bank's financial achievements. In 2006 the division has achieved the desired level of client coverage with a team of high-quality private banking professionals providing client services on a nationwide basis. This team profiling with a high degree of expertise and professionalism was positively reflected in the results of this key division of the Bank. The Bank saw a steep increase in the number of private clients, as well as a growing volume of assets under management.

In terms of HR, the preparation and introduction of the new remuneration system was a great success. Its objective was to consolidate the various remuneration systems used by the Bank, and at the same time to develop a modern, highly motivating system taking the competitive market conditions into account. The new remuneration system rests upon the principle of fulfilment of clearly defined staff tasks derived from the Bank's business policy. By ensuring good internal communication, the system was embraced by all staff.

In IT, the goal of the Bank's investments was to improve availability and security of the Bank's systems by application of state-of-the-art server and data store technologies. These technologies were applied in particular in primary bank data processing systems as well as in e-banking systems, which constitute one of the strategic IT development areas in Privatbanka. At the same time, communication infrastructure among the various organizational units of the company was completed.

In keeping with its previously stated policy, in 2006 the Bank closed down two of its branch offices – the Trenčín Branch Office and the Prešov Branch Office. These steps further supported the Bank's policy of definitive move from retail to private banking, confirming that the Bank's principal values feature an individual approach towards each client and provision of market-leading, tailor-made financial services.

In terms of marketing, the Bank launched a systematic awareness raising campaign presenting the Bank as a prestigious financial house for affluent clientele. To support this policy, in 2006 the Bank hosted several exclusive events for its existing as well as potential clients. In cooperation with its partners – suppliers of luxury products or services, the Bank started working on the Exclusive Private Club programme for Privatbanka clients with the aim of supplying them with more added value and comprehensive care of all spheres of the client's life. The above activities had a single goal in mind – to profile the Bank with the public as the most prominent private banking institution in Slovakia.



# Private Banking

## Private Banking

In 2006 the Private Banking business – being the Bank's key business division – continued to develop. Rebranding to Privatbanka (end of 2005), and consolidation of a strong team of highly-expert private banking professionals set ideal foundations for providing premium levels of service for existing clients, and at the same time attracting new clients all over Slovakia. This positive trend was reflected in a growing number of private clients and a growing volume of assets under management.

The philosophy of private banking is based on the concept of the Bank's offer of services as a whole. In his/her communication with the client, a private banker's services are not limited to just offering a single specific product; rather, the client's financial needs are addressed in a comprehensive manner. In developing an investment strategy for the client, a private banker actively uses all options offered by the private bank. A comprehensive approach thus becomes one of the major attributes of a private bank, right next to the tailor-made solutions, individual approach and secrecy.



Year 2006 was further characterized by development of new solutions reflecting the clients' proclaimed requirements and needs. We introduced a unique investment strategy - FEREO (Fixed Income, Equity, Real Estate, and Opportunity) that was very well received by our clients. Besides traditional investment services, we also offered new guaranteed investment forms and new corporate bill of exchange forms. This development was crucial to ensuring a high standard of services for our clients who expect private banking to not only provide individual approach but also flexibility and a high degree of innovation.

In 2006 we also introduced a comprehensive Privatbanka Wealth Management concept allowing the client to combine various bank products and create logical and efficient financial solutions.

Despite this prominent element of innovation, we are still above all a conservative banking house that sees its primary role in efficient, value-enhancing wealth management of affluent clients and its active protection against value reduction.



# Asset Management

## Asset Management

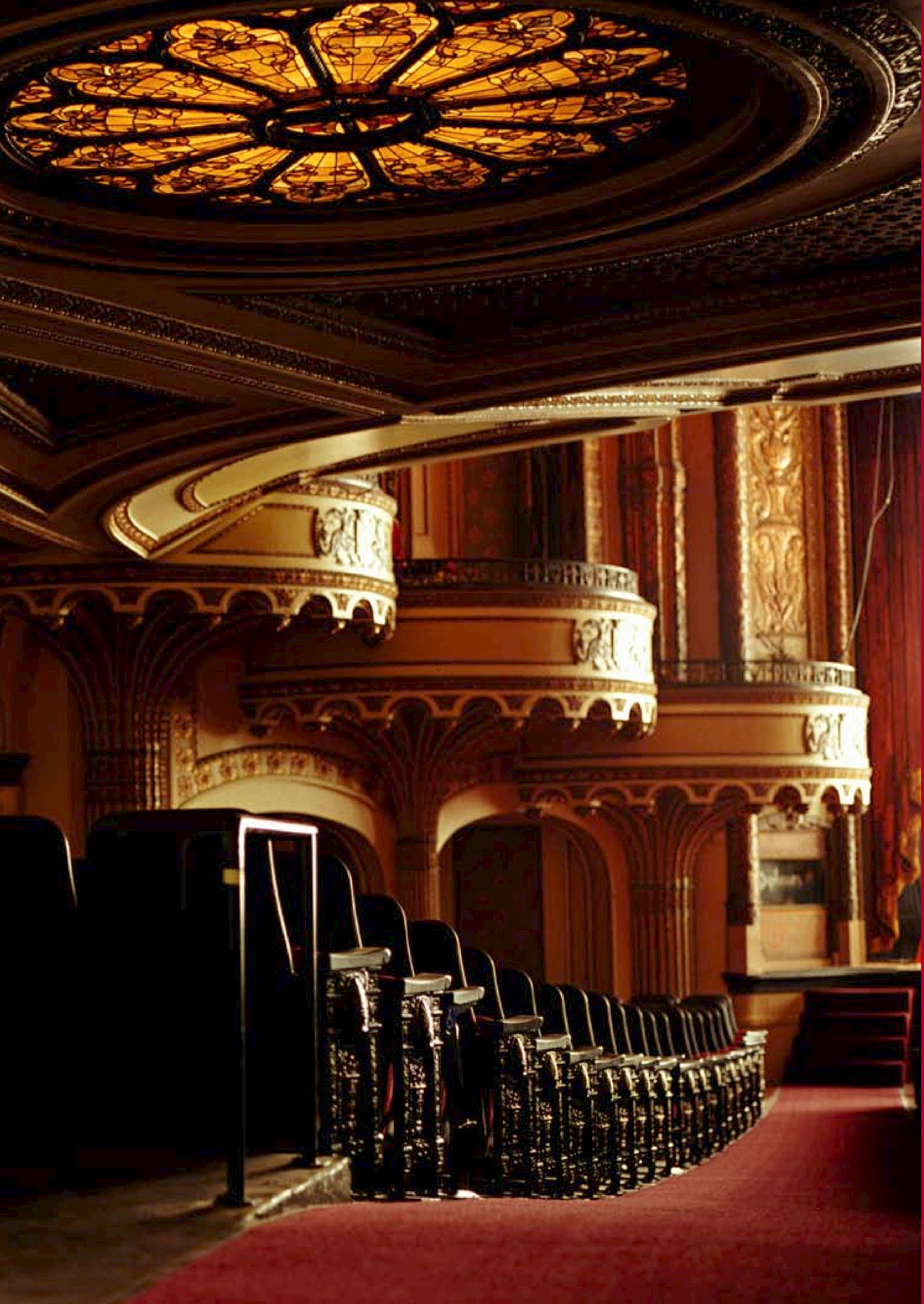
In terms of Asset Management, in 2006 the Bank focused primarily on enhancement of added value offered to its clients, offering them a comprehensive, better-than-standard solution of their financial needs. At the same time, the Bank also turned towards developing more sophisticated portfolio products with the aim to reduce the cost of investment services and to improve the offered services in terms of efficiency.

Last year, too, the Bank significantly benefited from its independent position on the financial market. It was able to offer to its clients investment instruments issued by a wide range of renowned global as well as domestic investment companies. When developing investment solutions, the Bank took the approach of flexibly combining various financial market segments at clearly set investment limits. The unique FEREO (Fixed Income, Equity, Real Estate and Opportunity) concept as far as possible reflects the requirement to provide clients with an investment solution at a reasonable level of risk. In its response to weakening of the Euro to the Slovak Crown (SKK) exchange rate, the Bank extended its range of alternative corporate investments denominated in SKK. Having chosen an appropriate mix of SKK and foreign exchange investments, the Bank succeeded in developing portfolios featuring a reasonable combination of risk and return on investment.



At the same time, the Bank enhanced its activities by starting to provide a wide range of economic analyses fully tailored to the requirements of private clients. This highly individual approach to its clients and tailor-made financial solutions were also particularly positively reflected in the volume of assets entrusted to the Bank - their value almost tripled in 2006 compared to last year. Last year, the Bank also succeeded in expanding its clientele, attracting international institutional clients engaged in Central European fixed income and equities.

Year 2006 brought positive changes for the Bank also in the field of portfolio management, improving the quality of services delivered in all areas. The team of experts in this field also expanded, allowing the Bank to continue providing better-than-standard services for demanding private clientele also in the future.





# Corporate Banking

## Corporate Banking

Corporate Banking was the Bank's most successful division in 2006. This year, the volume of granted loans increased significantly. At the same time, the existing clientele was maintained and new high-net-worth clients were raised, both for corporate loans as well as for individual loans.

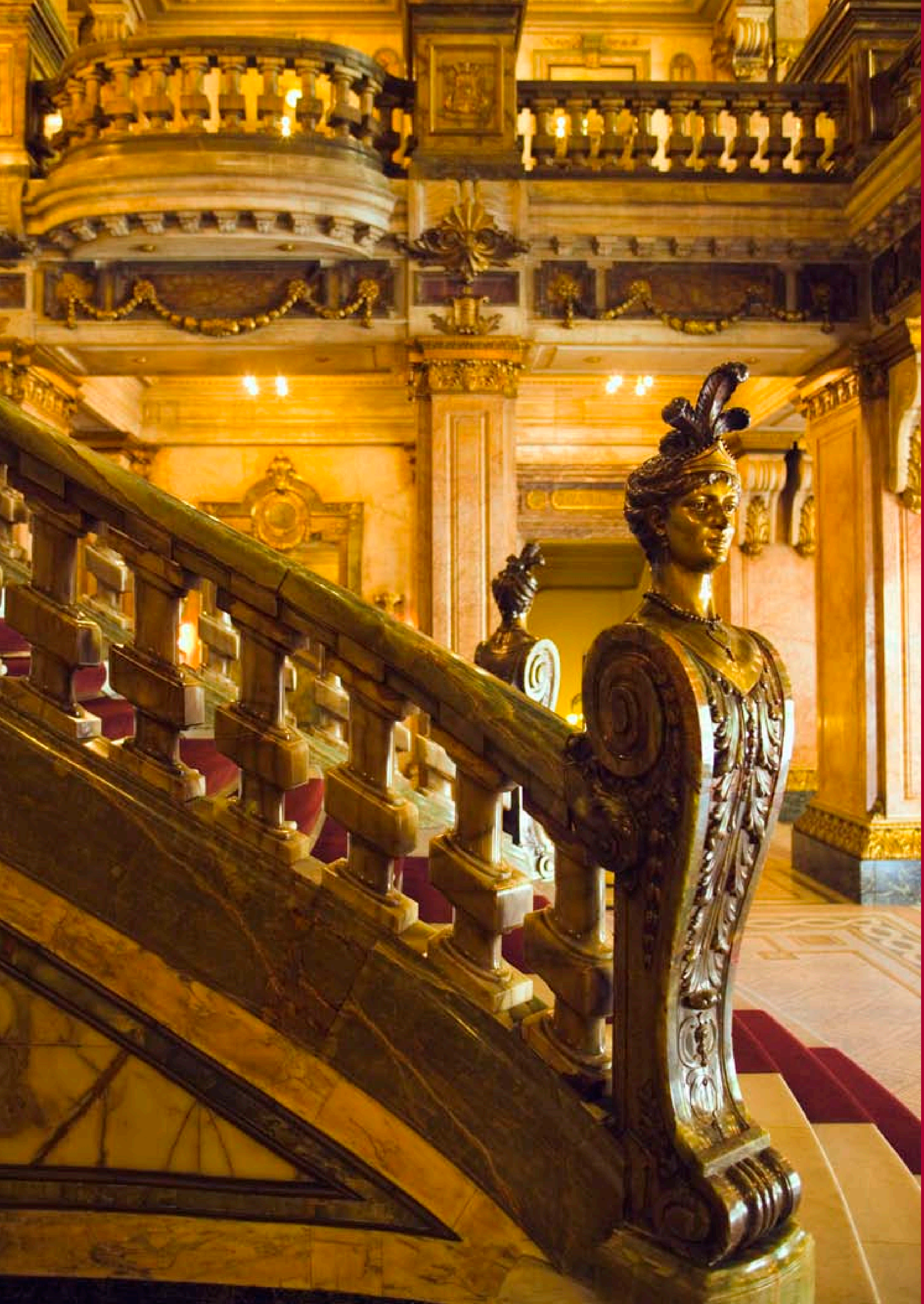
Privatbanka's service portfolio features most of the traditional products offered by commercial banks to their clients to finance their operating and capital expenditure needs. Due to its primary mission, however, being provision of private banking and asset management services, the Bank is flexible in tailoring these products to the specific requirements of high-net-worth clients. In managing active loan deals, it was the Bank's primary goal last year, too, to design and offer optimum solutions to the client's requirements, to meet their expectations as far as possible, and thus develop long-term win-win business partnerships.

Privatbanka's target segment in the loan deal division still comprises large and medium-sized businesses, developers and solvent individuals, who at the same time use the Bank's other services such as payment transactions management, private banking and asset management services. The Bank also serves individuals, offering loans for real-estate purchases and other capital expenditure projects at favourable terms, with asset management clients moreover being able to benefit from loans to cover their current needs as per their requirements.



In 2006, the Bank continued enhancing the quality of its products in its attempt to keep pace with new market trends, in particular in terms of financing of developer projects. The Bank keeps searching for options of matching loans to interesting investment opportunities, supporting its clients in their pursuit of capital expenditure projects where EU Structural Funds assistance may be used as well.

Being the first private bank in Slovakia, it is our primary goal to provide the client with better-than-standard comfort, valuable information, and maximum secrecy in delivering active loan deal services using our competitive edges deriving from the Bank's size and its ability to provide the client with in a highly individual and flexible treatment.





# Treasury

## Treasury

The Treasury department's main function is to provide a broad range of services for the Bank's clients. In doing so, the department continues to expand and enhance its range of products and investment instruments. Treasury also made a significant contribution to the Bank's overall profit last year, in particular by income from foreign exchange transactions.

Without doubt, our most prominent achievement however was the issue of three series of bonds of our own during a single year. Two issues thereof were completely subscribed during 2006 and the third issue only took place at the end of the year. The first two issues have a three-year maturity, the third issue has a five-year maturity. All the above issues were subscribed in restricted (non-public) sale, and it was almost entirely the Bank's clients who became their holders. The Bank was also active in ensuring security issues, arranging for several bond issues for its clients.

In terms of our presence in the foreign exchange market, we mainly carried out client transactions. Their volume increased compared to 2005. Besides spot transactions, the clients were also more active in utilising forward deals in hedging their foreign exchange cash flows, or as their speculation tool.



In the first half of 2006, returns on Slovak government bonds rose in reflection of NBS base rate increases, Eurozone interest rate increases, and nervousness in the light of upcoming parliamentary elections. Some of the Bank's customers also took advantage of this situation, buying fixed interest-rate bonds with relatively high returns at a low credit risk. The duration of bank security portfolio was shortened during the year, with the total volume of securities remaining at roughly the level of 2005 year-end. The proportion of securities with a floating coupon increased. From the aspect of currency, the Slovak Crown (SKK) is predominant in the portfolio, with a significant portion being occupied by securities denominated in Czech Crowns (CZK). Government and bank bonds make up four fifths of the portfolio, the rest being corporate bonds of high-net-worth issuers, or investment certificates of open mutual funds. The number of customer desk clients maintained its dynamic growth during 2006 – the year-on-year increase was approx. 50 per cent. Money market products prevailed, however, the number of clients actively trading in securities has also risen. We procured securities for our clients at Western European stock exchanges and in Central Europe; however, we closed a surprisingly high volume of deals in Ukraine, where we have developed contacts with several major local security dealers.

In 2006 as well, Treasury pursued its close cooperation with private bankers in search for optimum financial solutions for our clients. We dare to claim that our offer is one of the broadest in Slovakia. The key competitive edge of a bank is its independence – we offer products by a broad range of issuers, allowing us to choose instruments with the best features, and thus satisfy even the most demanding of our clients' requirements.



# Risk Management

## Risk Management

In 2006 Risk Management was one of the major areas of interest as it can be expected in the light of importance of this banking activity. We put particular emphasis on completion and fine-tuning of our database structures that allow the Bank to access a comprehensive pool of high-quality information on its assets and liabilities at any time. Having implemented these steps, we created fundamental conditions for meeting the extended requirements of external reporting in line with stepwise introduction of a Basel II Convention-compliant regulation. With the data sources as its basis, internal reporting was definitively completed. It provides senior management, expert committees and line managers with sufficient high-quality information for prompt and competent decision making regarding management of credit, market and operational risks.

In 2006 the Bank continued reviewing its internal risk management processes and procedures with the aim to eliminate potential losses from the Bank's risk exposures. The Bank applies sophisticated models to credit and market risk quantification and reporting. These models guarantee sufficient precision of their identification, and make a significant contribution to formation of the desired risk profile of the Bank. For credit risks, this involves in particular precise quantification of the need to set up provisions (reserves). For market risks, the Bank uses the Portfolio Sensitivity Determination technique and Value at Risk-based methods. As regards operational risks, the Bank realizes the need for correct and prompt identification of events that might incur operational losses. Therefore, a detailed data collection system was developed to gather data on such events or on already incurred losses. This database sets a foundation for the future when it is intended to develop a more advanced method of measuring operational risks and losses, which will lead towards even more efficient use of the Bank's capital.



Privatbanka's primary line of business is private banking, and its ambition in this regard is to provide better-than-standard client asset management services. This is also why the Bank's private clients have plenty of information available on the risk-return on investment profile of their portfolios, allowing them to make qualified decisions in implementing their investment plans.

**Board of Directors**

Vladimír Hrdina
Member of the Board and Executive Director

Ľubomír Lorencovič
Vice-Chairman of the Board and Executive Director

Viliam Ostrožlík
Chairman of the Board and Chief Executive Officer

## Management of Privatbanka

### Board of Directors

Viliam Ostrožlík
Chairman of the Board and Chief Executive Officer

Ľubomír Lorencovič
Vice–Chairman of the Board and Executive Director

Vladimír Hrdina
Member of the Board and Executive Director

### Supervisory Board

Peter Weinzierl
Chairman

Alexander Waldstein-Wartenberg
Vice-Chairman

Wolfgang Lafite
Member

Ladislav Márton
Member

## Management

Michal Šubín
Director – Private Banking

Peter Machaj
Director – Asset Management

Miron Zelina
Director – Treasury

Ladislav Koller
Director – Retail Deals Department

Jana Slavická
Director – Credit Risk Department

Pavol Šafár
Director – Payment System Department

Štefan Horváth
Director – Risk Management

Eva Hírešová
Director – Accounting Department

Kamil Duffek
Director – Economy Department

Dagmar Sliacka
Director – Human Resources Department

Lenka Bartová
Director – Marketing Department

Ferdinand Funta
Director – IT Department

Beáta Letovancová
Credit Deal Section Manager

Marek Magyar
Legal Section Manager

Ľubica Rajtúchová
Internal Control and Internal Audit Unit Manager

## Associated Company

Privatfin, s.r.o. (Ltd.)
Financial Services

Viliam Ostrožlík
Statutory Representative

Ľubomír Lorencovič
Statutory Representative

Vladimír Hrdina
Statutory Representative

## Head Office

Suché mýto 1, 811 03 Bratislava, Slovak Republic
Phone: +421 2 5920 6620, +421 2 5920 6621
Fax: +421 2 5443 3131

## Branch Network

Bratislava, VIP Branch, Suché mýto 1, 811 03 Bratislava, Phone: +421 2 5920 6664
Branch Manager – Lucia Litvová

Bratislava, Krížna 4, 811 07 Bratislava, Phone: +421 2 5541 0647
Branch Manager – Jana Juračková

Banská Bystrica, J. Kráľa 3, 974 01 Banská Bystrica, Phone: +421 48 415 3076
Branch Manager – Kristína Kissová

Brezno, Nám.M.R. Štefánika 48, 977 01 Brezno, Phone: +421 48 611 6447
Designated Manager of the Branch – Andrea Belková

Trenčín, Braneckého 7, 911 01 Trenčín
Determination of the business activities as of October 31, 2006

Prešov, Hlavná 57, 080 01 Prešov
Determination of the business activities as of October 15, 2006

**ERNST & YOUNG**

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**Independent Auditor's Report**

To the Shareholders of Privatbanka, a. s.:

We have audited the accompanying consolidated financial statements of Privatbanka, a. s. and its subsidiary ('the Group'), which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with the 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 consolidated 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

2 February 2007
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský
SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257



## Consolidated Financial Statements

Prepared in accordance with International Financial Reporting Standards

## Consolidated balance sheet as of 31 December 2006

Privatbanka

**Consolidated balance sheet as of 31 December 2006**

| | Note | 2006 SKK '000 | 2005 SKK '000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 3. | 3 569 559 | 2 320 797 |
| Due from banks | | - | - |
| Due from customers | 4. | 1 958 433 | 1 199 673 |
| Securities available for sale | 6. | 1 213 575 | 1 567 909 |
| Securities at fair value through profit or loss | 7. | 594 368 | 256 435 |
| Tangible and intangible fixed assets | 8. | 40 597 | 93 469 |
| Deferred tax asset | 9. | 360 | 16 378 |
| Other assets | 10. | 21 750 | 10 680 |
| **Total assets** | | **7 398 642** | **5 465 341** |
| **Liabilities and equity** | | | |
| Due to other banks | 11. | 264 399 | 30 283 |
| Due to clients | 12. | 4 288 563 | 4 142 570 |
| Debt securities issued | 13. | 2 015 974 | 510 486 |
| Reserves | 14. | 19 430 | 15 950 |
| Other liabilities | 15. | 92 955 | 82 115 |
| **Total liabilities** | | **6 681 321** | **4 781 404** |
| **Equity** | | | |
| Basic share capital | 16. | 756 874 | 756 874 |
| Capital and profit funds | | 51 454 | 47 180 |
| Revaluation differences on securities available for sale (including deferred tax) | | (4 861) | 25 698 |
| Retained earnings | | (86 146) | (145 815) |
| **Total equity** | | **717 321** | **683 937** |
| **Total Liabilities and equity** | | **7 398 642** | **5 465 341** |

The financial statements were approved by the Board of Directors on 2 February 2007 and signed on its behalf by:

Ing. Viliam Ostrožlík
Chairman of the Board of Directors and
General Director

Ing. Vladimír Hrdina
Member of the Board of Directors and
Executive Director

## Consolidated profit and loss account for the year ended 31 December 2006

| | Note | 2006 SKK '000 | 2005 SKK '000 |
|---|---|---|---|
| Interest income and similar income | 22. | 378 644 | 203 670 |
| Interest expense and similar expense | 23. | (227 526) | (95 444) |
| **Net interest income** | | **151 118** | **108 226** |
| Fee and commission income | 24. | 24 764 | 17 334 |
| Fee and commission expense | 25. | (15 700) | (6 255) |
| **Net fee income** | | **9 064** | **11 079** |
| Trading result | 26. | 23 123 | 57 728 |
| Other income | 27. | 3 649 | 3 850 |
| **Operating income total** | | **186 954** | **180 883** |
| General operating expense | 28. | (141 289) | (137 704) |
| Depreciation and amortization | 8. | (11 982) | (13 083) |
| **Operating expense total** | | **(153 271)** | **(150 787)** |
| **Operating profit before provisions, reserves and write–offs** | | **33 683** | **30 096** |
| Receivables provision movement / receivables write–off | 29. | 21 635 | 7 064 |
| Net book value of fixed assets sold | | (139 405) | (47 842) |
| Income from sale of fixed assets | | 78 683 | 14 333 |
| Fixed assets provision movement | | 87 043 | 44 847 |
| Reserves for liabilities from main activities movement | 14. | 2 155 | (1 114) |
| **Pre–tax profit** | | **83 794** | **47 384** |
| Income tax expense (including deferred) | 18. | (19 852) | (4 651) |
| **Net profit** | | **63 942** | **42 733** |

The notes on pages 36 to 72 form an integral part of these financial statements.

## Consolidated statement of changes in shareholders' equity for the year ended 31 December 2006

| SKK '000 | Basic share capital | Retained earnings | Legal reserve fund | Revaluation differences on securities available for sale (including deferred tax) | Total |
|---|---|---|---|---|---|
| **At 1 January 2005** | **756 874** | **(184 470)** | **43 102** | **32 618** | **648 124** |
| Securities available for sale –changes within 2005 | – | – | – | (8 008) | **(8 008)** |
| Change in the deferred tax charged for the securities available for sale | – | – | – | 1 088 | **1 088** |
| **Total income and expense recognised directly in equity** | **–** | **–** | **–** | **(6 920)** | **(6 920)** |
| Creation of statutory reserve | – | (4 078) | 4 078 | – | **–** |
| Profit for 2005 | – | 42 733 | – | – | **42 733** |
| **At 31 December 2005** | **756 874** | **(145 815)** | **47 180** | **25 698** | **683 937** |
| **At 1 January 2006** | **756 874** | **(145 815)** | **47 180** | **25 698** | **683 937** |
| Securities available for sale – changes within 2006 | – | – | – | (34 395) | **(34 395)** |
| Change in the deferred tax charged for the securities available for sale | – | – | – | 3 836 | **3 836** |
| **Total income and expense recognised directly in equity** | **–** | **–** | **–** | **(30 559)** | **(30 559)** |
| Creation of statutory reserve | – | (4 273) | 4 273 | – | **–** |
| Profit for 2006 | – | 63 942 | – | – | **63 942** |
| **At 31 December 2006** | **756 874** | **(86 146)** | **51 454** | **(4 861)** | **717 321** |

The notes on pages 36 to 72 form an integral part of these financial statements.

## Consolidated cash flow statement for the year ended 31 December 2006

| | Note | 2006 SKK '000 | 2005 SKK '000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before changes in operating assets and liabilities | 30 | (105 453) | (65 047) |
| Increase/decrease in amounts due from banks | | – | 393 295 |
| Increase/decrease in amounts due from customers | | (687 125) | (660 956) |
| Increase/decrease in securities at fair value through profit and loss | | (337 933) | (255 901) |
| Increase/decrease in securities available for sale | | 318 045 | (443 628) |
| Increase/decrease in other assets | | (13 251) | 7 704 |
| Increase/decrease in amounts due to banks | | 234 116 | (276 759) |
| Increase/decrease in amounts due to clients | | 141 840 | 1 246 988 |
| Increase/decrease in debt securities issued | | 993 433 | (105 279) |
| Increase/decrease in other liabilities | | 16 476 | 44 404 |
| Income tax paid | | (1 653) | – |
| Interest received | | 384 374 | 200 318 |
| Interest paid | | (218 118) | (97 140) |
| **Net cash flow from operating activities** | | **724 751** | **(12 001)** |
| **Cash flow from investment activities** | | | |
| Purchase of tangible and intangible fixed assets | | (11 472) | (15 546) |
| Sale of tangible and intangible fixed assets | | 28 683 | 14 113 |
| **Net cash flow from investment activities** | | **17 211** | **(1 433)** |
| **Cash flow from financial activities** | | | |
| Income from issuance of bonds | | 506 800 | – |
| Dividends paid | | – | – |
| **Net cash flow from financial activities** | | **506 800** | **–** |
| **Net increase/decrease in cash and cash equivalents** | | **1 248 762** | **(13 434)** |
| **Cash and cash equivalents at the beginning of the year** | 3 | **2 320 797** | **2 334 231** |
| **Cash and cash equivalents at the end of the year** | 3 | **3 569 559** | **2 320 797** |

The notes on pages 36 to 72 form an integral part of these financial statements.

## 1. General information

**Incorporation**

Privatbanka, a.s. ("the Bank") was established and incorporated in 1995. It commenced its activities on 22 May 1996.

**Principal activities**

The principal activities of the Bank include a wide range of banking and financial services provided to corporate and private customers in the Slovak Republic under a bank license.

The bank license was granted for the following activities:

1. receipt of deposits,
2. provision of loans,
3. domestic and cross-border transfers of funds (payment and settlement),
4. provision of investment services to customers within the scope of a special license,
5. investments into securities made on own account,
6. trading on own account,
   a) with money market financial instruments in Slovak crowns and foreign currency including foreign exchange activities,
   b) with capital market financial instruments in Slovak crowns and foreign currency,
   c) with coins made of precious metal, commemorative banknotes and coins, sheets of banknotes and sets of coins for circulation,
7. administration of customer's receivables on his account including advisory services,
8. finance lease,
9. provision of guarantees, opening and confirmation of letters of credit,
10. issue and administration of means of payment,
11. provision of business advisory services,
12. issue of securities, participation in issue of securities and provision of related services,
13. financial intermediation,
14. custody of valuables,
15. safe hire,
16. provision of bank information,
17. depository according to a special regulation,
18. treatment of banknotes, coins, commemorative banknotes and coins.

**Shareholders' structure**

The shareholders' structure is as follows:

| % | 2006 | 2005 |
|---|---|---|
| BASL Beteiligungsverwaltungs GmbH, Vienna | 49,58 | 49,58 |
| Allianz–Slovenská poisťovňa, a.s., Bratislava | 19,82 | 19,82 |
| Other (less than 10 %) | 30,60 | 30,60 |
| **Total** | **100,00** | **100,00** |

BASL Beteiligungsverwaltungs GmbH is a 100 % subsidiary of Meinl Bank, based in Austria. The Bank is included in the consolidated financial statements of BASL Beteiligungsverwaltungs GmbH.

**Privatbanka, a.s. group**

The consolidated financial statements for the year ended 31 December 2006 comprise the Bank and its subsidiaries (together referred to as 'the Group') as follows:

At 31 December 2006, the Bank had the following subsidiaries:

| Name | Activity | Share % |
|---|---|---|
| Privatfin, s.r.o. | Factoring, forfaiting, business advisory services, leasing services | 100 |

The Company Privatfin, s.r.o. was renamed from previous BS FIN, s.r.o. on 2 June 2006. The subsidiary does not perform actives in the significant volume.

**Geographical network**

In 2006, the Bank performed its activities through its network of six branches in Banská Bystrica, Brezno, Bratislava (2 branches), Trenčín and Prešov. During the year 2006 the Bank has terminated branches in Trenčín and Prešov.

**Members of the Board of Directors**

The members of the Bank's Board of Directors are as follows:

| | | |
|---|---|---|
| 1. Ing. Viliam Ostrožlík | – Chairman | – appointed on 6 August 2003 |
| 2. Ing. Ľubomír Lorencovič | – Vice-Chairman | – appointed on 6 August 2003 |
| 3. Ing. Vladimír Hrdina | – Member | – appointed on 6 August 2003 |

**Supervisory Board**

The members of the Bank's Supervisory Board are as follows:

Elected at the General Meeting:

| | | |
|---|---|---|
| 1. MMag. Peter Weinzierl | – Chairman | – appointed on 6 August 2003 |
| 2. Dr. Alexander Waldstein-Wartenberg | – Vice-Chairman | – appointed on 6 August 2003 |
| 3. Ing. Ladislav Márton | – Member | – appointed on 19 September 2002 |
| 4. Dr. Carl Wolfgang Lafite | – Member | – appointed on 6 August 2003 |

## 2. Accounting policies

The significant accounting policies applied by the Group are as follows:

### (a) Basis of preparation

**General**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'), and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as approved by the Commission of European Union in accordance with the Regulation of European Parliament and Council of European Union and in accordance with the Act No. 431/2002 Coll. on Accounting, as amended, Article 22.

The financial statements are reported in Slovak crowns (SKK) and all amounts are presented in thousand, except where otherwise stated. Negative balances are shown in brackets.

The financial statements have been prepared under the historical cost convention on the basis of full accrual accounting, except for certain financial instruments which are measured at fair value.

The financial statements have been prepared under the going concern assumption of the Group.

As the Group's operations do not have significantly different risks and returns, and the regulatory environment, the nature of its services, business processes and types of customers for its products and services are homogenous for all its activities, the Group operates as a single business segment unit.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Bank and the companies shown in note 1.

The consolidated financial statements have been prepared using uniform accounting policies for similar transactions taking into account the following principles:

**Subsidiaries**

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of the Bank and its subsidiaries are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses.

In order that the consolidated financial statements present financial information about the Group as that of a single enterprise, the following steps are taken:

- the carrying amount of the Bank's investment in each subsidiary and the Bank's portion of equity of each subsidiary are eliminated,
- intra-group balances, transactions and resulting profits are eliminated in full.

### (b) Transaction date

The Group uses settlement date accounting for recognition and derecognition of financial instruments.

Accounting transactions involving the purchase or sale of financial assets with a standard delivery term (spot transactions) are recorded in the off-balance sheet accounts from the trade date until the settlement date. On the settlement date, the off-balance sheet entry is cancelled and balance sheet accounts are then used.

### (c) Debt securities, shares, mutual funds units

Treasury bills, bonds and other debt securities and shares including mutual funds units are classified into one of the following portfolios: securities at fair value through profit or loss and securities available for sale, based on the Group's intention on the date of acquisition.

All securities owned by the Group are initially recognized at the settlement date. Securities are initially recognized at fair value, plus, in the case of securities not at fair value through profit or loss, directly attributable transaction costs.

For debt securities, the initial measurement is gradually increased or decreased by interest income. Premiums and discounts on debt securities are recorded to interest income over the period from the date of purchase to the date of maturity or sale.

**Securities at fair value through profit or loss**

Debt and equity securities at fair value through profit or loss account are defined as securities held by the Group with the intention of their sale in order to earn profits on short-term price fluctuations or any financial assets designated as financial assets at fair value through profit or loss upon acquisition. After initial recognition, the securities are subsequently measured at fair value. Changes in the fair value of these assets are included in the profit and loss account as "Trading result".

The fair value used for the valuation of securities is determined using the market price published as at the date of valuation, when the active market exists.

If a reliable market price is not available, fair value is estimated using internal models.

Interest earned on securities at fair value through profit or loss is accrued on a daily basis using effective interest rate and reported in the profit and loss account as "Interest income and similar income".

**Securities available for sale**

Securities available for sale are securities owned by the Group, which are not securities at fair value through profit or loss, securities held to maturity or loans and receivables. After initial measurement, the securities are subsequently measured at fair value. Unrealised gains and losses are recognized directly in the "Revaluation differences on securities available for sale".

Gains or losses from revaluation of securities available for sale are, upon their sale or maturity, included in the profit and loss account as "Trading result".

Interest earned on securities available for sale is accrued on a daily basis using effective interest rate and reported in the profit and loss account as "Interest income and similar income".

If an available for sale securities are impaired, an amount comprising the difference between its cost and its current fair value is transferred from equity to the profit and loss account. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss account if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss.

**(d) Repo contracts ("REPO")**

Transactions where securities are sold under a commitment to repurchase (repos) at a predetermined price or purchased under a commitment to resell (reverse repos) are treated as collateralized borrowing and lending transactions. The legal title of securities subject to resale or repurchase commitments is transferred to the lender. Securities transferred under a repurchase commitment are henceforth included in the relevant items of securities in the Group's balance sheet, while the borrowing is recorded in "Due to other banks" or "Due to clients". Securities received under a resale commitment are recorded in the off-balance sheet accounts. A loan granted under a resale commitment is recorded in the balance sheet as "Cash and cash equivalents", "Due from banks" or "Due from customers". Interest on debt securities transferred under a repurchase commitment is accrued while interest on debt securities received under a resale commitment is not accrued.

Income and expenses arising from repurchase and resale commitments, being the difference between the selling and the purchase price, are accrued over the period of the transaction and recorded in the profit and loss account as "Interest income and similar income" or "Interest expense and similar expenses".

**(e) Transactions with securities for customers**

Securities taken by the Group into custody, administration or deposit are stated at nominal value and recorded in the off-balance sheet account. Securities taken by the Group for management are measured at fair value and recorded in the off-balance sheet account. Amounts due to customers resulting from the cash received for the purchase of securities or the cash to be refunded to customers, etc. are disclosed in the balance sheet within liabilities.

**(f) Receivables from banks and customers**

Loans and receivables originated by the Group by providing money directly to a borrower are initially measured at fair value and subsequently measured at amortized cost less any impairment losses. Accrued interest income is included in the carrying amount of receivables.

Loans and receivables from clients are periodically tested for impairment. Impairment losses are reported for the loans and receivables, which carrying value is higher than recoverable amount. Recoverable amount is a present value of expected future cash flows included cash flows from realized collaterals, discounted by original effective interest rate of the instrument. Change in impairment losses are presented in income statements.

If a receivable is uncollectible, the Group, based on the decision made by the Loan committee, writes off the uncollectible part of the receivable as an expense.

**(g) Reserves**

Reserve is a liability of uncertain timing or amount. Reserve is recognized when the following criteria are met:

– an obligation (legal or constructive) exists as a result of past events,
– it is probable that the event will occur and that it will require a cash outflow representing economic benefits,
– the amount of the obligation can be reliably estimated.

In the course of normal business, the Group enters into relations in connection with instruments included in off-balance sheet accounts, consisting mainly of guarantees, letter of credit and liabilities related to unused loans. The Group creates reserves for risks arising from off-balance sheet exposures, which exist at the balance sheet date according to the Group's management estimates.

**(h) Tangible and intangible fixed assets**

Tangible and intangible fixed assets include intangible assets and property, plant and equipment.

Intangible assets and property, plant and equipment are recognized at historical cost less accumulated depreciation and impairment losses. Acquisition cost includes the purchase price plus other costs related to acquisition such as freight, duties or commissions.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency are capitalized. Repairs and renovations are charged to the profit and loss account when the expenditure incurs.

Depreciation is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life.

The estimated useful economic lives are as follows:

| | |
|---|---|
| Software and patents | from 4 years, according to useful life |
| Buildings | 20 – 50 years |
| Other | 4 – 12 years |

Assets in progress, land and art collections are not depreciated. Depreciation of assets in progress begins when the related assets are placed in use.

Certain assets with zero residual value, but are still in use by the Group is represented by the software. The market value of this asset equals zero.

**(i) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated to Slovak crowns at the official NBS rates of exchange at the balance sheet date. Income and expenses denominated in foreign currencies are reported at the NBS rates of exchange prevailing at the date of the transaction.

Difference between the contractual exchange rate of a transaction and the NBS exchange rate on the date of the transaction is included in "Trading result", as well as gains and losses arising from movements in exchange rates after the date of the transaction.

**(j) Financial derivatives**

Financial derivatives include currency and interest rate swaps, currency and interest rate forwards, FRA and currency options (call and put options) and other financial derivatives.

Financial derivatives are measured at fair value. Unrealized gains and losses are recognized as "Other assets" or "Other liabilities". Realized and unrealized gains and losses are included in the profit and loss account within "Trading result". The fair value of financial derivatives is based on quoted market prices or valuation models, which reflect actual market and contractual value of an underlying instrument as well as time value and yield curve or volatility factors related to the positions.

Certain transactions with financial derivatives, although providing an effective economic hedge in the Group's risk management, do not meet the qualification criteria for recognition of hedging according to accounting procedures. Therefore they are kept in accounts as financial derivatives held for trading and fair value gains and losses are included in the profit and loss account.

**(k) Taxation**

Tax non-deductible expenses are added to, and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits.

Deferred tax is calculated on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes multiplied by the expected income tax rate for the next period. A deferred tax asset is recognized only to the extent that it is probable that there will be future taxable profits available against which the tax asset can be utilized.

**(l) Interest, fees and commissions**

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are recognized as an adjustment to the effective yield of the loans.

**(m) Significant accounting judgments and estimates**

**Judgments**

In the process of applying the Group's accounting policies, management has made judgments, apart from those involving estimations, that significantly affect the amounts recognized in the financial statements.

**Estimates**

The preparation of the financial statements required management to make certain estimates and assumptions which impact the carrying values of the Group's assets and liabilities and the disclosure of contingent items at the balance sheet date and reported revenues and expenses for the period then ended.

Estimates are used for, but not limited to: impairment losses on loans and advances to customers, reserves for off-balance sheet risks, depreciable lives and residual values of tangible and intangible assets, impairment losses on tangible and intangible assets, provisions for employee benefits and legal claims.

Future events and their effects cannot be perceived with certainty. Accordingly, the accounting estimates made require the exercise of judgment and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Group's operating environment changes. Actual results may differ from those estimates.

The various interpretations that can be made of the tax regulations applicable to the Group's operations might give rise to tax contingencies that are not susceptible to objective quantification. However, the Bank's Executive considers that the tax liability which might arise in connection with this would not be material.

## 3. Cash and cash equivalents

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Cash on hand | 24 142 | 31 783 |
| Current accounts in NBS (debit balances) | 10 909 | 212 |
| Minimum capital adequacy in NBS | 295 100 | 83 905 |
| Loans provided to NBS (Repo transactions) | 2 691 178 | 1 692 583 |
| Term deposits in NBS | – | 380 042 |
| Current accounts in banks (debit balances) | 55 316 | 30 520 |
| Term deposits in banks | 491 708 | 101 157 |
| Other receivables from banks | 1 206 | 595 |
| **Cash and cash equivalents brutto** | **3 569 559** | **2 320 797** |
| Provisions for cash and cash equivalents | – | – |
| **Cash and cash equivalents netto** | **3 569 559** | **2 320 797** |

Cash and cash equivalents include cash on hand, current accounts in NBS , loans, deposits and other receivables from NBS and other banks with maturity up to three months. The compulsory minimum reserves balance is maintained in accordance with the requirements of the National Bank of Slovakia and is not available for the day-to-day use.

Receivables from banks except receivables from repo operations are not collaterized. Repo operations with NBS are collaterized by NBS Bills of credit as at 31 December 2006 with fair value of SKK 2 691 308 thousand (2005: SKK 1 692 772 thousand).

## 4. Due from customers

**(a) Breakdown according type**

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Loans and advances to | | |
| entrepreneurs and legal entities | 1 837 788 | 1 212 888 |
| individuals | 185 056 | 69 678 |
| Receivables on finance lease | 929 | 1 779 |
| **Due from customers brutto** | **2 023 773** | **1 284 345** |
| Provisions for receivables from customers (Note 5) | (65 340) | (84 672) |
| **Due from customers netto** | **1 958 433** | **1 199 673** |

Amounts due from clients include a balance of SKK 119 630 thousand as at 31 December 2006, which represents amounts due from the purchase and sale of securities and from loan contracts with security transfer in the form of repo transactions (shares at fair value of SKK 47 487 thousand).

Amounts due from clients include a balance of SKK 241 211 thousand as at 31 December 2005, which represents amounts due from the purchase and sale of securities and from loan contracts with security transfer in the form of repo transactions (shares at fair value of SKK 37 021 thousand and bonds at fair value of SKK 133 665 thousand).

### (b) Loans and advances were made to customers in the following sectors:

| SKK '000 | 2006 | 2005 |
|---|---|---|
| **Residents** | | |
| Financial institutions | 59 164 | 264 340 |
| Non–financial institutions | 1 664 609 | 884 927 |
| Government sector | – | – |
| Self–employed | 280 | 3 291 |
| Individuals | 184 776 | 66 387 |
| **Non–residents** | | |
| Financial institutions | 114 944 | 65 400 |
| **Due from customers brutto** | **2 023 773** | **1 284 345** |
| Provisions for receivables from customers (Note 5) | (65 340) | (84 672) |
| **Due from customers netto** | **1 958 433** | **1 199 673** |

## 5. Impairment losses

| SKK '000 | 1.1.2006 | (Creation)/ reversal (Note 29) | Foreign exchange rate differences | Sale, transfer and write-off (Note 29) | 31.12.2006 |
|---|---|---|---|---|---|
| Due to customers (Note 4) | (84 672) | 19 450 | (118) | – | (65 340) |
| Other funds (Note 6) | (2 119) | – | – | – | (2 119) |
| Other assets (Note 10) | (2 503) | 1 110 | – | – | (1 393) |
| Total provision for receivables | (89 294) | 20 560 | (118) | – | (68 852) |
| Tangible and intangible fixed assets (Note 8) | (87 043) | 2 239 | – | 84 804 | – |
| **Total provisions** | **(176 337)** | **22 799** | **(118)** | **84 804** | **(68 852)** |

| SKK '000 | 1.1.2005 | (Creation)/ reversal (Note 29) | Foreign exchange rate differences | Sale, transfer and write-off (Note 29) | 31.12.2005 |
|---|---|---|---|---|---|
| Due to customers (Note 4) | (95 986) | (22 243) | 15 | 33 542 | (84 672) |
| Other funds (Note 6) | (2 119) | – | – | – | (2 119) |
| Other assets (Note 10) | (7 152) | 1 449 | – | 3 200 | (2 503) |
| Total provisions for receivables | (105 257) | (20 794) | 15 | 36 742 | (89 294) |
| Tangible and intangible fixed assets (Note 8) | (131 889) | 3 573 | – | 41 273 | (87 043) |
| **Total provisions** | **(237 146)** | **(17 221)** | **15** | **78 015** | **(176 337)** |

## 6. Securities available for sale

| SKK '000 | 2006 | 2005 |
|---|---|---|
| State bonds domestic | 342 283 | 551 670 |
| State bonds foreign | – | 45 345 |
| Bank bonds domestic | 472 290 | 597 617 |
| Bank bonds foreign | 134 620 | 127 887 |
| Corporate bonds domestic | 18 677 | 64 566 |
| Corporate bonds foreign | 179 792 | 145 918 |
| Shares domestic | 3 680 | 3 680 |
| Shares foreign | 1 976 | 973 |
| Mutual fund certificates foreign | 62 376 | 32 372 |
| **Total securities available for sale brutto** | **1 215 694** | **1 570 028** |
| Impairment provisions (Note 5) | (2 119) | (2 119) |
| **Total securities available for sale netto** | **1 213 575** | **1 567 909** |

## 7. Securities at fair value through profit or loss

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Treasury bills domestic | – | 49 317 |
| State bonds domestic | 121 884 | 31 991 |
| State bonds foreign | 7 874 | – |
| Bank bonds domestic | 90 561 | 30 037 |
| Bank bonds foreign | 294 522 | 145 084 |
| Corporate bonds domestic | 54 004 | – |
| Corporate bonds foreign | 25 523 | 6 |
| **Total securities at fair value through profit or loss** | **594 368** | **256 435** |

## 8. Tangible and intangible fixed assets

### (a) Changes in tangible and intangible fixed assets as at 31 December 2006

| SKK '000 | Land | Buildings | Furniture, fittings and equipment | Motor vehicles | Software | Patents and license | Prepayment and acquisition of tangible assets | Prepayment and acquisition of intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2006 | 1 984 | 177 962 | 100 161 | 8 119 | 96 203 | 1 460 | 2 007 | 810 | **388 706** |
| Additions | – | 980 | 7 670 | – | 5 809 | 179 | 6 951 | 5 804 | **27 393** |
| Disposals | (1 984) | (167 471) | (54 941) | (1 160) | (20 145) | – | (8 958) | (6 505) | **(261 164)** |
| At 31 December 2006 | – | 11 471 | 52 890 | 6 959 | 81 867 | 1 639 | – | 109 | **154 935** |
| **Depreciation and amortization** | | | | | | | | | |
| At 1 January 2006 | – | (30 707) | (80 423) | (5 190) | (90 678) | (1 196) | – | – | **(208 194)** |
| Depreciation and amortization | – | (137 897) | (7 556) | (1 286) | (2 235) | (233) | – | – | **(149 207)** |
| Disposals | – | 167 098 | 54 660 | 1 160 | 20 145 | – | – | – | **243 063** |
| At 31 December 2006 | – | (1 506) | (33 319) | (5 316) | (72 768) | (1 429) | – | – | **(114 338)** |
| **Impairment losses (Note 5)** | | | | | | | | | |
| At 1 January 2006 | – | (87 043) | – | – | – | – | – | – | **(87 043)** |
| Disposals | – | 87 043 | – | – | – | – | – | – | **87 043** |
| At 31 December 2006 | – | – | – | – | – | – | – | – | **–** |
| **Net book value** | | | | | | | | | |
| At 31 December 2006 | – | 9 965 | 19 571 | 1 643 | 9 099 | 210 | – | 109 | 40 597 |

Total depreciation in 2006 amounted to SKK 11 982 thousand.

### (b) Changes in tangible and intangible fixed assets as at 31 December 2005

| SKK '000 | Land | Buildings | Furniture, fittings and equipment | Motor vehicles | Software | Patents and license | Prepayment and acquisition of tangible assets | Prepayment and acquisition of intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2005 | 2 331 | 230 215 | 100 111 | 7 307 | 90 254 | 1 186 | 9 | 2 142 | **433 555** |
| Additions | – | 2 628 | 12 069 | 1 354 | 5 980 | 274 | 19 252 | 3 635 | **45 192** |
| Disposals | (347) | (54 881) | (12 019) | (542) | (31) | – | (17 254) | (4 967) | **(90 041)** |
| At 31 December 2005 | 1 984 | 177 962 | 100 161 | 8 119 | 96 203 | 1 460 | 2 007 | 810 | **388 706** |
| **Depreciation and amortization** | | | | | | | | | |
| At 1 January 2005 | – | (34 029) | (86 653) | (4 355) | (87 767) | (1 186) | – | – | **(213 990)** |
| Depreciation and amortization | – | (51 560) | (5 788) | (1 377) | (2 942) | (10) | – | – | **(61 677)** |
| Disposals | – | 54 882 | 12 018 | 542 | 31 | – | – | – | **67 473** |
| At 31 December 2005 | – | (30 707) | (80 423) | (5 190) | (90 678) | (1 196) | – | – | **(208 194)** |
| **Impairment losses (Note 5)** | | | | | | | | | |
| At 1 January 2005 | – | (131 889) | – | – | – | – | – | – | **(131 889)** |
| Disposals | – | 44 846 | – | – | – | – | – | – | **44 846** |
| At 31 December 2005 | – | (87 043) | – | – | – | – | – | – | **(87 043)** |
| **Net book value** | | | | | | | | | |
| At 31 December 2005 | **1 984** | **60 212** | **19 738** | **2 929** | **5 525** | **264** | **2 007** | **810** | **93 469** |

Total depreciation in 2005 amounted to SKK 13 083 thousand.

### (c) Sale of tangible assets

In 2006 the Group sold tangible assets in residual value of SKK 139 365 thousand (2005: SKK 47 842 thousand) (before creation of provisions). The Group has reversed provisions regarding sold tangible assets in amount of SKK 84 804 thousand (2005: SKK 41 273 thousand). Below is detail characteristics of land, buildings and equipment sold:

| SKK '000 | Year of sale | Residual value of the building | Residual value of land | Residual value of equipment | Provision | Net book value | Selling price | Total Profit from sale | Settlement |
|---|---|---|---|---|---|---|---|---|---|
| Banská Bystrica | 2 006 | 85 268 | 1 020 | 1 421 | (46 165) | **41 544** | 55 000 | **13 456** | The Group has financed the sale with a loan of SKK 50 000 thousand |
| Banská Bystrica | 2 006 | 49 843 | 964 | 616 | (38 639) | **12 784** | 23 250 | **10 466** | Purchasor has repaid full purchase price |
| Brezno | 2 005 | 47 418 | 347 | – | (41 273) | **6 492** | 14 113 | **7 621** | Purchasor has repaid full purchase price |

## 9. Deferred tax

Deferred tax asset and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| **SKK '000** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Due from customers | – | 5 258 | – | – | – | 5 258 |
| Investments | – | – | – | (1 883) | – | (1 883) |
| Tangible and intangible fixed assets | – | 9 511 | (825) | – | (825) | 9 511 |
| Tax loss | – | 6 158 | – | – | – | 6 158 |
| Other assets | 45 | 29 | – | – | 45 | 29 |
| Reserves for liabilities | – | – | – | – | – | – |
| Securities – revaluation in equity | 1 140 | – | – | (2 695) | 1 140 | (2 695) |
| Other | – | – | – | – | – | – |
| **Total** | **1 185** | **20 956** | **(825)** | **(4 578)** | **360** | **16 378** |

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

Deferred tax receivable relating to unrecognized tax losses from previous years of SKK 13 752 thousand and deferred tax from reserve for lawsuits of SKK 1 689 thousand was not recognized due to uncertainty of the future realization.

## 10. Other assets

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Positive fair value of derivative | 380 | 368 |
| Other debtors | 4 392 | 5 966 |
| Advance payments made | 272 | 330 |
| Clearing with State budget | 1 669 | 2 007 |
| Inventory | 1 146 | 1 113 |
| Deferred expenses | 956 | 1 079 |
| Accrued revenues | 1 229 | – |
| Receivables from collection | 1 | 10 |
| Other receivables | 81 | 1 296 |
| Other | 13 017 | 1 014 |
| **Total other assets brutto** | **23 143** | **13 183** |
| Provisions for losses on other assets (Note 5) | (1 393) | (2 503) |
| **Total other assets netto** | **21 750** | **10 680** |

## 11. Due to other banks

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Current accounts with banks (credit balances) | – | – |
| Loans received from banks | – | – |
| Term deposits of banks | 264 399 | 30 283 |
| Other amounts due to banks | – | – |
| **Total due to other banks** | **264 399** | **30 283** |

## 12. Due to clients

### (a) Customer accounts by type

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Current accounts (credit balances) | 336 145 | 636 462 |
| Term deposits | 3 786 912 | 2 760 046 |
| Saving deposits | 161 424 | 332 363 |
| Certificates of deposits | – | 291 047 |
| Deposits by bearer | – | 22 652 |
| Loans received from customers | – | 100 000 |
| Loans received from customers (repo transactions) | – | – |
| Other | 4 082 | – |
| **Total due to clients** | **4 288 563** | **4 142 570** |

Payables to clients as of the end of year 2006 of SKK 150 227 thousand (2005: SKK 150 126 thousand) are collaterized by securities with fair value of SKK 160 691 thousand (2005: SKK 174 350 thousand), are stated in balance sheet (item: "Securities available for sale"). Collaterized payables to clients represents payables to related parties.

### (b) Customer accounts by sectors

| SKK '000 | 2006 | 2005 |
|---|---|---|
| **Residents** | | |
| Financial institutions | 281 708 | 257 753 |
| Non–financial institutions | 2 321 341 | 1 371 270 |
| Mutual funds | 25 578 | 71 513 |
| Insurance companies | 545 936 | 549 022 |
| Government | 23 895 | 13 810 |
| Non–profit companies | 69 669 | 1 319 |
| Self–employed | 32 083 | 3 482 |
| Individuals | 728 666 | 852 483 |
| **Non–residents** | | |
| Non–financial institutions | 256 679 | 1 016 991 |
| Non–profit companies | 87 | 67 |
| Individuals | 2 921 | 4 860 |
| **Total due to clients** | **4 288 563** | **4 142 570** |

## 13. Debt securities issued

### (a) Liabilities from debt securities by type

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Bills of exchange | 1 505 657 | 510 486 |
| Bonds | 510 317 | – |
| **Total liabilities from debt securities** | **2 015 974** | **510 486** |

On 31 May 2006 the Group issued bonds Privatbanka 01 with face value SKK 100 thousand in total volume of SKK 100 000 thousand. Coupon is paid quarterly based on floating interest rate of 3M BRIBOR + 0,25 % p.a. from face value of the bond. The maturity date is 31 May 2009.

On 25 October 2006 the Group issued bonds Privatbanka 02 with face value SKK 100 thousand in total volume of SKK 300 000 thousand. Coupon is paid quarterly based on floating interest rate of 3M BRIBOR + 0,25 % p.a. from face value of the bond. The maturity date is 25 October 2009.

On 7 December 2006 the Group issued bonds Privatbanka 03 with face value SKK 100 thousand in total volume of SKK 125 000 thousand. Coupon is paid quarterly based on floating interest rate of 3M BRIBOR + 0,25 % p.a. from face value of the bond. The maturity date is 7 December 2011. As at 31 December 2006 the Group sold 1 068 bonds Privatbanka 03 in total volume of SKK 106 800 thousand.

All of the bonds stated above were not issued based on public offer and are not quoted for trading on stock exchange.

### (b) Liabilities from debt securities by sectors

| SKK '000 | 2006 | 2005 |
|---|---|---|
| **Residents** | | |
| Non–financial institutions | 1 539 075 | 272 142 |
| Government | 6 629 | – |
| Non–profit companies | 58 663 | 11 326 |
| Self–employed | 45 377 | 4 203 |
| Individuals | 362 592 | 221 582 |
| **Non–residents** | | |
| Individuals | 3 638 | 1 233 |
| **Total liabilities from debt securities** | **2 015 974** | **510 486** |

## 14. Reserves

| SKK' 000 | 1.1.2006 | Creation/(reversal) | Foreign exchange rate differences | 31.12.2006 |
|---|---|---|---|---|
| Legal cases | 7 345 | 1 546 | – | 8 891 |
| Provisions bonus interest, revolving loans | 2 222 | (2 155) | (3) | 64 |
| Other reserves | 4 986 | 5 489 | – | 10 475 |
| **Total reserves** | **14 553** | **4 880** | **(3)** | **19 430** |

## 15. Other liabilities

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Negative fair value of derivatives | 1 461 | 292 |
| Payables to creditors | 3 290 | 3 090 |
| Settlement with employees | 3 465 | 3 135 |
| Payables to employees | 420 | 573 |
| Clearing with State budget | 4 843 | 2 421 |
| Clearing with Social and Health Insurance companies | 1 838 | 1 655 |
| Advance payments received | 61 | – |
| Deferred revenues | 10 138 | 1 834 |
| Accrued expense | 2 261 | 48 |
| Clearing with capital market | 54 193 | 28 255 |
| Payables from collection | 6 | 10 |
| Other amounts due to customers | 10 592 | 40 802 |
| Other | 387 | – |
| **Total other liabilities** | **92 955** | **82 115** |

## 16. Basic share capital

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Issued and fully paid share capital: | | |
| 756 874 ordinary shares of SKK 1 000 each | **756 874** | **756 874** |

Shareholders of the Bank as at 31 December 2006:

| Name | Registered office | No. of shares (in thousand) | Share in registered capital (%) |
|---|---|---|---|
| BASL Beteiligungsverwaltungs GmbH | Vienna | 375 243 | 49,58 |
| Allianz Slovenská poisťovňa, a.s. | Bratislava | 150 000 | 19,82 |
| Others (less than 10 %) | | 231 631 | 30,60 |
| **Total** | | **756 874** | **100,00** |

Shareholders of the Bank as at 31 December 2005:

| Name | Registered office | No. of shares (in thousand) | Share in registered capital (%) |
|---|---|---|---|
| BASL Beteiligungsverwaltungs GmbH | Vienna | 375 243 | 49,58 |
| Allianz Slovenská poisťovňa, a.s. | Bratislava | 150 000 | 19,82 |
| Others (less than 10 %) | | 231 631 | 30,60 |
| **Total** | | **756 874** | **100,00** |

## 17. Proposal for appropriation of profit

| SKK '000 | 2006 |
|---|---|
| Net profit/loss from current accounting period | 63 942 |
| Payment of dividends | – |
| Increase in share capital | – |
| Reserve fund | 6 394 |
| Social fund | – |
| Retained earnings | – |
| **Elimination of loss from previous periods** | **57 548** |

## 18. Tax revenues/costs

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Current income tax | – | – |
| Deferred tax | (19 852) | (4 651) |
| **Total** | **(19 852)** | **(4 651)** |

The Group stated tax cost in profit and loss account due to change of deferred tax receivable of SKK 19 852 thousand (2005: SKK 4 651 thousand).

Simultaneously, the Group stated increase of equity as at 31 December 2006 due to creation of deferred tax receivable in amount of SKK 1 410 thousand to revaluation of securities available for sale (2005: deferred tax payable in amount of SKK 2 695 thousand).

## 19. Reconciliation of theoretical and booked tax

| 2006 | Balance (SKK '000) | Applicable rate | Impact on theoretic tax |
|---|---|---|---|
| Theoretical tax | 83 794 | 19 % | 15 921 |
| Permanent nondeductible differences | 4 609 | 19 % | 876 |
| Permanent taxable differences | (7 654) | 19 % | (1 454) |
| Effect of unrecognized deferred tax receivable from unrelieved tax losses | 19 226 | 19 % | 3 653 |
| Other unrecognized tax receivables | 4 511 | 19 % | 857 |
| Adjusted theoretical tax | | | 19 852 |
| **Effective tax** | | | **19 852** |

| 2005 | Balance (SKK '000) | Applicable rate | Impact on theoretic tax |
|---|---|---|---|
| Profit/loss before taxation | 47 384 | 19 % | 9 003 |
| Tax nondeductible item | 38 860 | 19 % | 7 383 |
| Non–tax revenues | (61 763) | 19 % | (11 735) |
| Total | | | 4 651 |
| **Effective tax** | | | **10 %** |

Group paid tax deduction, which is concerned as tax prepayment in amount of SKK 1 653 thousand and which is claimed from Tax authority. The Group has no tax obligation due to amortization of tax losses from previous periods.

## 20. Off balance sheet items

| Off balance sheet assets (SKK'000) | 2006 | 2005 |
|---|---|---|
| 1. Future loans received | – | – |
| 2. Received guarantees | – | – |
| 3. Received letters of credit | – | – |
| 4. Receivables from spot operations with | 32 654 | – |
| a) interest instruments | – | – |
| b) FX instruments | 32 654 | – |
| c) security instruments | – | – |
| d) commodities instruments | – | – |
| e) loan instruments | – | – |
| 5. Receivables from term operations with | 27 543 | 62 243 |
| a) interest instruments | – | – |
| b) FX instruments | 27 543 | 62 243 |
| c) security instruments | – | – |
| d) commodities instruments | – | – |
| e) loan instruments | – | – |
| 6. Receivables from option operations with | – | – |
| a) interest instruments | – | – |
| b) FX instruments | – | – |
| c) security instruments | – | – |
| d) commodities instruments | – | – |
| e) loan instruments | – | – |
| 7. Received collaterals | 4 342 143 | 2 571 657 |
| a) immovables | 1 046 026 | 437 399 |
| b) cash | 3 667 | 2 400 |
| c) securities | 3 170 575 | 2 059 197 |
| d) other | 121 875 | 72 661 |
| 8. Receivables from consigned values | – | – |

| Off balance sheet liabilities (SKK '000) | 2006 | 2005 |
|---|---|---|
| 1. Future loans commitments | 518 346 | 163 363 |
| 2. Provided guarantees | 57 708 | 50 058 |
| 3. Provided letters of credit | – | – |
| 4. Payables from spot operations with | 33 078 | – |
| a) interest instruments | – | – |
| b) FX instruments | 33 078 | – |
| c) security instruments | – | – |
| d) commodities instruments | – | – |
| e) loan instruments | – | – |
| 5.Payables from term operations with | 28 623 | 62 167 |
| a) interest instruments | – | – |
| b) FX instruments | 28 623 | 62 167 |
| c) security instruments | – | – |
| d) commodities instruments | – | – |
| e) loan instruments | – | – |
| 6. Payables from option operations with | – | – |
| a) interest instruments | – | – |
| b) FX instruments | – | – |
| c) security instruments | – | – |
| d) commodities instruments | – | – |
| e) loan instruments | – | – |
| 7. Provided collaterals | 160 691 | 174 350 |
| a) immovables | – | – |
| b) cash | – | – |
| c) securities | 160 691 | 174 350 |
| d) other | – | – |
| 8. Payables from consigned values | 7 016 474 | 6 550 933 |

## 21. Financial derivatives

| 2006 | Notional principal | | Fair value | | Net |
|---|---|---|---|---|---|
| SKK '000 | Receivable | Payable | Positive | Negative | fair value |
| Currency forwards | 28 089 | 29 194 | 380 | (1 461) | (1 081) |
| **Total financial derivatives** | **28 089** | **29 194** | **380** | **(1 461)** | **(1 081)** |

| 2005 | Notional principal | | Fair value | | Net |
|---|---|---|---|---|---|
| SKK '000 | Receivable | Payable | Positive | Negative | fair value |
| Currency forwards | 62 888 | (62 212) | 368 | (292) | 76 |
| **Total financial derivatives** | **62 888** | **(62 212)** | **368** | **(292)** | **76** |

All derivatives are classified as held for trading. The positive fair value of derivatives in the amount of SKK 380 thousand (2005: SKK 368 thousand) is reported in "Other assets" (Note 10) and negative fair value of derivatives in the amount of SKK 1 461 thousand (2005: SKK 292 thousand) is recorded in "Other liabilities" (Note 15).

## 22. Interest income and similar income

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Interest income from interbank transactions | 172 959 | 81 224 |
| Interest income from clients' current accounts | 6 687 | 4 578 |
| Interest income from clients' loans | 117 849 | 43 136 |
| Interest income from rental | 397 | 690 |
| Interest income from debt securities | 80 628 | 63 477 |
| Other interest income | 124 | 10 565 |
| **Total interest income and similar income** | **378 644** | **203 670** |

## 23. Interest expense and similar expense

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Interest expense from interbank transactions | 2 207 | 4 743 |
| Interest expense from clients' current accounts | 5 659 | 1 233 |
| Interest expense from clients' term deposits | 161 339 | 53 221 |
| Interest expense from clients' savings deposits | 3 136 | 6 389 |
| Interest expense from certificates of deposits | 7 652 | 10 547 |
| Interest expense from received loans from clients | 2 118 | 4 512 |
| Interest expense from debt securities | 45 195 | 14 537 |
| Other interest expense | 220 | 262 |
| **Total interest expense and similar expense** | **227 526** | **95 444** |

## 24. Fee and commission income

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Income from fees and commissions: | | |
| Loans | 2 527 | 8 876 |
| Guarantees | 967 | 1 856 |
| Payments | 2 952 | 2 077 |
| Itemised fees | 2 370 | 2 331 |
| Securities trading | 7 465 | 1 063 |
| Portfolio management | 7 082 | 421 |
| Other | 1 401 | 710 |
| **Total fee and commission income** | **24 764** | **17 334** |

## 25. Fee and commission expense

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Expenses for fees and commissions: | | |
| Payments | 4 911 | 2 462 |
| Interbank transactions | 677 | 1 093 |
| Securities trading | 1 386 | 549 |
| Intermediation | 8 716 | 2 116 |
| Other | 10 | 35 |
| **Total fee and commission expense** | **15 700** | **6 255** |



## 26. Trading result

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Realized profit from debt securities transactions (available for sale) | 14 612 | 29 447 |
| Loss from debt securities transactions (at fair value through profit or loss) | (11 455) | (152) |
| Profit from shares and units (available for sale) | 1 937 | 2 586 |
| Profit from shares and units (at fair value through profit or loss) | 38 | – |
| Profit/loss from derivative transactions | (1 514) | 13 514 |
| Profit from forex transactions | 19 505 | 12 333 |
| **Total trading result** | **23 123** | **57 728** |

## 27. Other income

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Operating lease | 253 | 1 611 |
| Other income | 3 396 | 2 239 |
| **Total other income** | **3 649** | **3 850** |

## 28. General operating expense

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Personnel costs | 67 905 | 67 779 |
| Social insurance | 14 819 | 12 862 |
| Other general operating expenses of which | 58 565 | 57 063 |
| audit and tax advisory | 2 021 | 3 147 |
| contribution to Deposits protection fund | 1 720 | 7 924 |
| **Total general operating expense** | **141 289** | **137 704** |

The average number of employees during the year 2006 was 93 (2005: 91).

## 29. Receivables provision movement/receivables write–off

| SKK '000 | 2006 | 2005 |
|---|---|---|
| (Creation) / reversal of impairment losses (Note 5) | 20 560 | (20 794) |
| Reversal of impairment losses for transferred and written–off receivables (Note 5) | – | 36 742 |
| Net book value of transferred receivable | (443) | (45 284) |
| Income from transferred receivables | 1 645 | 39 632 |
| Net book value of written–off receivables | (127) | (3 232) |
| **Total (creation)/reversal of provisions for receivables** | **21 635** | **7 064** |

## 30. Profit/loss before changes in operating assets and liabilities

| SKK '000 | 2006 | 2005 |
|---|---|---|
| Profit/loss befor tax | 83 794 | 47 384 |
| Adjustment for non–cash items: | | |
| Interest income and similar income | (378 644) | (203 670) |
| Interest expense and similar expense | 227 526 | 95 444 |
| Depreciation and amortization | 11 982 | 13 083 |
| Receivables provision movement / receivables write–off | (21 635) | (7 064) |
| Net book value of fixed assets sold | 139 405 | 47 842 |
| Income from sale of fixed assets | (78 683) | (14 333) |
| Fixed assets provision movement | (87 043) | (44 847) |
| Reserves for liabilities from main activities movement | (2 155) | 1 114 |
| **Total** | **(105 453)** | **(65 047)** |

## 31. Related party transaction

| SKK '000 | 31.12.2005 balance | 31.12.2005 accruals | Transaction increases | Transaction decreases | 31.12.2006 balance | 31.12.2006 accruals | Revaluation differences on securities available for sale | Interest income and similar income 2006 | Interest expense and similar expense 2006 | Fee and commission income 2006 | Trading result 2006 | General operating expense 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Receivables from shareholders and related parties** | | | | | | | | | | | | |
| Cash and cash equivalents | 867 | – | 779 042 | (778 669) | 1 161 | – | – | 6 | – | – | – | – |
| Securities available for sale | 79 202 | 889 | 708 | (2 500) | 77 517 | 1 027 | 632 | 2 647 | – | – | – | – |
| Securities at fair value through profit or loss | – | – | 26 826 | (833) | 25 180 | 342 | – | 797 | – | – | 65 | – |
| **Payables to shareholders and related parties** | | | | | | | | | | | | |
| Due to clients | 245 041 | 163 | 9 101 | (8 992) | 245 149 | 302 | – | – | (9 185) | 6 | – | – |
| **Receivables from subsidiary** | | | | | | | | | | | | |
| Subsidiaries | 210 | – | – | – | 210 | – | – | – | – | – | – | – |
| **Payables to subsidiary** | | | | | | | | | | | | |
| Due to clients | 318 | – | 14 | (15) | 317 | – | – | – | (3) | 3 | – | – |
| **Payables to top–managers and related parties** | | | | | | | | | | | | |
| Due to clients | 4 563 | 2 | 27 835 | (33 761) | 357 | – | – | – | (7) | 28 | – | – |
| Debt securities issued | 13 329 | 6 | 473 | (1) | 11 950 | 22 | – | – | (486) | – | – | – |
| Reserves | 3 916 | – | 6 825 | (3 916) | 6 825 | – | – | – | – | – | – | (2 909) |
| Other liabilities | 533 | – | 17 601 | (17 521) | 613 | – | – | – | – | – | – | (24 561) |

Transactions with related parties performed on arm's lenth principle.

## 32. Financial instruments – market risk

In carrying out its activities, the Group is exposed to market risks, which depend on the extent of exposure to individual risk factors, mainly changes in interest rates, exchange rates and the price of capital and financial market instruments.

**(a) Interest rate risk**

Interest rate risk is the risk of a change in the value of the Group's portfolios as a result of changes in market interest rates. To measure the interest rate sensitivity of assets and liabilities, the Group uses interest gap analysis. Assets and liabilities are classified into time segments depending on the time of revaluation of the instrument or its reinvestment. The size of the interest gap represents the extent of the risk of potential loss resulting from changes in market interest rates, represented by the value of the theoretical change of the net interest income under exactly specified restrictive conditions of the model. The Group has set a limit for the maximum interest rate exposure defined by the maximum theoretical change of net interest income within one year starting from the moment of the valuation of the Group's positions.

The Group measures its interest rate risk using model VaR and interest sensibility. Maximal risk exposition is monitored a daily basis.

The average effective interest rates of assets and liabilities as at 31 December 2006 and the periods in which these rates are re-priced are as follows:

| SKK '000 | Effective interest rate | Up to 1 month | 1 – 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspeci-fied | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 4,33% | 3 545 417 | – | – | – | – | 24 142 | **3 569 559** |
| Due from banks | – | – | – | – | – | – | – | **–** |
| Due from customers | 7,97% | 467 436 | 1 274 068 | 93 477 | 3 | 121 960 | 1 489 | **1 958 433** |
| Securities available for sale | 4,42% | 99 858 | 220 553 | 417 677 | 179 248 | 230 326 | 65 913 | **1 213 575** |
| Securities at fair value through profit or loss | 4,57% | 120 682 | 350 661 | 8 464 | 83 926 | 30 635 | – | **594 368** |
| Tangible and intangible fixed assets | – | – | – | – | – | – | 40 597 | **40 597** |
| Deferred tax asset | – | – | – | – | – | – | 360 | **360** |
| Other assets | – | – | – | – | – | – | 21 750 | **21 750** |
| **Total assets** | | **4 233 393** | **1 845 282** | **519 618** | **263 177** | **382 921** | **154 251** | **7 398 642** |
| Due to other banks | 2,69% | 264 399 | – | – | – | – | – | **264 399** |
| Due to clients | 3,53% | 3 064 416 | 764 494 | 454 806 | 765 | – | 4 082 | **4 288 563** |
| Debt securities issued | 4,42% | 1 761 622 | 225 875 | 28 477 | – | – | – | **2 015 974** |
| Reserves | – | – | – | – | – | – | 19 430 | **19 430** |
| Other liabilities | – | – | – | – | – | – | 92 955 | **92 955** |
| Equity | – | – | – | – | – | – | 717 321 | **717 321** |
| **Total liabilities and equity** | | **5 090 437** | **990 369** | **483 283** | **765** | **–** | **833 788** | **7 398 642** |
| **Difference** | | **(857 044)** | **854 913** | **36 335** | **262 412** | **382 921** | **(679 537)** | **–** |
| **Cummulative difference** | | **(857 044)** | **(2 131)** | **34 204** | **296 616** | **679 537** | **–** | **–** |

The average effective interest rates of assets and liabilities as at 31 December 2005 and the periods in which these rates are re-priced are as follows:

| SKK '000 | Effective interest rate | Up to 1 month | 1 – 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspeci-fied | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2,70 % | 2 320 797 | – | – | – | – | – | **2 320 797** |
| Due from banks | – | – | – | – | – | – | – | **–** |
| Due from customers | 5,51 % | 156 872 | 199 499 | 320 156 | 383 930 | 123 807 | 15 409 | **1 199 673** |
| Securities available for sale | 4,46 % | – | 99 471 | 243 694 | 626 694 | 563 144 | 34 906 | **1 567 909** |
| Securities at fair value through profit or loss | 3,03 % | 40 463 | 134 658 | 49 317 | – | 31 997 | – | **256 435** |
| Tangible and intangible fixed assets | – | – | – | – | – | – | 93 469 | **93 469** |
| Deferred tax asset | – | – | – | – | – | – | 16 378 | **16 378** |
| Other assets | – | – | – | – | – | – | 10 680 | **10 680** |
| **Total assets** | | **2 518 132** | **433 628** | **613 167** | **1 010 624** | **718 948** | **170 842** | **5 465 341** |
| Due to other banks | 2,49 % | 30 283 | – | – | – | – | – | **30 283** |
| Due to clients | 1,81 % | 3 419 028 | 125 851 | 575 039 | – | – | 22 652 | **4 142 570** |
| Debt securities issued | 2,29 % | 491 145 | 4 256 | 14 538 | 547 | – | – | **510 486** |
| Reserves | – | – | – | – | – | – | 15 950 | **15 950** |
| Other liabilities | – | – | – | – | – | – | 82 115 | **82 115** |
| Equity | – | – | – | – | – | – | 683 937 | **683 937** |
| **Total liabilities and equity** | | **3 940 456** | **130 107** | **589 577** | **547** | **–** | **804 654** | **5 465 341** |
| **Difference** | | **(1 422 324)** | **303 521** | **23 590** | **1 010 077** | **718 948** | **(633 812)** | **–** |
| **Cummulative difference** | | **(1 422 324)** | **(1 118 803)** | **(1 095 213)** | **(85 136)** | **633 812** | **–** | **–** |

### (b) Currency risk

Currency risk is the risk of a change in the value of the Group's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Group manages currency risk by determining and daily monitoring of maximum limits of the open positions of banking book for individual currencies. Currency risk of trading book is limited by maximum exposure using Value at risk model. The following tables show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured currency positions for the years 2006 and 2005.

The currency position of the Group as at 31 December 2006:

| SKK '000 | EUR | USD | CZK | Other FX | SKK | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 71 457 | 10 143 | 117 600 | 13 017 | 3 357 342 | **3 569 559** |
| Due from banks | – | – | – | – | – | **–** |
| Due from customers | 52 177 | 1 | 119 328 | – | 1 786 927 | **1 958 433** |
| Securities available for sale | 21 496 | – | 140 461 | – | 1 051 618 | **1 213 575** |
| Securities at fair value through profit or loss | 194 | 7 874 | 100 965 | – | 485 335 | **594 368** |
| Tangible and intangible fixed assets | – | – | – | – | 40 597 | **40 597** |
| Deferred tax asset | – | – | – | – | 360 | **360** |
| Other assets | 713 | 12 801 | 12 | – | 8 224 | **21 750** |
| **Total assets** | **146 037** | **30 819** | **478 366** | **13 017** | **6 730 403** | **7 398 642** |
| Due to other banks | – | 13 129 | 251 270 | – | – | **264 399** |
| Due to clients | 75 422 | 9 341 | 115 807 | 3 564 | 4 084 429 | **4 288 563** |
| Debt securities issued | 79 419 | 3 647 | 78 436 | 496 | 1 853 976 | **2 015 974** |
| Reserves | – | – | – | – | 19 430 | **19 430** |
| Other liabilities | 2 201 | 1 729 | 6 037 | 41 | 82 947 | **92 955** |
| **Equity** | (1 260) | **–** | **865** | **–** | **717 716** | **717 321** |
| **Total liabilities and equity** | **155 782** | **27 846** | **452 415** | **4 101** | **6 758 498** | **7 398 642** |
| **Net FX position** | **(9 745)** | **2 973** | **25 951** | **8 916** | **(28 095)** | **–** |

The Group did not report a significant open foreign currency positions at the year-end.

The currency position of the Group as at 31 December 2005:

| SKK '000 | EUR | USD | CZK | Other FX | SKK | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 20 855 | 16 901 | 96 547 | 9 564 | 2 176 930 | **2 320 797** |
| Due from banks | – | – | – | – | – | **–** |
| Due from customers | 110 090 | – | 65 400 | – | 1 024 183 | **1 199 673** |
| Securities available for sale | 51 308 | – | 145 918 | 45 345 | 1 325 338 | **1 567 909** |
| Securities at fair value through profit or loss | 6 | – | 104 622 | – | 151 807 | **256 435** |
| Tangible and intangible fixed assets | – | – | – | – | 93 469 | **93 469** |
| Deferred tax asset | – | – | – | – | 16 378 | **16 378** |
| Other assets | 1 040 | 42 | – | – | 9 598 | **10 680** |
| **Total assets** | **183 299** | **16 943** | **412 487** | **54 909** | **4 797 703** | **5 465 341** |
| Due to other banks | 30 283 | – | – | – | – | **30 283** |
| Due to clients | 38 314 | 12 518 | 361 827 | 5 382 | 3 724 529 | **4 142 570** |
| Debt securities issued | 85 438 | 4 474 | 45 227 | – | 375 347 | **510 486** |
| Reserves | 838 | – | – | – | 15 112 | **15 950** |
| Other liabilities | 1 901 | 6 | 41 | – | 80 167 | **82 115** |
| **Equity** | 606 | **–** | 776 | **(859)** | **683 414** | **683 937** |
| **Total liabilities and equity** | **157 380** | **16 998** | **407 871** | **4 523** | **4 878 569** | **5 465 341** |
| **Net FX position** | **25 919** | **(55)** | **4 616** | **50 386** | **(80 866)** | **–** |

The Group did not report a significant open foreign currency position at the year-end.

## 33. Financial instruments – capital adequacy

Institutions that have been granted a bank license must maintain the capital adequacy of at least 8 % according the Slovak National Bank's regulations. The capital adequacy is the ratio between the Bank's capital and the risk-weighted assets. The Bank's capital adequacy as at 31 December 2006 and 31 December 2005 significantly exceeded the specified limit.

## 34. Financial instruments – liquidity

Liquidity risk is the risk in ability of the Group to fulfill its obligations towards its business partners as a result of a discrepancy in the maturity of the assets and the liabilities. The Group monitors and manages the liquidity on the basis of the expected cash flow on the assets and liabilities side of the balance sheet. To measure the liquidity exposure, the Group uses the liquidity gap method. The Group defines and manages the risk of the ability to fulfill one's obligations by means of specified limits of discrepancy in the maturity of the assets and the liabilities in individual time segments.

The following tables contain the analyses of the cash flow of assets and liabilities in individual time segments according to the relevant remaining maturity. The assets and liabilities without a specified maturity date are included in the category "Unspecified".

The remaining maturity of assets and liabilities as at 31 December 2006:

| SKK '000 | Up to 1 month | 1 – 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 3 569 559 | – | – | – | – | – | **3 569 559** |
| Due from banks | – | – | – | – | – | – | **–** |
| Due from customers | 36 750 | 151 691 | 618 425 | 891 434 | 216 956 | 43 177 | **1 958 433** |
| Securities available for sale | 260 548 | 36 282 | 280 437 | 245 252 | 325 143 | 65 913 | **1 213 575** |
| Securities at fair value through profit or loss | 100 419 | 2 758 | 14 464 | 223 444 | 253 283 | – | **594 368** |
| Tangible and intangible fixed assets | – | – | – | – | – | 40 597 | **40 597** |
| Deferred tax asset | – | – | – | – | – | 360 | **360** |
| Other assets | – | – | – | – | – | 21 750 | **21 750** |
| **Total assets** | **3 967 276** | **190 731** | **913 326** | **1 360 130** | **795 382** | **171 797** | **7 398 642** |
| Due to other banks | 264 399 | – | – | – | – | – | **264 399** |
| Due to clients | 2 916 467 | 856 186 | 501 453 | 6 358 | 4 070 | 4 029 | **4 288 563** |
| Debt securities issued | 1 461 622 | 19 314 | 28 477 | 506 561 | – | – | **2 015 974** |
| Reserves | – | – | – | – | – | 19 430 | **19 430** |
| Other liabilities | 54 977 | – | – | – | – | 37 978 | **92 955** |
| Equity | – | – | – | – | – | 717 321 | **717 321** |
| **Total liabilities and equity** | **4 697 465** | **875 500** | **529 930** | **512 919** | **4 070** | **778 758** | **7 398 642** |
| **Difference** | **(730 189)** | **(684 769)** | **383 396** | **847 211** | **791 312** | **(606 961)** | **–** |
| **Cummulative difference** | **(730 189)** | **(1 414 958)** | **(1 031 562)** | **(184 351)** | **606 961** | **–** | **–** |

The remaining maturity of assets and liabilities as at 31 December 2005:

| SKK '000 | Up to 1 month | 1 – 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Unspecified | Total |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2 320 797 | – | – | – | – | – | **2 320 797** |
| Due from banks | – | – | – | – | – | – | **–** |
| Due from customers | 263 753 | 186 598 | 318 003 | 270 586 | 121 068 | 39 665 | **1 199 673** |
| Securities available for sale | 174 350 | 11 484 | 69 328 | 589 063 | 688 778 | 34 906 | **1 567 909** |
| Securities at fair value through profit or loss | 635 | 258 | 49 317 | 144 228 | 61 997 | – | **256 435** |
| Tangible and intangible fixed assets | – | – | – | – | – | 93 469 | **93 469** |
| Deferred tax asset | – | – | – | – | – | 16 378 | **16 378** |
| Other assets | – | – | – | – | – | 10 680 | **10 680** |
| **Total assets** | **2 759 535** | **198 340** | **436 648** | **1 003 877** | **871 843** | **195 098** | **5 465 341** |
| Due to other banks | 30 283 | – | – | – | – | – | **30 283** |
| Due to clients | 3 022 837 | 309 130 | 761 402 | 17 415 | 9 134 | 22 652 | **4 142 570** |
| Debt securities issued | 491 145 | 4 256 | 14 538 | 547 | – | – | **510 486** |
| Reserves | – | – | – | – | – | 15 950 | **15 950** |
| Other liabilities | – | – | – | – | – | 82 115 | **82 115** |
| Equity | – | – | – | – | – | 683 937 | **683 937** |
| **Total liabilities and equity** | **3 544 265** | **313 386** | **775 940** | **17 962** | **9 134** | **804 654** | **5 465 341** |
| **Difference** | **(784 730)** | **(115 046)** | **(339 292)** | **985 915** | **862 709** | **(609 556)** | **–** |
| **Cummulative difference** | **(784 730)** | **(899 776)** | **(1 239 068)** | **(253 153)** | **609 556** | **–** | **–** |



## 35. Financial instruments – credit risk

While conducting its activities, the Group is exposed to credit risk, i.e. the risk that the counterparty will not be able to repay the due amounts in full within the maturity period. The Group reduces the extent of credit risk by setting limits for exposures with respect to an individual debtor or a Bank of debtors. The actual exposure is regularly compared to the fixed limits. Credit risk is also managed by means of a regular analysis of the debtor's and the potential debtors' ability to pay the principal and interest and by securement of the debtor's credibility.

The Group is exposed to credit risk as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

The Group monitors the credit risks of individual customers using an internal rating valuation. The rating of a customer before the realization of a loan business consists of two parts – the financial part and the trade part. The financial rating is based on an evaluation of economic results as shown in the financial statements of the customer and quantified based on the indicators of activity, profitability, indebtedness and liquidity. The customers are classified into four Banks according to the results of the financial rating. The trade or non-financial rating is based on qualitative characteristics of the customer, e.g. the quality of relations between suppliers and customers, competition, management quality, cooperation with the bank and the payment discipline of the customer, sales guarantee etc. Based on the evaluation of these characteristics, the customers are classified into four Banks according to the level of trade risk. The result of the rating is a combination of the financial and non-financial rating. The Group monitors the development and any changes in the rating valuation of the customers in regular quarterly intervals, when the loans control is performed in order to identify the improvement or deterioration of the economic situation of the customers, and the debtor is being analyzed. The analysis consists of the evaluation of the payment discipline, the fulfillment of the business plan, contractual terms, and the re-evaluation of the quality of collateral.

The concentration of credit risk arises as a result of the accumulation of credits towards the counterparty or economically related Bank. An excessive concentration of credit exposure towards one entity has effect on the ability of the debtor to pay its obligations. The Groups treats a receivable from a debtor or an economically related Bank of debtors that exceeds 5% of the Bank's capital as a significant exposure. The Group has created a system of internal reports on significant credit exposures exceeding the specified limit with respect to debtors.

Group has defined in its internal instructions impairment indicators and procedures for determination of reduction of future cash flows. Consequently discounts all estimated cash flows, including cash flows from realization of collateral to present value, using effective interest rate.

Factors leading to creation of impairment provision for financial assets assessed individually in 2006:

1. client was unable to realize business plan in agreed time,
2. client has negative equity,
3. the Group has identified serious risk of devaluation of collateral from objective reasons.

Financial assets, which were impaired as at 31 December 2006, and impairment was identified during 2006 are secured by following forms of collaterals:

1. securities of companies with business activities, however not traded on stock Exchange,
2. real estates (immovables).

Group monitors and continuously updates the value of collaterals.

## 36. Operational, legal and other risks

The Group creates a database of operational losses and events with potential risk of loss. This database is created as Group's intention to transfer to more sophisticated techniques of quantification of operational risk.

Legal and other risks are monitored within the Group's internal control system in case of reviews made by the Department of Internal Control and Audit and by headquarters divisions.

## 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 Group's financial assets and financial liabilities at the year-end were as follows:

| SKK '000 | Book value 2006 | Fair value 2006 | Book value 2005 | Fair value 2005 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 3 569 559 | 3 569 559 | 2 320 797 | 2 320 797 |
| Due from banks | – | – | – | – |
| Due from customers | 1 958 433 | 1 994 112 | 1 199 673 | 1 243 001 |
| Securities available for sale | 1 213 575 | 1 213 575 | 1 567 909 | 1 567 909 |
| Securities at fair value through profit or loss | 594 368 | 594 368 | 256 435 | 256 435 |
| Other assets | 21 750 | 21 750 | 10 680 | 10 680 |
| **Financial liabilites** | | | | |
| Due to other banks | 264 399 | 264 399 | 30 283 | 30 283 |
| Due to clients | 4 288 563 | 4 264 383 | 4 142 570 | 4 132 267 |
| Debt securities issued | 2 015 974 | 1 952 620 | 510 486 | 510 069 |

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

### Cash and cash equivalents

The fair values of cash and cash equivalents approximate to their carrying value.

### Due from banks

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

### Due from customers

Loans and advances to customers are measured net of provisions for loan losses. The fair values of loans and advances to customers are calculated by discounting the future cash flows using the current market rates.

### Securities

Securities available-for-sale and securities measured at fair value through profit and loss account are stated at quoted market prices.

### Other assets

Other assets are measured net of provisions for uncollectible amounts. As other assets are short-term, their fair value approximates to the carrying value.

**Due to other banks**

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

**Due to clients and debt securities issued**

The fair values of customer accounts and liabilities from debt securities issued are calculated by discounting the future cash flows using the current deposit rates.

## 38. Significant post balance sheet events

Currently, the Bank is under selling process. It is expected that the majority shareholders will sell their shareholdings in 2007.