Annual Report 2006

ČSOB
Stavebná
sporiteľňa

Content

General Information

Business name: ČSOB stavebná sporiteľňa, a. s. ("the Company")

Registered office: Radlinského 10, 813 23 Bratislava, Slovak Republic

Corporate identification number (IČO): 35799200

Tax registration number (DIČ): 2021544030

Commencement of business activities: 1 December 2000

Legal form: joint stock company

Shareholder: Československá obchodní banka, a. s., 100% of share capital

Principal activities:

- Acceptance of deposits from building savers
- Granting of loans to building savers
- Acceptance of deposits from banks
- Performance of payment transactions and clearing related to building savings
- Provision of advisory services related to building savings
- Mediation activities in the insurance sector related to building savings
- Trading on its own account with mortgage bonds, municipal bonds, government bonds including treasury bills or with the treasury bills of the National Bank of Slovakia, based on a granted bank license
- Provision of guarantees for construction loans, mortgages or municipal loans to other banks.

Share capital: SKK 720 million

Equity shares: As at 31 December 2006, ČSOB stavebná sporiteľňa, a. s., had no equity shares in other companies.

Board of Directors:

Martin Čuba, Ľubomír Kováčik, Jana Langerová

Foreword by the Board of Directors

Dear clients, partners, colleagues:

The year 2006 was a year of changes for ČSOB Stavebná sporiteľňa as well as for the entire ČSOB Financial Group. These changes affected especially the Group's organization and management means in Slovakia. Since the mid-year mark, all of the Group's organizational units have been conducting their activities under a single management team – the Country Team – led by the Country Manager Daniel Kollár. In the course of the year we worked on projects involving the integration of the Financial Group's core areas as well as the integration and management of our business networks, all aimed at making them operate more efficiently in the near future.
The above changes in the organization are a part of the new organizational structure that KBC Group has been introducing across its Central European subsidiaries as part of KBC Group structural changes. These changes also involved personnel changeover in the managing structures of ČSOB Stavebná sporiteľňa and in its Supervisory Board.Our economic results, which are in a slight decline compared to last year's figures, were influenced also by recurrent changes in the system of building savings (i.e. the reduction of the state bonus to 10%). The Company's negative results are an outcome of the redesign in our own credit portfolio to reflect the prudence principle, which led to the necessity to create additional resources for covering credit risks. The Company recorded commercial success with its HYPO Plus product as well as with its Obnova product designed for corporate entities that were featured in our offer for the first time this year and that significantly surpassed the originally planned sales numbers. In spite of the negatives that offset our results for 2006, building savings remain a very attractive means of financing homes. In 2007, by amending our fee policy (the fee for concluding building savings contracts will be SKK 999 for everybody regardless of the target amount), finalizing our strong distribution network and simplifying the offer of products in cooperation with other ČSOB Financial Group members, we will continue in our efforts to be the number two building savings company on the Slovak market by the year 2010. Allow me to use this opportunity to thank you for the trust that you have been investing into us in the past year. In 2007 we will strive to lead ČSOB Stavebná sporiteľňa to become a worthy member of the ČSOB Financial Group and a strong player among the competition on the Slovak market.

Sincerely,

Ľubomír Kováčik	**Jana Langerová**	**Martin Čuba**
General Manager	Senior Director	Senior Director

Statement of the Supervisory Board

The Supervisory Board performed its tasks in accordance with Sections 197–201 of the Slovak Commercial Code, as amended, the Company's statutes and its rules of procedure. The Board of Directors submitted reports on the Company's activities and financial position to the Supervisory Board.

The Company's 2006 financial statements were audited by the audit firm Ernst & Young Audit Slovensko, spol. s r.o. In the opinion of the auditor, the financial statements present fairly, in all material respects, the Company's assets, liabilities, equity and financial position as at 31 December 2006 and the results of its operations for the year then ended, in accordance with the Accounting Act of the Slovak Republic.

The Supervisory Board reviewed the annual financial statements as at 31 December 2006 prepared in accordance with the International Financial Reporting Standards (IFRS), accepted the 2006 audit results, approved both the annual financial statements and the proposal for distributing the 2006 profit, and grants consent to it being submitted for approval to the General Meeting of the Company's shareholder.

Mr Daniel Kollár
Chairman of the
Supervisory Board

Mr Branislav Straka
Member of the
Supervisory Board

Ms Jana Jašková
Member of the
Supervisory Board

Organizational structure

as at 31 December 2006

Mr Ľubomír Kováčik

Chairman of the Board of Directors and CEO

- Legal and HR Department
- Internal Audit Department
- Asset Management and Services Department
- Financial Management and Financial Accounting Department
- Risk Management Department

Ms Jana Langerová

Member of the Board of Directors and Senior Operations Director

- Bank Information Systems and Project Management Department
- Central Administration of Contracts and Client Accounts Department
- Credit Department
- Receivables Collection and Management Department

Mr Martin Čuba

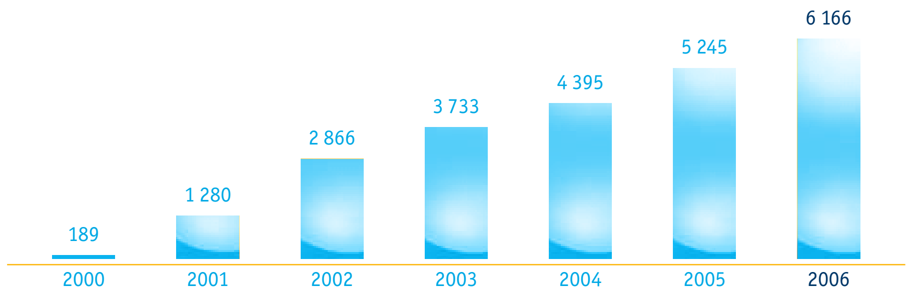
Member of the Board of Directors and Senior Sales Director

- Sales Support and Sales Network Management Department
- Regional Directorate for Bratislava and Trnava regions
- Regional Directorate for Trenčín and Žilina regions
- Regional Directorate for Prešov and Košice regions
- Regional Directorate for Banská Bystrica and Nitra regions

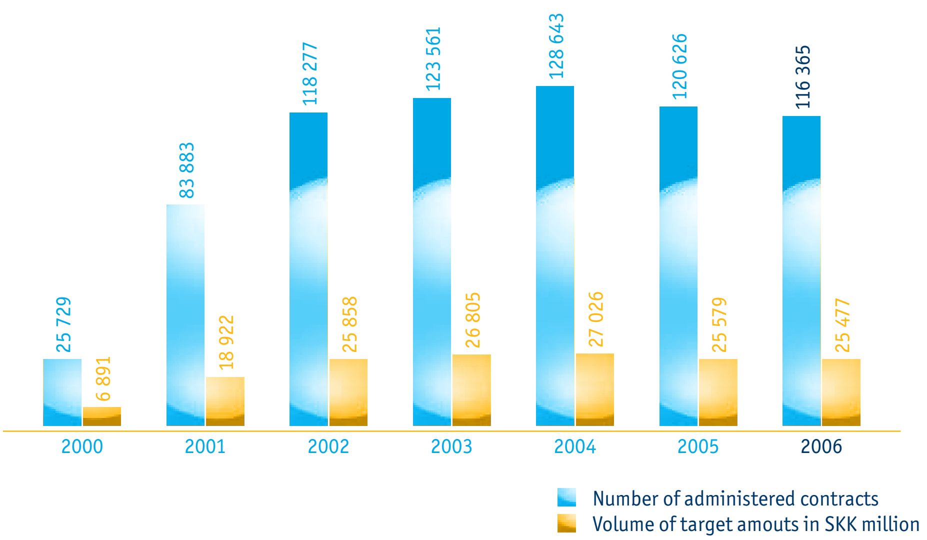
Building savings activities

The total number of clients using the services and products of ČSOB Stavebná sporiteľňa as at the end of 2006 was 116,365 and the total volume of contract target amounts was SKK 25.48 billion. Although building savings were used predominantly by private persons, the year 2006 was also a period of increased corporate interest in this type of savings. As at year end, the total value of funds saved on building saver accounts reached SKK 6.17 billion, representing a year-on-year increase of 17.56%. The average ČSOB Stavebná sporiteľňa saver is a 33-year-old private person with a building savings contract with a target value of SKK 219 thousand.

Saved amounts on building savings accounts, in SKK million

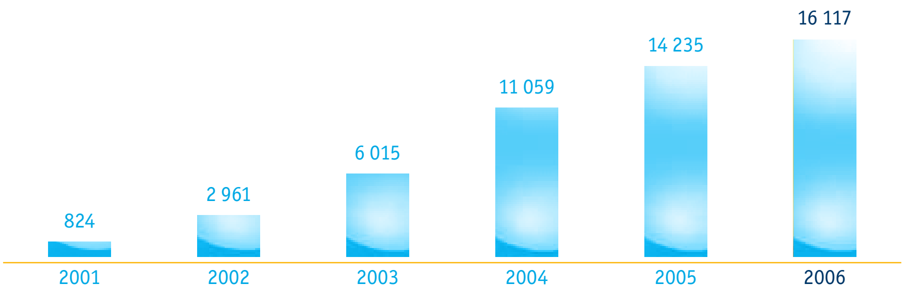


The development of administered building savings contracts by years

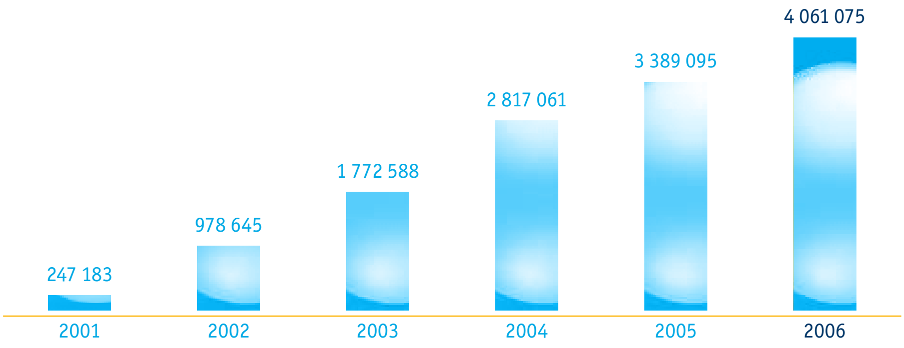


In 2006, ČSOB Stavebná sporiteľňa approved 1,558 interim and 324 construction loans for private persons and corporate entities with a total volume of SKK 671.98 million; the average approved interim loan was worth more than SKK 397 thousand. Since its establishment in 2000, the Company administered a total of 16,117 loans with a total volume of SKK 4.06 billion.

Cumulative number of approved construction and interim loans

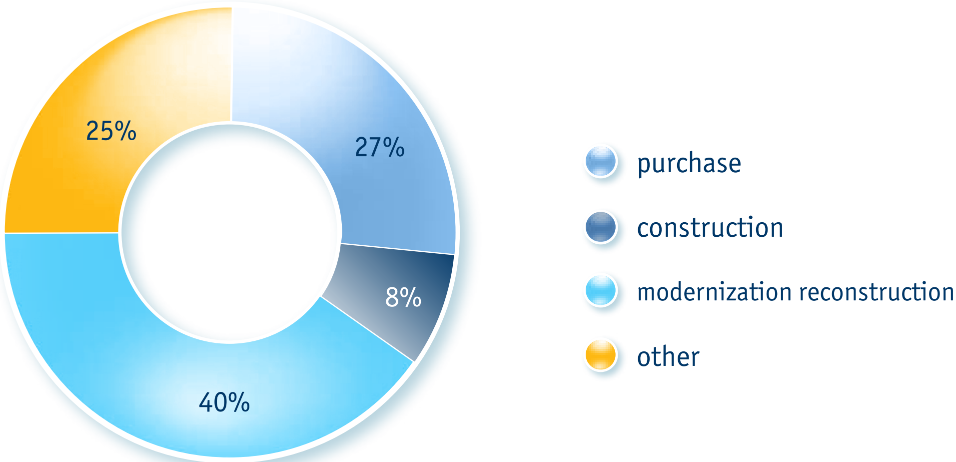


Cumulative volume of approved construction and interim loans



Clients used 40% of the funds from loans concluded in 2006 for modernization and maintenance of their houses or apartments, and invested 27% of these funds to purchase real estate.

Purpose of use of funds from loan contracts concluded in 2006



These business results were achieved thanks to the interplay of various factors. In 2006, ČSOB Stavebná sporiteľňa yet again proved its strengths in the development of new products. The biggest client success was registered in connection with the new savings product called HYPO Plus, launched in mid-February. As the name itself suggests, the product was designed to combine the advantages of a mortgage with building savings. A HYPO Plus building saver receives an interim loan immediately, without any deposit or need to have previous savings; the interim loan minimum amount is SKK 50,000 and its upper value is only limited by the value of the pledged real estate and the client's financial standing. HYPO Plus in ČSOB Stavebná sporiteľňa has become the loan with the lowest installments – the client can repay the loan within 12 to 28 years and is free to decide on the loan's maturity period. In the course of repaying the interim loan provided in 2006 with an interest rate of 4.49% p.a., the client also receives a state subsidy which makes the loan even more convenient. Furthermore, building savers can repay building loans with an interest rate of 3,49% p.a. before their due date without any sanctions or early repayment fees.

Existing clients who satisfied the requirements for receiving the target amount welcomed the opportunity to apply for the so-called "privileged interim loan" – a loan up to SKK 1,000,000 without the need for collateral and without having to present an employer's statement certifying their income.

In 2006, special attention was paid to corporate entities – associations of owners of apartments and non-residential premises, housing associations and administrators of housing facilities. The Company has prepared an interesting offer for this group of clients – the offer enables clients to conclude a new building savings contract for an unbeatable fee of SKK 1.000 regardless of the target amount. In addition, the Company revised the product parameters with effect from May, leading to an extension of the loan repayment period to 16 years and granting to clients an opportunity to apply for their favorite interim loan without having to pay a deposit. The actual drawing of the loan also became more favorable: the original ratio of 60% in the form of an advance payment and 40% upon the submission of documents certifying the use of the loan changed to a ratio more favorable for the client – namely 80/20. It is also thanks to this attractive offer of a 2.9% interest rate and collateral-free loan that the annual sales plan for this product was met. The average loan amount was SKK 2.75 million.

After long years of successful cooperation with the brokerage firm ZFP, a.s., from September the Company designed a new savings product entitled ZFP Kombi; this product has all the advantages of a building savings plan and its nature and parameters make it an ideal investment product in combination with other financial products, allowing the client to distribute the risks as effectively as possible while ensuring optimum yields on investment.

In the last quarter of the year, all parties interested in building savings could conclude a new contract with a bonus. Funds deposited in 2006 would bear an interest rate as high as 10% p.a. in the first half of 2007, depending on the selected type of savings. Existing clients, who had completed their first 6-year building savings cycle in December, also took advantage of the offer. This group of clients was also offered additional loyalty benefits.

In terms of products, the Company devoted the end of the year to the preparation of a new price list that will harmonize the terms and conditions for joining the building savings system for all clients and, above all, make it less expensive for all of them. The new price list became valid from January 2007.

Ever since its establishment, ČSOB Stavebná sporiteľňa has been fully aware of the fact that each of its employees serves as a guarantee of future success. This is why we consistently apply the principles of employee care focused on individual as well as collective needs. These are the basis of the employer-employee relationship. Working in a strong financial group brings the possibility of professional and personal growth; special emphasis is thus placed on the training of all employees. The Company considers investments into training opportunities to be the best investments for the future of ČSOB Stavebná sporiteľňa.

ČSOB Stavebná sporiteľňa allows all its employees to take advantage of flexible working hours and also supports numerous other activities that make it easier for employees to balance their professional and private lives. In 2006, employees could undergo preventive medical examinations, obtain resources for sporting, cultural and other social activities, and participate in another year of the annual sports games event. For their children, the Company prepared an interesting show on the occasion of the International Children's Day and the traditional St. Nicolas party.

ČSOB Stavebná sporiteľňa lives on the idea of accommodating and socially friendly employer policies that provides men and women with equal opportunities to pursue a career, thus eliminating gender discrimination. The numbers serve as evidence – in 2006, the average number of employees was 107, of which 74 were females and 33 males. The average employee age was 34.

The high quality of employee work was one of the reasons for integrating numerous specialized and support functions within the entire ČSOB Financial Group; the first steps of this integration were implemented already in early 2007. The ultimate outcome of these measures will be a new, more efficient organizational structure designed to satisfy client needs and requirements in a fast and responsive way.

The Company's sales network is the basic and sole element ensuring and mediating the sale of ČSOB Stavebná sporiteľňa products. Since the Company's business results depend also on the network's action potential, product knowledge, soft skills and quality of advisory services, the Company pays adequate attention to the development of this network. In 2006, the ČSOB Stavebná sporiteľňa sales network was classified into the internal and external sales networks. The former, managed by a Senior Sales Director, was further subdivided to four regional directorates: Bratislava-Trnava, Trenčín-Žilina, Banská Bystrica-Nitra, and Košice-Prešov. The regional directors are responsible for sales figures, advisory services provided to clients through territorial directors and business representatives – building savings advisors. The sale of building savings products and related advisory services were provided to clients also by means of 127 business representative offices and branches, and clients could also turn to many of the ČSOB bank branches. In 2006, as in previous years, the internal sales network actively participated in the sales of ČSOB Financial Group's other financial products – clients could thus in one place avail themselves of advisory services related not only to building savings but could also get a mortgage, a consumer loan, invest into share funds or insure themselves, their families of their assets.

One of the Company's most important projects was the process of integrating the ČSOB Stavebná sporiteľňa internal sales network with the sales network of ČSOB distribution, a. s. The works on this project started in late 2006. This integration will bring a stronger sales network with more offices that will be managed more efficiently and within which the vast cross-selling possibilities within the entire ČSOB Financial Group will be utilized. The completion of this complicated yet client- and Company-beneficial process is planned for the first half of 2007.

Independent auditor´s report

ERNST & YOUNG

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810 00 Bratislava
Slovenská republika

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Fax: +421 2 5922 9222
www.ey.com

Independent Auditor's Report

To the Shareholders of ČSOB stavebná sporiteľňa, a. s.:

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 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 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 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 financial statements present fairly, in all material respects, the financial position of the Bank 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.

31 May 2007
Bratislava, Slovak Republic

Ernst & Young
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.

ČSOB stavebná sporiteľňa, a. s.

Financial statements
31 December 2006

(In accordance with the international financial reporting standards as adopted by the European Union)

Income statement

for the year ended 31 December 2006
(In thousands of Slovak crowns)

ČSOB stavebná sporiteľňa, a.s.

	Note	2006	2005
Interest and similar income	3	299 201	263 325
Interest and similar expense	3	(166 723)	(164 149)
Net interest income		**132 478**	**99 176**
Fee and commission income	4	106 296	115 441
Fee and commission expense	4	(34 788)	(64 807)
Net fee and commission income		**71 508**	**50 634**
Net foreign exchange expense	5	(146)	(142)
Other operating income	6	20 464	17 203
Total operating income		**224 304**	**166 871**
Personnel expenses	7	(50 345)	(55 836)
Depreciation of property and equipment		(3 463)	(3 776)
Amortization of intangible assets		(20 234)	(18 799)
Other operating expenses	8	(63 322)	(66 788)
Total operating expenses		**(137 364)**	**(145 199)**
Credit loss expense	9	(101 833)	(38 365)
Loss before taxation		**(14 893)**	**(16 693)**
Income tax expense	10	—	(11 883)
Loss for the year		**(14 893)**	**(28 576)**

The notes on following pages form an integral part of these financial statements.

Balance sheet

as at 31 December 2006
(In thousands of Slovak crowns)

ČSOB stavebná sporiteľňa, a.s.

	Note	2006	2005
Cash and balances with central bank	11	78 070	50 003
Due from banks	12	1 735 441	1 283 217
Loans and advances to customers	13	2 195 646	2 037 924
Financial investments – available-for-sale	14	2 307 540	1 879 007
Financial investments – held-to-maturity	14	660 384	707 045
Property, plant and equipment	15	9 860	10 574
Intangible assets	16	24 788	30 555
Current tax assets		—	5 471
Other assets	18	4 993	6 021
Total assets		**7 016 722**	**6 009 817**
Due to customers	19	6 234 961	5 307 271
Other liabilities	20	51 012	44 089
Provisions	21	295	295
Due to banks – subordinated loan	22	210 469	60 349
Total liabilities		**6 496 737**	**5 412 004**
Issued capital		720 000	720 000
Available-for-sale reserve	23	14 472	77 407
Other capital reserve	24	3 870	3 642
Accumulated losses		(203 464)	(174 660)
Current year loss		(14 893)	(28 576)
Shareholders' equity		**519 985**	**597 813**
Total shareholders' equity and liabilities		**7 016 722**	**6 009 817**

The notes on pages following pages form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 30 May 2007 and signed on its behalf by:

Ľubomír Kováčik
Chairman of the Board of Directors

Jana Langerová
Member of the Board of Directors

Statement of changes in equity

for the year ended 31 December 2006
(In thousands of Slovak crowns)

ČSOB stavebná sporiteľňa, a.s.

	Issued capital	Available-for sale-reserve	Other capital reserve	Retained earnings	Current year income	Equity
Balance at 1 January 2005	**720 000**	**0**	**1 763**	**(183 977)**	**11 196**	**548 982**
Transfers	—	—	1 879	9 317	(11 196)	—
Revaluation of available for sale securities	—	77 407	—	—	—	77 407
Net income for the year	—	—	—	—	(28 576)	(28 576)
Balance at 31 December 2005	**720 000**	**77 407**	**3 642**	**(174 660)**	**(28 576)**	**597 813**
Transfers	—	—	228	(28 804)	28 576	—
Revaluation of available for sale securities	—	(62 935)	—	—	—	(62 935)
Net income for the year	—	—	—	—	(14 893)	(14 893)
Balance at 31 December 2006	**720 000**	**14 472**	**3 870**	**(203 464)**	**(14 893)**	**519 985**

The notes on following pages form an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2006
(In thousands of Slovak crowns)

	2006	2005
Loss before tax	(14 893)	(16 693)
Adjustments for non-monetary operations	**(5 340)**	**(38 116)**
Provisions for credit impairment	100 789	37 530
Receivables written off	984	—
Depreciation and amortization	25 365	23 530
Interest income	(299 201)	(263 325)
Interest expense	166 723	164 149
Adjustments for change in working capital	**221 618**	**598 785**
Amounts due from banks - (increase) / decrease	(454 520)	27 838
Amounts due from customers - (increase) / decrease	(259 488)	(269 053)
Other assets - (increase) / decrease	1 049	168
Amounts due to customers - increase / (decrease)	927 690	856 056
Other liabilities - increase / (decrease)	6 887	(15 592)
Provisions – increase / (decrease)	—	(632)
Income tax (paid)/ received	5 471	(10 943)
Interest received	303 858	258 704
Interest paid	(166 602)	(164 139)
Net cash flow from operating activities	**344 112**	**627 598**
Purchase of property, plant and equipment and intangible fixed assets	(18 885)	(14 297)
Purchase of securities	(729 614)	(770 763)
Sales/ maturity of securities	282 454	155 219
Net cash flow from investing activities	**(466 045)**	**(629 841)**
Income from borrowings	150 000	—
Net cash flow from financial activities	**150 000**	—
Movement in cash and cash equivalents	**28 067**	**(2 243)**
At beginning of year	**50 003**	**52 246**
Net increase in cash and cash equivalents	**28 067**	**(2 243)**
At the end of year	**78 070**	**50 003**

The notes on following pages form an integral part of these financial statements.

Notes to financial statements

1. Introduction

ČSOB stavebná sporiteľňa, a.s. ('the Bank') provides construction savings and construction loans and is incorporated and domiciled in the Slovak Republic. The Bank was established on 8 June 2000 and registered in the Commercial Register of the District Court, Bratislava I., section: Sa, No. 2590/B on 8 November 2000.

The address of the Bank's registered office is as follows:

Radlinského 10
813 23 Bratislava
Slovak Republic

The Bank provides a full range of construction savings products to its customers in the Slovak Republic through a network of regional branches, on the basis of the permission of the National Bank of Slovakia in accordance with Act No. 483/2001 Coll. on Banks as amended and Act No. 310/1992 Coll on "Stavebnom sporeni" as amended, in accordance with its Commercial Register extract.

The Bank is a subsidiary of Československá obchodní banka, a.s. ('ČSOB'), which controls 100% of its voting shares. On 31 December 2006, ČSOB was directly controlled by KBC Bank NV whose ownership interest in ČSOB represented 97.44 % (31 December 2005: 89.97 %). On the same date, KBC Bank NV was controlled by KBC Group NV. Thus, KBC Group NV was the Bank indirectly exercising ultimate control over ČSOB and the Bank.

Issued capital of the Bank consist of 1 440 pieces of ordinary shares (2005:1 440), in nominal value 500,000 SKK per share (2005: 500,000 SKK). All the share capital has been fully paid up.

Registered office of KBC Group NV:

Havenlaan 2
1080 Brussels
Belgium

Members of the Board of Directors of the Bank in 2006 with the date of inception/termination of their membership:

Member	Ľubomír Kováčik	from 14 July 2006
Member	Jana Langerová	from 4 October 2006
Member	Martin Čuba	from 1 December 2006

Members of the Supervisory Board of the Bank in 2006 with the date of inception/termination of their membership:

Member	Daniel Kollár	from 27 September 2002
Member	Branislav Straka	from 8 August 2006

Average number of employees:

31 December 2005	123
31 December 2006	107

2. Accounting policies

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

Statement of compliance

These financial statements are prepared in accordance with the International Financial Reporting Standards adopted by the EU ('IFRS'). IFRS include standards approved by the International Accounting Standards Board ('IASB') and interpretations of the International Financial Reporting Interpretation Committee ('IFRIC').

These financial statements are the first financial statements prepared in accordance with IFRS. The Bank applied IFRS 1 in their preparation and did not make use of any permitted exceptions. The effects of the transition to IFRS on the Bank's financial position and performance are described in note 29.

Basis of preparation

The financial statements are prepared under the historical cost convention, with the exception of financial assets held in the available-for-sale portfolio, which are recognized and measured at fair value.

The fair value of financial instruments is equivalent to the market value of those financial instruments traded in an active market. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Bank has used a discounted cash-flow analysis for the valuation of financial instruments that were not traded in active markets.

The financial statements are expressed in thousands of Slovak crowns (SKK thousand), except where stated otherwise.

Negative values are presented in brackets.

The principal accounting policies set out below have been consistently applied to all the years presented and in the preparation of the opening balance sheet as at 1 January 2005 for the purpose of transition to the IFRS.

New and revised standards and interpretations

The following new standards, amendments and interpretations to existing standards have been published which are mandatory for the accounting periods beginning 1 January 2007 or later, but which the Bank has not adopted earlier:

- IFRS 7 Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements effective for annual periods beginning on or after 1 January 2007.
- IFRS 8 Operating Segments effective for annual periods beginning on or after 1 January 2009.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies effective for annual periods beginning on or after 1 March 2006.
- IFRIC 8 Scope of IFRS 2 effective for annual periods beginning on or after 1 May 2006.
- IFRIC 9 Reassessment of Embedded Derivatives effective for annual periods beginning on or after 1 June 2006.

- IFRIC 10 Interim Financial Reporting and Impairment of Assets effective for annual periods beginning on or after 1 November 2006.
- IFRIC 11, IFRS 2 Group and Treasury Share Transactions effective for annual periods beginning on or after 1 March 2007.
- IFRIC 12 Service Concession Arrangements effective for annual periods beginning on or after 1 January 2008.

The Bank believes that their application will not have a significant impact on the financial statements in the period of initial application.

Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the 'functional currency'). The financial statements are presented in Slovak crowns ('SKK'), which is the Bank's functional and presentation currency.

Foreign currencies

Transactions denominated in foreign currencies are recorded in Slovak crowns at the actual exchange rates on the date of the transaction: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. The balances of monetary assets and liabilities are translated at the year-end exchange rates and the unrealized gains and losses arising are recognized in the income statement.

Exchange differences are reported in the income statement in 'Net foreign expense'.

Cash and cash balances with central banks

Cash and balances with central banks comprising cash-in-hand and current accounts with the National Bank of Slovakia ('NBS'), including compulsory minimum reserves, are measured at nominal value including the interest revenue.

Due from banks

Amounts due from banks represent current accounts and term deposits in other banks and are presented at amortised cost including interest accruals less any impairment losses. An impairment loss is established if there is objective evidence that the Bank will not be able to collect all the amounts due.

Securities purchased under agreements to purchase and resell ('reverse repo transactions') are recorded only in the off-balance sheet and the loan provided is reported in the balance sheet in 'Due from banks' or 'Loans and advances to customers', as appropriate.

The price difference between the purchase and sale price of securities is treated as interest income or expense and accrued evenly over the life of the agreement.

Loans and advances to customers

Loans and advances that are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and advances to customers are stated at amortised cost less any impairment losses. All loans and advances to customers are recognized on the balance sheet when cash is advanced to borrowers.

Loans and advances to customers are subject to periodic impairment testing. An impairment loss for a loan, or a group of similar loans, is established if their carrying amount is greater than their estimated recoverable amount. The recoverable amount is the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the loan's original effective interest rate. The amount of impairment loss is included in the income statement.

Impairment and non-collectability are measured individually for loans that are individually significant. Impairment and non-collectability for a group of similar loans that are not individually identified as impaired are measured on a portfolio basis.

The Bank writes off as losses loans and advances when there is no realistic prospect of future recovery and all collateral has been realized. Loans and advances are written off against the reversal of the related impairment losses. Any subsequent recoveries are credited to the income statement on receipt.

Financial investments

The financial investments of the Bank represent investments in state bonds, mortgage bonds and treasury bills. Financial investments held by the Bank are categorised into portfolios in accordance with the intention on the acquisition date and pursuant to the investment strategy. The Bank has developed security investment strategies and, reflecting the intention on acquisition, allocated securities into the following portfolios:

(a) Available-for-sale

(b) Held-to-maturity

The principal differences between the portfolios relate to the measurement and recognition of fair values in the financial statements. All securities held by the Bank are recognized using settlement date accounting and are initially measured at fair value plus any directly attributable incremental costs of acquisition or issue. Securities purchased but not settled, are recorded in the off-balance sheet and changes in their fair values; purchases in the trading and available-for-sale portfolios are recognized in the income statement and equity respectively.

As at 31 December 2006 and as well as at 31 December 2005, the Bank does not recognize any securities in the portfolio held for trading. In this category, the Bank would classify financial assets, which would have been acquired principally for the purpose of selling or repurchasing in the near term.

a) Available-for-sale securities

Available-for-sale securities are those financial assets that are not classified as held for trading or held-to-maturity. Subsequent to initial recognition, these assets are accounted for and re-measured to fair value.

Interest earned whilst holding available-for-sale securities is accrued on a daily basis and reported in the income statement in 'Interest and similar income'.

The fair value of available-for-sale securities, for which an active market exists and a market value can be reliably estimated, is measured at quoted market prices. In circumstances where the quoted market prices are not readily available, the fair value is estimated using the present value of future cash- flows.

Unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized in equity within the 'Available for sale reserve'.

b) Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and maturities that the Bank has the positive intention and ability to hold to maturity.

Held-to-maturity investments are recognized at amortised cost less provision. Amortised value is the value of the investment at acquisition less principal instalments and the time apportionment of interests and discount/premium using the effective interest rate method. The amortisation of the discount/premium is reported in the income statement in 'Interest and similar income'.

The Bank regularly tests the financial investments for impairment. The value of the investment is decreased if its carrying value is higher than its estimated realizable value.

Property, plant and equipment

All property, plant and equipment is recorded at historical cost less accumulated depreciation and any provision for impairment. Costs include all costs directly attributable to bringing the asset into working condition for its intended use including transportation, customs or commissions. Costs of extension, modernization or reconstruction which enhance productivity, capacity or efficiency are capitalized. Maintenance and repairs are charged to the income statement as incurred.

Depreciation is calculated on the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	20 years
Office equipment (furniture)	6 years
Office equipment (hardware)	4 years
Motor vehicles	4 years

The useful lives of assets and depreciation methods are reviewed and adjusted at least once a year for the purpose of ensuring consistency between the depreciation method and expected useful life with the expected economic benefit associated with property, plant and equipment.

Property, plant and equipment are reviewed annually for impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's net selling price and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Gains and losses on the disposal of property, plant and equipment are reported in 'Other operating income'.

Intangible assets

Intangible assets are recorded at their acquisition cost less accumulated amortisation and any provision for impairment.

Intangible assets are capitalised and amortised using the straight-line method over their estimated useful life - of 5 years.

Expenditure, which enhances and extends the benefits of computer software beyond the original specifications and useful lives is recognized as a technical appreciation and added to the original cost of the software. Costs associated with the maintenance of existing computer software are expensed as incurred.

Intangible assets are reviewed annually for impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's net selling price and its value in use.

Leases

Determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized and the inception of the lease at the present value of the minimum lease payments. Finance charges are reflected in the income statement.

Due to banks

Amounts due to banks represent loans obtained from other banks. The financial liability is initially recognised at fair value and subsequently measured at amortised cost. The Bank uses settlement date accounting for recognition and derecognition of financial liabilities.

Due to customers

Amounts due to customers represent deposit accounts from construction savings customers. The liability is initially recognised at fair value plus any directly attributable incremental costs of acquisition and subsequently measured at amortised cost. The Bank uses settlement date accounting for the recognition and derecognition of financial liabilities.

Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Interest income and expense

Interest income and expense is recognized in the income statement on an accrual basis by using the effective interest rate method. Interest income and expense includes the amortisation of any discount or premium on financial instruments. Interest income also includes up-front and commitment fees, which are subject to the effective interest rate calculation and are amortised over the life of the loan.

Fee and commission income and expense

Fee and commission income arises on services provided by the Bank which include account maintenance, contract initiation and contract changes. Fee and commission income is recognized in the period to which it relates on an accrual basis. However, loan commitment fees and any incremental costs, are time-apportioned and recognized as adjustment to effective loan interest rate (amortisation of loan fees) and reported as a part of 'Interest income'.

Foreign exchange expense

Foreign exchange expense includes the result of all foreign currency transactions.

Income taxes

Income tax is calculated in accordance with the regulations of the Slovak Republic and other jurisdictions in which the Bank operates.

Deferred tax assets and liabilities are provided, using the balance sheet method, for all temporary differences arising between the tax bases of assets or liabilities and their carrying values for financial reporting purposes. The expected tax rates applicable for the periods when assets and liabilities are realized are used to determine deferred tax.

The Bank is also subject to various indirect operating taxes which are included in 'Other operating expenses'.

Subsequent events

The effects of events which occurred between the balance-sheet date and the date of preparation of the financial statements are recognized in the financial statements if these events provide further evidence of the conditions that existed at the balance-sheet date.

Where significant events occur, subsequent to the balance-sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance-sheet date, the effects of these events are disclosed but they are not themselves recognized in the financial statements.

Significant accounting estimates and judgments

Estimates

Assumptions and estimates are made in the preparation of financial statements in accordance with IFRS which affect the carrying amounts of assets and liabilities and the recognition of future possible assets and liabilities at the balance-sheet date and the recognition of revenues and costs for the period presented. These estimates are based on the best knowledge of current conditions and actual results may differ from these. The most significant estimates are made with regard to receivables impairment charges, residual values and useful lives of non-current assets and provisions for losses from legal proceedings.

Judgments

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

The most significant judgments relate to the classification of financial instruments classification.

3. Interest income and interest expense

	2006	2005
Interest received from central bank	36 992	20 797
Interest received from other banks	12 521	11 025
Interest from loans granted to customers	132 636	129 823
Interest on securities	117 052	101 680
Total interest income	**299 201**	**263 325**
Interest paid to banks	(3 862)	(3 741)
Interest from customer deposits	(158 089)	(156 954)
Other interest expenses	(4 772)	(3 454)
Total interest expense	**(166 723)**	**(164 149)**
Net interest income	**132 478**	**99 176**

4. Fee and commission income and expense

	2006	2005
Fees received – customer deposits	86 144	88 062
Fees received – loans granted to customers	20 152	27 379
Total fee and commission income	**106 296**	**115 441**
Fee and commission paid – customer deposits	(11 563)	(14 402)
Fee and commission paid – loans granted to customers	(1 302)	(2 878)
Securities expenses	(380)	(231)
Fee and commission paid – other	(21 543)	(47 296)
Total fee and commission expense	**(34 788)**	**(64 807)**
Net fee and commission income	**71 508**	**50 634**

Fee and commission paid – other includes the contribution to Guarantee Fund deposits in accordance with Act No, 118/1996 Coll. of SKK 10,184 thousand for the accounting period 2006 (SKK 34,046 thousand in 2005).

5. Net foreign exchange expense

	2006	2005
FX gains	28	8
FX losses	(174)	(150)
Total	**(146)**	**(142)**

6. Other operating income

	2006	2005
Income from ceded receivables	—	319
Gain from sale of tangibles and intangibles	145	645
Income from securities operations	6 694	2 992
Insurance premium received for insolvency insurance	7 071	6 784
Other operating income	6 554	6 463
Total	**20 464**	**17 203**

Income from securities operations comprises income on sales of securities from the available-for-sale portfolio.

7. Personnel expenses

	2006	2005
Personnel expenses:	(38 705)	(43 284)
Bonuses to the statutory and supervisory bodies	(1 100)	(1 067)
Social expenses	(11 640)	(12 552)
Total	**(50 345)**	**(55 836)**

The Bank provides its employees with the voluntary third-pillar pension scheme, which is supplementary voluntary pension scheme.

Employees with fixed-term employment contract:

Amounts are in SKK/employee

Employer contribution	Employee contribution
100	400
200	500
300	600

Employees with permanent employment contract:

Employer contribution	Employee contribution
200	400
400	600
600	1 000

Management:

Employer contribution	Employee contribution
3% of salary	2% of salary

8. Other operating expenses

	2006	2005
Telecommunications, mail	(6 097)	(7 702)
Information technologies	(7 798)	(7 800)
Administration	(3 877)	(5 618)
Representation and travel costs	(494)	(916)
Technical services	(1 325)	(1 409)
Education	(536)	(790)
Vehicle	(1 635)	(1 340)
Insurance	(657)	(669)
Printed forms	(147)	(112)
Marketing and public relations	(7 056)	(9 993)
Rent and maintenance	(10 975)	(10 245)
Other	(22 725)	(20 194)
Other operating expenses	**(63 322)**	**(66 788)**

9. Credit loss expense

Credit losses from receivables:

	2006	2005
Written-off receivables	984	658
Net creation of provision on receivables	100 849	37 707
Total	**101 833**	**38 365**

Movements in provisions on loan receivables and other assets are summarized in the following table:

	Loan receivables	Other assets	Total
Provisions opening balance 1 January 2005	**23 289**	**503**	**23 792**
Net creation of provision in 2005	37 841	(134)	37 707
Provisions closing balance 31 December 2005	**61 130**	**369**	**61 499**
Net creation of provision in 2006	100 789	60	100 849
Provisions closing balance 31 December 2006	**161 919**	**429**	**162 348**

10. Income tax expense

The Bank will submit the income tax return by 31 May 2007 on the basis of the approved extension period for filing the tax return.

	2006	2005
Income tax expense	–	–
Deferred tax	–	11 883
Total	–	**11 883**

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2006	2005
Loss before tax	(14 893)	(16 693)
Tax rate	19%	19%
Theoretical tax income	**2 830**	**3 172**
Tax non-deductible items	(678)	—
Tax deductible items	2 720	275
Unrecognised deferred tax receivable	(4 872)	(15 330)
Tax expense recorded	—	**(11 883)**

11. Cash and balances with central bank

	2006	2005
Mandatory minimal reserves	78 070	50 003

The Bank maintained the balance of mandatory minimal reserves in accordance with the NBS regulation and paid interest of 1.5% p.a. in 2005 and 2006.

12. Due from banks

	2006	2005
Due from banks on request	29 320	18 778
Loans granted to central bank (REPOs)	1 243 576	880 598
Term deposits	462 545	383 841
Total	**1 735 441**	**1 283 217**

As at 31 December 2006, the average fixed interest rate on amounts due from banks was 4.6% p.a. (as at 31 December 2005: 2.99%).

13. Loans and advances to customers

Structure of loans by types and debtors:

	2006	2005
Construction loans and bridging loans - individuals	2 302 589	2 093 955
Employees loans	3 825	3 081
Construction loans and bridging loans – entities	48 561	—
Total loans to customers (gross)	**2 354 975**	**2 097 036**
Other receivables from clients	2 590	2 018
Total loans and advances to customers (gross)	**2 357 565**	**2 099 054**
Provision for credit impairment	(161 919)	(61 130)
Total loans and advances to customers (net)	**2 195 646**	**2 037 924**

As at 31 December 2006, the average fixed interest rate on loans and advances to customers was 4.8% p.a. (as at 31 December 2005: 6.2% p.a.).

14. Financial investments – available for sale and held to maturity

	2006	2005
State bonds with coupon	1 951 803	1 512 027
Bonds issued by commercial banks	355 737	366 980
Securities - Available For Sale	**2 307 540**	**1 879 007**
State bonds without coupon	289 663	280 501
State bonds issued by NBS without coupon	149 100	199 757
Bonds with coupons	221 621	226 787
Securities – Held to maturity	**660 384**	**707 045**
Total	**2 967 924**	**2 586 052**

As at 31 December 2006, the average fixed interest rate on securities - Available for sale was 4.39% p.a. (as at 31 December 2005: 4.69% p.a.) and on securities - Held to maturity was 3.49% p.a. (as at 31 December 2005: 3.08% p.a.).

15. Property, plant and equipment

Additions and disposals of tangibles:

	Build-ings	Leased assets	Other tangibles	Acquisition of tangibles	Totals
Acquisition costs					
1 January 2006	3 078	4 704	41 935	1 254	**50 971**
Additions	0	0	5 571	4 132	**9 703**
Disposals	0	2 207	5 998	5 386	**13 591**
31 December 2006	3 078	2 497	41 508	—	**47 083**
Accumulated depreciation					
1 January 2006	572	1 378	38 447	—	**40 397**
Additions	154	994	2 315	—	**3 463**
Disposals	0	940	5 697	—	**6 637**
31 December 2006	726	1 432	35 065	—	**37 223**
Net book value					
31 December 2005	**2 506**	**3 326**	**3 488**	**1 254**	**10 574**
31 December 2006	**2 352**	**1 065**	**6 443**	**—**	**9 860**

16. Intangible assets

Additions and disposals of intangible assets:

	Software	Acquisition of intangibles	Total
Acquisition costs			
1 January 2006	103 500	2 337	**105 837**
Additions	16 804	14 468	**31 272**
Disposals	0	16 805	**16 805**
31 December 2006	120 304	0	**120 304**
Accumulated depreciation			
1 January 2006	75 282	—	**75 282**
Additions	20 234	—	**20 234**
Disposals	0	—	0
31 December 2006	95 516	—	**95 516**
Net book value			
31 December 2005	**28 218**	**2 337**	**30 555**
31 December 2006	**24 788**	**0**	**24 788**

17. Deferred tax assets

Deferred income taxes are calculated on all temporary differences arising under the liability method. The calculation in 2006 was performed using the principal tax rate of 19% (2005: 19%).

	2006	2005
Tax base	0	0
Deferred tax assets		
Bad debt provisions	16	5 515
Amortisation of fees	5 399	5 429
Unpaid balances	432	599
Provisions	4 798	4 011
Tax loss from previous periods	7 788	—
Deferred tax assets: total	**18 433**	**15 554**
Deferred tax liabilities:		
Unpaid overdue interest	—	(20)
Tangibles	(67)	0
Reserves on standard receivables and standard with objection	(153)	(230)
Securities – Available for sale (revaluation reserve)	(2 750)	(14 707)
Deferred liabilities: total	**(2 970)**	**(14 957)**
Net deferred tax asset	**15 463**	**597**
Impairment of deferred tax asset	(15 463)	(597)
Total	**0**	**0**

Bank applied prudential principle and did not account for deferred taxes in accounting period ending 31 December 2006 and in accounting period ending 31 December 2005.

18. Other assets

	2006	2005
Other debtors	668	1 600
Advances	2 696	2 808
Settlement with state budget	1	177
Deferred expense and income	1 060	978
Inventory	997	827
Provision for credit impairment	(429)	(369)
Total	**4 993**	**6 021**

19. Due to customers

	2006	2005
Deposits from clients	6 189 229	5 263 213
Other liabilities toward clients	45 732	44 058
Total	**6 234 961**	**5 307 271**

Due to customers comprises construction deposits from clients. Deposits include interest and state premium denominated in the Slovak currency. As at 31 December 2006, the average fixed interest rate on amounts due to customers was 2.81% p.a. (as at 31 December 2005: 2.81%).

20. Other liabilities

	2006	2005
Finance lease liabilities	883	2 651
Other creditors	7 128	5 805
Employees liabilities	2 362	2 364
Other liabilities	11	—
Other taxes payable	1 591	1 177
Withholding tax payable	28 935	16 817
Settlement with social security	1 248	1 684
Accrued expenses	8 854	13 591
Total	**51 012**	**44 089**

Accrued expenses include accruals for unspent vacation, unpaid salary and uninvoiced deliveries. Withholding tax payable relates to income tax from the interest expense credited on customers accounts.

21. Provisions

	2006	2005
Legal cases provision	295	295

	2006	2005
Opening balance	**295**	**927**
Creation	—	—
Release	—	(632)
Closing balance	**295**	**295**

22. Due to banks – subordinated loan

	2006	2005
Bank borrowings	210 000	60 000
Accrued interest from bank Borrowings	469	349
Total	**210 469**	**60 349**

ČSOB stavebná sporiteľňa,a.s. received loans from its parent company Československá obchodní banka, a.s. registered in Prague with subordinate conditions:

- in 2002 - loan of SKK 60 mill. due in 2008 with interest rate of 6.15%p.a.
- in 2006 – loan of SKK 150 mill. due in 2016 with interest rate stated as average BID and OFFER of 3M BRIBOR + margin of 1.10% p.a.

23. Available for sale reserve

	2006	2005
Revaluation difference – ŠP	6 707	61 966
Revaluation difference – HZL	7 765	15 441
Total revaluation difference	**14 472**	**77 407**

24. Other capital reserve

	2006	2005
Legal reserve fund	3 870	3 642

25. Financial risk management

a) Financial risk factors

The Bank's activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates and interest rates. The Bank's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise any potential adverse effects on the financial performance of the Bank. The policies applied to risk-management are those of the ČSOB Group.

b) Credit risk

The Bank has no significant concentrations of credit risk. The Bank has policies in place to ensure that sales of its financial products are made to retail and wholesale finance customers with an appropriate credit history. The Bank has policies in place that limit the amount of credit exposure to any one customer.

c) Foreign exchange risk

The Bank is not licensed for FX trading as at 31 December 2006. As at 31 December 2006 Bank did not account for assets or liabilities in foreign currency.

d) Interest rate risk

In accordance with the approved strategy for interest rate risk management, the Bank uses gap analysis for the identification, monitoring, measurement and minimisation of interest rate risk.

The Bank uses interest rate risk limits as assurance that the risks the Bank faces do not exceed the risk limit it is willing to bear and capable of bearing. These limits are monitored on a monthly basis.

In the form of stress scenarios, the Bank regularly tests the impact of negative events on the financial position.

The following table contains assets and liabilities of the Bank in carrying values, sorted according to settlement dates, re-pricing or due dates. Non-financial assets and liabilities are shown in the non-specified category.

As at 31 December 2006	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Non specified	Total
Assets							
Due from banks and cash	1 603 121	98	292	60 000	150 000	0	1 813 511
Due from customers	47 734	75 025	273 071	1 568 639	154 762	76 415	2 195 646
Financial investments – Available for sale and Held to maturity	644 190	189 718	23 747	1 507 743	602 526	0	2 967 924
Property and equipment	0	0	0	0	0	9 860	9 860
Intangible assets	0	0	0	0	0	24 788	24 788
Other assets	0	0	0	0	0	4 993	4 993
Total assets	**2 295 045**	**264 841**	**297 110**	**3 136 382**	**907 288**	**116 056**	**7 016 722**
Liabilities							
Due to banks	0	150 121	348	60 000	0	0	210 469
Due to customer	1 396 748	273 348	1 476 893	2 897 261	122 072	68 639	6 234 961
Other liabilities	118	0	369	396	0	50 129	51 012
Provisions	0	0	0	0	0	295	295
Equity	0	0	0	0	0	519 985	519 985
Total liabilities	**1 396 866**	**423 469**	**1 477 610**	**2 957 657**	**122 072**	**639 048**	**7 016 722**
Net interest rate gap	**898 179**	**(158 628)**	**(1 180 500)**	**178 725**	**785 216**	**(522 992)**	**0**

As at 31 December 2005	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Non specified	Total
Total assets	1 107 682	412 358	429 049	3 438 780	490 201	131 747	6 009 817
Total liabilities	282 957	290 987	337 840	2 945 922	1 450 223	701 888	6 009 817
Net interest rate gap	**824 725**	**121 371**	**91 209**	**492 858**	**(960 022)**	**(570 141)**	**0**

e) Liquidity risk

Prudent liquidity risk management entails maintaining sufficient cash and ensuring available funding through committed credit facilities to finance the operations of the Bank. Due to the nature of the business, the Bank aims at maintaining funding flexibility by keeping committed credit lines available. Important events in liquidity risk management are discussed on a regular basis.

Liquidity is managed on a daily basis. The Bank uses scenarios with different assumptions of liquidity evolution and the Bank follows the preset limits. In the event of liquidity problems, the Bank has prepared an emergency plan for liquidity management.

The table below introduces an analysis of assets and liabilities according to the due date from the balance sheet date to the due date agreed in the contract.

As at 31 December 2006	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Non specified	Total
Assets							
Due from banks and cash	1 603 121	98	292	60 000	150 000	0	1 813 511
Due from customers	47 734	75 025	273 071	1 568 639	154 762	76 415	2 195 646
Financial investments – Available for sale and Held to maturity	644 190	189 718	23 747	1 507 743	602 526	0	2 967 924
Property and equipment	0	0	0	0	0	9 860	9 860
Intangible assets	0	0	0	0	0	24 788	24 788
Other assets	170	563	1 046	676	0	2 538	4 993
Total assets	**2 295 215**	**265 404**	**298 156**	**3 137 058**	**907 288**	**113 601**	**7 016 722**
Liabilities							
Due to banks	0	121	348	60 000	150 000	0	210 469
Due to customer	1 396 748	273 348	1 476 893	2 897 261	122 072	68 639	6 234 961
Other liabilities	41 297	0	369	396	0	8 950	51 012
Provisions						295	295
Equity	0	0	0	0	0	519 985	519 985
Total liabilities	**1 438 045**	**273 469**	**1 477 610**	**2 957 657**	**272 072**	**597 869**	**7 016 722**
Difference	**857 170**	**(8 065)**	**(1 179 454)**	**179 401**	**635 216**	**(484 268)**	**0**

As at 31 December 2005	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Non specified	Total
Total assets	1 109 105	418 517	430 407	3 439 031	490 201	122 556	6 009 817
Total liabilities	320 644	291 164	337 840	2 945 922	1 450 223	664 024	6 009 817
Difference	**788 461**	**127 353**	**92 567**	**493 109**	**(960 022)**	**(541 468)**	**0**

f) Operating risk

Operating risk arises from inappropriate or faulty internal processes, from human errors, systems failure or external events.

Operating risk management is primarily assured by responsibilities and defining working methods in order to minimise possible errors and resulting losses.

Identification and monitoring of operational risk takes the form of operating risk data-collection and assessment of risks by employees of the Bank.

In 2005, standards to process controls and the Bank`s regulations were implemented in order to counter operational risk. In the event of extraordinary situations, the Bank has prepared a plan to maintain the security of its ongoing business.

26. Related party transactions

The Bank undertakes some banking operations with related parties. The management is confident that the related parties transactions are performed on the same terms, including interest rates, as comparable transactions with other clients and these transactions do not bear any different credit, interest rate or liquidity risk.

The Bank has performed operations during the accounting period in question with the following related parties:

Parent company: Československá obchodní banka, a.s. Praha

Companies under common control:

Československá Obchodní Banka, a.s. , zahraničná pobočka v SR (ČSOB)

ČSOB Leasing, a.s.

ČSOB Poisťovňa, a.s.

ČSOB Distribution, a.s.

Members of management board and their close relatives.

Expenses with related parties

	Company in group / other related parties	2006	2005
Interest expense from subordinate loan	ČSOB	3 862	3 741
Finance lease expense	ČSOB Leasing, a.s.	371	728
Insurance expense	ČSOB Poisťovňa, a.s.	657	516
IT services	ČSOB	1 218	1 386
Other	ČSOB	425	263

Revenues with related parties

	Company in group / other related parties	2006	2005
Interest revenue from mortgage letter of lien	ČSOB	10 956	10 950
Interest revenue – current account	ČSOB	9	8
Interest revenue – term deposits	ČSOB	11 246	10 417
Other operating income	ČSOB	2 820	1 291

Receivables from related parties

	Company in group / other related parties	2006	2005
Term deposits	ČSOB	297 500	278 829
Current accounts	ČSOB	791	560
Securities	ČSOB	228 714	234 646
Other receivables	ČSOB	27 261	17 858
Other receivables	ČSOB Poisťovňa, a.s	231	—
Other receivables	ČSOB Distribution, a.s.	—	976
Loans granted to related parties		—	94

Liabilities to related parties

	Company in group / other related parties	2006	2005
Subordinate liabilities	ČSOB	210 469	60 349
Finance lease	ČSOB Leasing, a.s.	883	2 651
Other liabilities	ČSOB	181	6
Liabilities towards related parties		435	361
Other liabilities – finance lease	ČSOB Leasing, a.s.		96

Off-balance sheet

	Company in group / other related parties	2006	2005
Other assets – securities ČSOB	ČSOB	1 364 000	714 000

27. Fair values

The following table shows the main groups of financial assets and liabilities where carrying value differs from its real value:

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Loans to customers	2 224 062	2 444 669	2 066 497	2 245 497
Financial investments - held to maturity	660 384	647 379	707 045	695 608

The Bank has used the following assumptions and methods to establish fair values:

Amounts due from banks

The carrying values of the Bank's current accounts are approximately the same as their fair values. Almost all inter-bank placements are made on a short-term period and their carrying values approximate to their fair values.

Investment securities

Only financial investments held to maturity have different carrying and fair values because financial investments available-for-sale are stated at their fair values. The fair values of held-to-maturity financial investments are stated based on their quoted market values. The market values are obtained from the stock exchange quotations if the securities are actively traded or quoted by market-makers. If the market quotations are not available, the fair values are estimated using internal models and market interest rates relevant for similar instruments.

Loans and receivables from clients

The fair values of the loans receivables were estimated by discounting the future cash-flows to present value using the current market rates offered for the loan products.

Amounts due to banks and subordinated debt

Carrying values of loan accounts are deemed to be fair values. The fair values of loans from other banks were estimated by discounting future cash-flows to present value using current market rates on the inter-bank market.

Amounts due to clients

The fair values of the amounts due to clients are the same as the carrying values, because the deposits are obtained without any specified maturity and could be withdrawn on demand.

28. Post balance sheet events

There are no post balance sheet events that could influence the financial statements.

29. Transition to IFRS

The financial statements of the Bank were prepared in accordance with IFRS. The accounting principles in accordance with IFRS were applied in the preparation of the opening balance-sheet as at 1 January 2005, which is the date of transition to IFRS. When preparing the opening balance sheet in accordance with IFRS, the Bank adjusted amounts presented in the past in the financial statements prepared in accordance with the Slovak accounting standards 'Slovak GAAP'. The transition from Slovak GAAP to IFRS affected the Bank's financial position and financial performance as set out in the following tables.

Shareholders' equity

Reconciliation of the Slovak GAAP ('SAS') and the IFRS equity as at the transition date (1 January 2005) and as at the balance sheet date of the last financial statements prepared in accordance with Slovak GAAP (31 December 2005) is set out below:

	31 December 2005	1 January 2005
Shareholders' equity - Slovak GAAP	**644 066**	**579 087**
Adjustments in respect of:		
Start-up costs	—	(2 077)
Amortised cost adjustment	(28 574)	(25 054)
Impairment provisions	(2 728)	(10 035)
Correction in SAS- interim loans classification	(25 064)	—
Correction of deferred tax	10 113	7 061
Shareholders' equity – IFRS	**597 813**	**548 982**

Profit for the year

A reconciliation of the profit presented in the last financial statements prepared in accordance with Slovak GAAP and IFRS profit for the year ended 31 December 2005 is set out below:

	2005
Profit for the year - Slovak GAAP	**2 280**
Adjustments in respect of:	
Start-up costs	2 077
Amortised cost adjustment	(3 520)
Impairment provisions	7 307
Correction in SAS- interim loans classification	(25 064)
Correction of deferred tax	(11 656)
Loss for the year – IFRS	**(28 576)**

Start-up costs adjustment represents a difference in recognition of the initial costs of foundation in accordance with SAS and IFRS.

Amortised cost adjustment represents a difference in recognition of interests in accordance with SAS and IFRS. IFRS require that interest income is recognized by using the effective interest rate for all types of financial instruments.

Impairment provision adjustment relates to the different provisioning policy applied by the bank in accordance with IFRS and SAS.

Interim loans classification relates to the incorrect classification of the interim loans in accordance with SAS.

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