SLOVENSKÁ SPORITEĽŇA

Member of Erste Bank Group

Annual Report 2005

SLOVENSKÁ SPORITEĽŇA

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Company at a Glance

Registered Office:	Suché mýto 4
	816 07 Bratislava
	Slovak Republic
Company Identification Number (IČO):	00151653
Legal form:	Joint stock company
Line of business:	Universal bank

Shareholders as of 31 December 2005:	Erste Bank 100%
Significant participation interests:	
Asset Management Slovenskej sporiteľne, správ. spol., a. s.	100.00%
Derop B.V.	100.00%
Factoring Slovenskej sporiteľne, a. s.	90.00%
Leasing Slovenskej sporiteľne, a. s.	96.66%
Poisťovňa Slovenskej sporiteľne, a. s	33.33%
Slovak Banking Credit Bureau, spol. s r. o	33.33%
Erste Corporate Finance, a. s.	25.00%
SporDat, s. r. o.	23.50%
Prvá stavebná sporiteľňa, a. s.	9.98%

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	www.slsp.sk
	postmaster@slsp.sk

Ratings of Slovenská sporiteľňa, a. s.
as of 31 December 2005

Fitch Ratings	
Long-term liabilities	A-
Short-term liabilities	F2
Individual rating	C/D
Outlook	stable
Moody's Investors Service	
Long-term liabilities	A2
Short-term liabilities	P1
Financial strength	D+
Outlook	stable

Results and selected indicators

According to IFRS Prepared in accordance with the International Financial Reporting Standards	as of 31 Dec 2002 (MSKK)	as of 31 Dec 2003 (MSKK)	as of 31 Dec 2004 (MSKK)	as of 31 Dec 2005 (MSKK)
Balance sheet total	205 037	208 338	238 243	258 992
Receivables from banks	61 464	27 380	63 805	67 681
Receivables from clients	38 475	54 691	62 609	96 928
Securities and participations	86 803	114 367	100 906	84 066
Liabilities towards clients	174 789	172 335	175 094	177 550
Shareholders' equity	12 784	15 515	17 782	19 151
After tax profit	1 230	2 731	3 126	3 572

Selected ratios

ROE	10.2%	19.2%	19.7%	19.3/20.7%**
ROA	0.6%	1.3%	1.4%	1.3%
Cost income ratio	66.8%	52.0/62.2%*	56.6%	55.5%
Non-interest income to Operating income	23.4%	26.4%	29.8%	32.2%
Net interest margin	3.9%	5.54/4.4%*	3.9%	3.2%
Loans to Deposits ratio	22.0%	31.7%	35.8%	54.6%
Capital adequacy (%) according to NBS	22.5%	24.3%	16.46%***	11.01%

* without effect of PSS

** without the equity reserves for securities available for sales

*** based on the provision of the NBS, consolidated capital adequacy is computed according to the consolidated Slovak statutory statements

Amounts in years 2002 and 2003 do not reflect effect of changes in structure and revaluation of securities portfolios according to Revised IAS 39.

Other figures

Number of employees	5 570	5 300	5 233	4 901
No. of branches	353	339	336	302
No of ATMs	423	439	483	519
No of Payment cards	886 620	958 720	1 058 565	1 086 318
Year-end SKK/EUR exchange rate	41.7	41.2	38.8	37.8

Macroeconomic Environment

Strong economic growth continues

The Slovak economy has for a fourth year in a row confirmed its leading position as the fastest-growing economy in Central Europe. In 2005, gross domestic product increased in real terms by 6%. As for expenditures, domestic demand continued to be the driving force, largely in the form of household consumption and spending related to new foreign investment and to infrastructure construction. Positive economic development was also experienced by households since unemployment declined and combination of low inflation and sharply rising nominal wages increased real wages by favourable 6.3%.

Inflation keeps downward course

Downward inflation trend continued in 2005. The average rate of inflation fell to 2.7% from the 7.5% recorded in 2004. The price growth was dampened not only by the slower year-on-year growth of regulated items, but also by the favourable development of food prices. Strengthening of the Slovak koruna at the beginning of the year was another disinflationary factor that put downward pressure on import prices, thus resulting in cheaper consumer goods. Conversely, the pro-inflationary effect of higher oil price was reflected in increased prices of heat and gas for households. Despite the strong growth in household consumption, the structure of inflation did not show any signs of undesired demand-side pressures.

Public finance development helps improve rating

In accordance with the Convergence Program, the Slovak Government succeeded in further reducing of public finance deficit. Strong economic growth improved tax receipts, while low interest rates made the state debt service cheaper. The public finance deficit therefore decreased faster than expected to stand at 3.1% of GDP as compared with a projected gap of 3.4%. Owing to positive economic development, fiscal discipline and a reasonable plan for euro adoption, three main international rating agencies upgraded Slovakia’s ratingover the course of the year. The last one to raise the rating was S&P whose evaluation of Slovakia's long-term foreign currency liabilities made Slovakia the top-ranking country in the V4 region.

Koruna exchange rate continues to strengthen

At the beginning of the year, koruna continued to appreciate against euro and surpassed one record after another. The NBS sought to slow down the strengthening pace by major interventions and by reducing the two-week repo rate by a further percentage point, bringing it to 3%. Investors later became less interested in Central European currencies, notably due to growing speculation over rate growth in the United States. The temporary weakening affected also the Slovak koruna, which lost the gains made since the beginning of the year. Koruna managed to make substantial and long-term gains by year-end. Koruna recorded a year-on-year appreciation against euro by 2.4%.

Central bank begins preparing for euro adoption

Important change in monetary policy took place in November 2005 when the National Bank of Slovakia announced accession to ERM II. Under this regime, the koruna/euro exchange rate is not allowed to fluctuate by more than +/-15% around the central rate of 38.455 for at least two years. This is fully in accordance with Slovakia's ambition to adopt the common European currency in January 2009. Towards the end of the year, NBS rhetoric on the need to reduce inflation below 2% by 2007 became tougher. In this context, interbank market interest rates slightly increased from their all-time low.

Top Management of Slovenská sporiteľňa

REGINA OVESNY-STRAKA
Chairperson of the Board of Directors and General Manager

Mag. Regina Ovesny-Straka is an Austrian citizen. She studied economics at the Vienna University of Economics and Business Administration. Between 1982 and 1994, she worked for Creditanstalt Bankverein in Vienna, starting in the Public Relations Department and then moving to the Retail Banking Department in 1985. In 1992, she became manager of the Julius Tandler-Platz Branch. Based in Slovakia since 1994, she served until 1999 as a member and spokesperson of the Board of Directors of Creditanstalt, a. s., Bratislava. When Bank Austria merged with Creditanstalt in 1999, she became Chairperson of the Board of Directors of Bank Austria Creditanstalt Slovakia, a. s. After Slovenská sporiteľňa was taken over by Austria's Erste Bank, she was elected Chairperson of the Board of Directors of Slovenská sporiteľňa on 4 April 2001. Her responsibilities include retail banking, marketing, communication and human resources.

ŠTEFAN MÁJ
Deputy Chairman of the Board of Directors and First Deputy General Manager

Štefan Máj is a graduate of Applied Information Technology at the University of Economics in Bratislava, where he specialised in automated management systems. Between 1991 and 1995, he worked for Slovenská sporiteľňa, first as head of the Property Management Staff Unit, then as head of the Technology Division, and finally as a member of the Board of Directors. In 1995, he joined Komerční banka, a. s., Bratislava, serving as a member of the Board of Directors and Deputy CEO until December 1998, when he returned to Slovenská sporiteľňa to become Deputy Chairman of the Board of Directors and First Deputy General Manager. He made a significant contribution to privatisation process of the bank both as Chairman of the Slovenská sporiteľňa Privatisation Preparation Commission and as a member of the Steering Group for Restructuring and Privatisation of Selected Banks and Corporate Sector Restructuring at the Slovak Ministry of Finance. His responsibilities include controlling and risk management.

PETER KRUTIL
Member of the Board of Directors
and Deputy General Manager

Peter Krutil graduated from the Management Faculty at the University of Economics in Bratislava. He took various courses related to financial markets and securities trading and served internships with Creditanstalt Vienna and Creditanstalt London. Between 1991 and 1993, he was a securities trader for VÚB, a. s., Bratislava, where he worked on the listing of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka, a. s., Bratislava as a dealer on the money and capital market. Later he took up an executive position at Creditanstalt Securities, o.c.p., a.s., Bratislava, where he worked until 1998, finally becoming a member of the Board of Directors. In 1998, he moved to the Slovak Ministry of Economy, and in December he was elected a member of the Board of Directors and Deputy General Manager of Slovenská sporiteľňa,a.s. His responsibilities include financial markets and corporate customers.

SAMUEL VLČAN
(since 21 December 2005)
Member of the Board of Directors
and Deputy General Manager

Samuel Vlčan graduated from the Faculty of Law at the Comenius University, studied at the Moscow Institute of International Affairs, at the Faculty of Law at the Universität Bremen, he has professional experience as a lawyer in Slovakia as well as abroad. From 1997 to 1999, he worked as a head of the Legal Department in Bank Austria (SR), a. s. In 1999, he became a Head of the Legal Department and member of the Credit Committee of Bank Austria Creditanstalt Slovakia, a. s. From 2001, he acted as a head of the Legal Department Staff Unit, procura holder and compliance officer of Slovenská sporiteľňa. At the same time he acted as a member of the Supervisory Board of Sporing, a. s. Samuel Vlčan is a member of a number of professional and counseling institutions such as the Legal Committee of the European Bank Federation and is a Chairman of the Committee for Legal and Business Environment of the Slovak Bank Association. Since 1 January 2006, he serves as a member of the Board of Directors of Slovenská sporiteľňa. His responsibilities include management of services provided to small and medium-sized enterprises, special financing, subsidiaries and legal services.

MICHAEL VOGT
Member of the Board of Directors
and Deputy General Manager

Michael Vogt is an Austrian citizen. He graduated from the Vienna Business School. Between 1982 and 1992, he worked for Donau-Bank AG Vienna in IT-related positions. In 1992 – 1993, he was with MMI Informatik Zurich as a project manager in charge of implementing banking software in two Czech banks. In 1994, he joined Bank Austria Creditanstalt Hungary where he worked until 1998 as a head of the Operations Division. In 1998, he became a member of the Board of Directors of Erste Bank Hungary. In April 2001, he was elected a member of the Board of Directors of Slovenská sporiteľňa, a. s. with responsibility for information technologies.

OSKAR SOTÁK
(until 21 December 2005)
Member of the Board of Directors
and Deputy General Manager

Oskar Soták graduated from the Business Faculty at the University of Economics in Bratislava and also studied banking management and banking products at IIF Amsterdam and at INSEAD Fontainbleau. From 1988 to 1991, he worked for ČSOB, a.s. Bratislava in the Foreign Exchange Financing Department. Between 1992 and 1999, he was employed at the Bratislava branch of ING Bank, first as head of the Corporate Customers Department and later as head of an Corporate and Investment Banking Integrated Division.. From 1997 to 1999, he concurrently served as a member of the Board of Directors of ING Barings Securities (Slovakia) o.c.p., a.s. In 1999, he joined Moravia Steel, a.s., Czech Republic, as Chairman of the Board of Directors and CEO. In May 2001, he was elected a member of the Board of Directors of Slovenská sporiteľňa with responsibility for corporate banking. As of 1 January 2006, he ceased to be a member of the Board of Directors and now heads a strategically important project aimed at developing and preparing investment alternatives for corporate customers.

SUPERVISORY BOARD OF SLOVENSKÁ SPORITEĽŇA

REINHARD ORTNER
Chairman of the Supervisory Board

ANDREAS TREICHL
Deputy Chairman of the Supervisory Board

MANFRED WIMMER
Member of the Supervisory Board

HEINZ KESSLER
Member of the Supervisory Board

CHRISTIAN CORETH
Member of the Supervisory Board

HERBERT JURANEK
Member of the Supervisory Board

BEATRICA MELICHÁROVÁ
Member of the Supervisory Board

JÁN TRGIŇA
Member of the Supervisory Board

EVA STRIEBLIKOVÁ
(since 15 June 2005)
Member of the Supervisory Board

Address by the Chairperson of the Board of Directors and the General Manager

Dear shareholders, dear customers,

It is a pleasure to report that Slovenská sporiteľňa can again look back on an exceptionally successful year. We substantially surpassed our targets and improved results of previous years. Our position as the largest and strongest bank in Slovakia was confirmed and strengthened. We continued to lead the market in total assets volume, retail deposits, total deposits, assets under management in mutual funds, and the number of sales points and ATMs. Moreover, in 2005, we became a leader in retail and total loans volume in the Slovakia.

The Slovak banking market grew significantly last year. The volumes managed by Slovenská sporiteľňa copied this development and in retail and corporate lending we even surpassed the market growth. This success is apparent in the bank's financial highlights. Its net profit after tax increased by 14% to stand at SKK 3.572 million, while the ratio of general operating costs to income decreased to 55.45%. Further evidence of the bank's outstanding performance was ROE, which reached 20.7% (without effect of changes in IFRS as of January 1st, 2005).

Corporate sector in Slovakia was affected by lowest ever interest rates that put downward pressure on the net interest rate margin. Nevertheless, we managed to turn this into an advantage. Volume of loans increased by about 55% mainly due to streamlining of lending process and launch of new products. Our biggest success was achieved in loans secured by real estates which accounted for more than half of newly provided retail loans. The sharp growth in secured loans contributed to loan portfolio quality improvement and at the same time reduced the risk of default.

Despite slight stagnation in the corporate banking market and the rapidly growing competition following Slovakia's accession to the EU, we succeeded in increasing the volume of corporate loans to Small and Medium-sized Enterprises (SMEs) by 60% last year. Developer projects financing proved an outstanding success, with our volume of assets in this area growing more than three times year-on-year. Financing of Small and Medium-sized Enterprises also flourished.

Regina Ovesny-Straka
Chairperson of the Board of Directors and General Manager

Growing investment in mutual funds and capital life insurance underpinned a slight growth in customer deposits. We strengthened our position as the leader in assets under management in mutual funds and moved to second place in new production of life insurance products.

Our successful business strategy is also visible in ever growing income from transaction business. Our ATM network was upgraded and customers now have more than 500 new POS terminals at their disposal. As a result, both the number and volume of transactions rose and helped the bank increase its non-interest income. For the first time, the volume of transactions processed by our authorisation centre exceeded SKK 100 billion. As for cross-border transactions, we are working to make them easier for our clients. Cash transfers between banks within the Erste Bank Group are already cheaper and faster, taking only one day instead of three days it used to take in the past.

Card business is also thriving. We issued almost 38,000 new payment cards last year, bringing the total number in circulation to nearly one million and one hundred thousand. The number of electronic banking users is growing substantially – by more than 30% as compared with 2004 and reached more than 300,000. In 2005, Slovenská sporiteľňa as the first bank in Slovakia launched Databanking, a new product for corporate entities. Databanking facilitates direct interconnection of the companies' financial systems with the bank.

Our subsidiaries, too, can reflect a successful year 2005. Asset Management Slovenskej sporiteľne controls more than a quarter of the collective investment market, making it the largest asset management company on the Slovak market. Last year, the company managed assets worth more than SKK 32.5 billion for 174,000 unit holders. The company's net sales grew by 44% year-on-year. The bank also reported notable success in receivables financing and management, with Factoring Slovenskej sporiteľne confirming its obvious leading position in terms of total turnover. Last year, the company launched eFactoring, a new service which has given customers 24-hour access to information on their factoring transactions, thus enabling them to better plan business activities and financial flows. Poisťovňa Slovenskej sporiteľne confirmed its top-three position with new life insurance production. We are really pleased to stress that the company made a first annual profit after just two and a half years of selling life insurance. Another subsidiary that did well last year is Leasing Slovenskej sporiteľne, which reported a year-on-year increase of 182% in the number of concluded contracts and a more than twofold rise in the volume of transactions.

The progress made by Slovenská sporiteľňa last year was acknowledged by numerous awards it won, both at home and abroad. The prestigious magazine Euromoney declared it the Best Bank in Slovakia, while The Banker named it Bank of the Year in Slovakia. Slovak economic weekly Trend awarded Slovenská sporiteľňa the second place in the Bank of the Year category on the basis of exceptional financial results. Further recognition of the bank's quality came from Deutsche Bank, which conferred its "Excellence Award" for quality of foreign payments in both euros and dollars. According to a survey conducted by GfK Koloseum in 2005, the public in Slovakia perceive Slovenská sporiteľňa as "The Best Brand in Slovakia" within the banks category.

This success proves that the route Slovenská sporiteľňa set out on five years ago – after being taken over by one of the largest banking houses in the region, Erste Bank – has been right for all of us – shareholders, more than two and a half million customers, and almost 4,800 employees. I would therefore like to extend my thanks to our staff for their daily efforts and to our shareholders, customers and business partners for their cooperation and trust. I am sure that our common effort will bring further excellent results for this year.

Regina Ovesny-Straka
Chairperson of the Board of Directors and General Manager

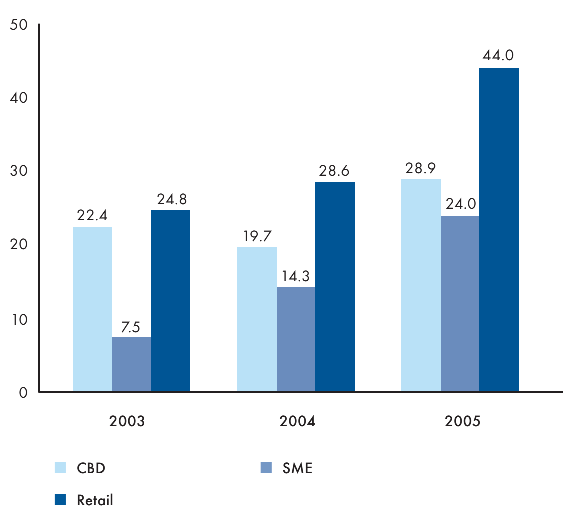
Management Report on Activities in 2005

REVIEW OF FINANCIAL RESULTS FOR 2005

Balance sheet changes

Slovenská sporiteľňa reported total consolidated assets of SKK 259 billion, an increase by SKK 21 billion compared to the previous year, and an 18% share on the Slovak banking market. Customer loans volume recorded the sharpest growth, increasing by SKK 33 billion (54%) and account for more than one third of the balance sheet total. Total deposits volume, shareholders' equity and the equity interests in subsidiaries also grew, and conversely, the volume of securities volume declined in accordance with expectations (due to government bonds maturity).

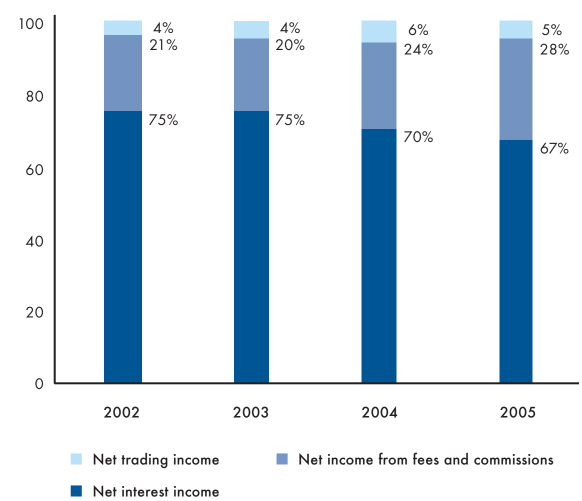
Loans to customers, segmented (SKK bn.)



Net interest income

Slovenská sporiteľňa maintained its previous year's level of net interest income. As interest rates declined and the net interest margin was gradually decreasing (reaching 3.2% in 2005, down from 3.9% a year ago), it was the liability-side margins that came under most pressure. Interest yields also fell as government securities matured. Both of these factors were ultimately counterbalanced by the high growth in retail loans and loans to SMEs (interest income from loans increased by more than 20%). As a result, the loan-to-deposit ratio improved (up to 54.6% from 35.8% in 2004) and Slovenská sporiteľňa created a solid basis for future interest income.

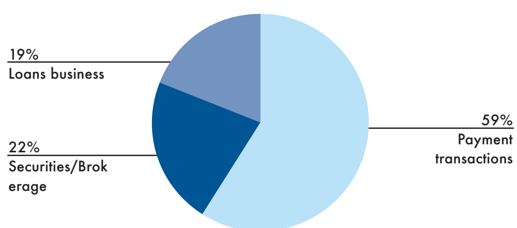
Structure of operating income



Net fee and commission income

The growing number of transactions is reflected in the rising income from fees and commissions, 59% of which came from transactions last year. Another important source of income in this area is sale of subsidiaries' products , in particular Asset Management Slovenskej sporiteľne, which increased the net asset value under management by 75% during 2005. Asset Management Slovenskej sporiteľne accounted for 14% of the consolidated fees and commissions income (compared to 8% in 2004). Likewise, increased trading volumes also boosted fees and commissions income in other subsidiaries – Factoring, Leasing and Poisťovňa Slovenskej sporiteľne.

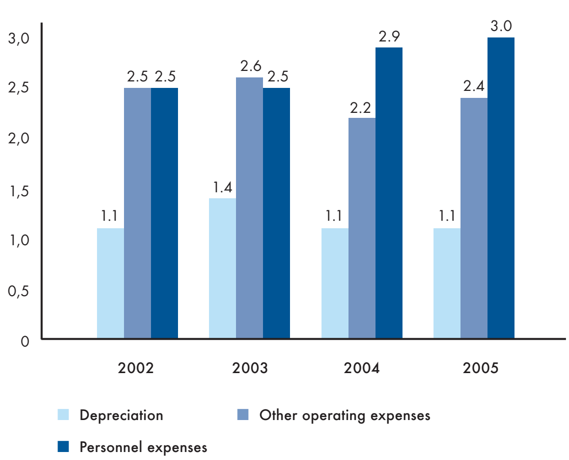
Structure of net fee and commission income (2005)



General operating expenses

Slovenská sporiteľňa managed to keep the growth of general operating expenses on 2.4% level, i. e. below the annual inflation (2.7%). The rise in personnel expenses by SKK 90 million (3%) reflected the new remuneration system based on performance bonuses linked to results in lending-business (as well as employee dividends from profits of Erste Bank Group and contributions to pension insurance).

Structure of general administrative expenses (SKK bn.)



Portfolio investments

The securities portfolio was structured using a new methodology designed in accordance with the ALCO Committee strategy. As a result of IAS amendment at the beginning of the year reallocation of securities between the AFS (Available For Sale) portfolio, HTM (Held To Maturity) portfolio and the newly-created FV (Fair Value through Profit and Loss) portfolio. Further investments in structured products were placed in the FV portfolio so as to continue the diversification of those sources of incomes that do not correspond with the bank's standard income.

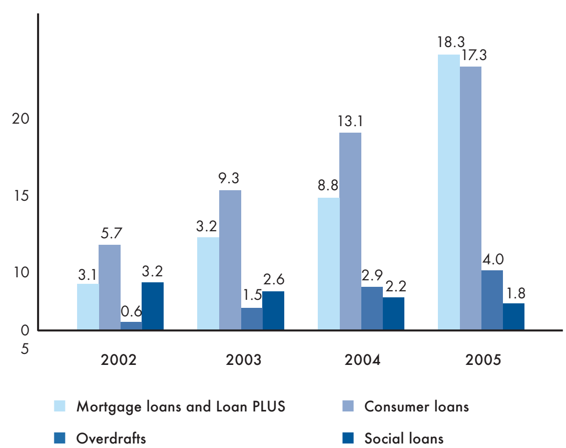
Whereas in previous years the bank regularly expanded investments in the HTM and AFS portfolios, in 2005, against a background of low interest rates, the bank decided not to invest in fixed income securities. Thus income from maturing securities, which was reinvested in the money market or used to cover the growing needs for structural liquidity prevailed in the portfolios.

RETAIL SERVICES

Slovenská sporiteľňa is a clear leader on the Slovak banking market. With almost 2.5 million mostly retail clients, Slovenská sporiteľňa serves approximately every other person in Slovakia. With more than three hundred branches and five hundred ATMs, we are the bank closest to clients. According to market research, Slovenská sporiteľňa is perceived as the strongest brand on the banking market. For the first time after its transformation, Slovenská sporiteľňa not only maintained its top position on the deposit market but also leads the whole lending market.

Loans to retail clients were among the fastest growing products provided by Slovenská sporiteľňa in 2005, reaching the year-on-year growth of 55%. As of the end of 2005, the total volume of private loans represented almost SKK 42 billion, up by SKK 15 billion in comparison to December 2004. In total, in 2005, Slovenská sporiteľňa provided more than 100,000 consumer loans, 12,500 housing loans, and almost 60,000 bank overdrafts. Owing to the total volume of private loans provided in 2005 (SKK 22 billion) Slovenská sporiteľňa became a leader among the banks operating on the Slovak banking market.

Retail loans (volume, SKK bn.)



Housing loans

As for housing loans, after cancellation of the state contribution to mortgage lending Slovenská sporiteľňa started to offer ÚverPlus (CreditPlus) instead of the standard mortgage loans since the beginning of 2005. Being simpler and faster to administer, consumer loans for housing and secured by real estate are more advantageous for both clients and the bank. Excellent sales show that customers appreciate this product. In 2005, the housing loans of Slovenská sporiteľňa totalled SKK 10.4 billion (3.5 times more compared to 2004), and thus confirmed the leading position on the housing loan market.

Consumer loans

Slovenská sporiteľňa has long led the consumer loans with market share of 36% at the end of 2005. In August 2005, the growing trend in consumer loan sales was supported by introduction of a non-purpose linked loan MINIúver (MINIloan) available within 10 minutes. More than a billion crowns were lent through MINIúver before the end of the year, reflecting the good timing of its market launch, its advantageous parameters, and the great efforts made by account managers in selling the product.

Other private loans

The most popular revolving product of Slovenská sporiteľňa, the bank overdraft, is today used by one third of its current account customers. The overdrafts provided in 2005 amounted to almost 65,000 in number and SKK 1.9 billion in volume. Slovenská sporiteľňa includes the authorized overdraft as an automatic component of its product package, in order to make it available to ever more customers.

Private deposits

Slovenská sporiteľňa continues to enhance and further diversify its product portfolio with the aim of satisfying the constantly changing savings and investments needs of clients. The bank and its subsidiaries offer clients a comprehensive product range, including mutual funds and capital life insurance. Clients are no longer satisfied with just ordinary ways of increasing the value of their funds – passbooks and term accounts. They are looking for more. Slovenská sporiteľňa understands this, and has therefore been successful in raising the volume of assets under management for private clients.

The total volume of deposits recorded a year-on-year increase by SKK 3.3 billion to SKK 176 billion, of which retail deposits accounted for SKK 116.2 billion. Retail deposits included anonymous deposits totalling SKK 1.77 billion, down by 33% year-on-year.

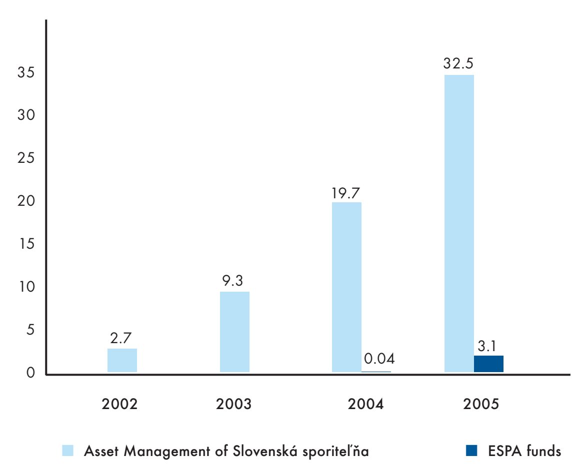
Most of the retail savings have traditionally been held in passbooks. In the most popular of them, SPOROknižka kapitál, the bank recorded almost SKK 42 billion as of the end of 2005. SPOROBonus became the most successful product, and in 2005 it reported year-on-year growth of SKK 4.8 billion.

Slovenská sporiteľňa is increasingly focused on up-to-date forms of deposit product management. In 2004, Slovenská sporiteľňa became the first bank in Slovakia to offer structured deposits, SPORObenefit, as a new form of retail savings product. In 2006, this success is followed by the guaranteed funds, that combine the guarantee of return on deposit with a threshold yield and the opportunity to participate in higher returns of higher risk assets such as stock or foreign-exchange markets. It is evident that clients understand such products and are glad to take advantage of them. Slovenská sporiteľňa will therefore continue focusing on structured products in 2006.

Mutual funds and life insurance

The popularity of collective investment is growing – last year's increase in investments in mutual funds was not only the highest ever but probably also for the next several years. Cumulative sales of mutual funds reached almost SKK 113 billion. Slovenská sporiteľňa confirmed its leading position with more than 29% market share. At he same time, the company is the leader on the market in terms of net assets value under management. Slovenská sporiteľňa approaches clients individually and provide each client with an appropriate combination of funds and new savings programs and tax benefits.

Net asset value of mutual funds (SKK bn.)



The largest fund in terms of the share of it's net asset value on the total net asset value of funds managed by the Asset Management of Slovenská sporiteľňa is the SPORO Korunový peňažný fond (SKK Money market fund, 69%), followed by SPORO Dlhopisový korunový fond (SKK Bond fund, 19%) and guaranteed funds (6%).

Along with its parent Erste Bank Group, Slovenská sporiteľňa is continually expanding its portfolio of funds. In 2005, SPORO Global Equity Fund of Funds and ESPA Stock Europe – Property (so far the only real estate fund sold in Slovakia) were successfully launched.

Slovenská sporiteľňa has a firm position also on the bank assurance market. In accordance with the methodology of the Slovak Insurers Association (SAP), the volume of written premium reached SKK 1.2 billion at the end of 2005. After three years of existence, Poisťovňa Slovenskej sporiteľne is the fifth largest provider of life insurance in Slovakia (and the second largest in terms of new production).

Customer care

Consistent implementation of the client care concept continued in 2005 with priority on high quality services.

Slovenská sporiteľňa uses other countries' experience collected and specified within the Erste Bank Group. As a result, better sales techniques further improved client services. Implementation of new sales techniques began at the end of 2005 and will continue throughout 2006. At the same time it addresses clients directly, personally and actively while offering suitable products and services not only by account managers but also by the call centre.

The bank introduced comprehensive service for corporate and private entities offered by account manager assigned to every micro-entrepreneur, trade licence holder and free profession (a "single-source service").

To underline the client approach of account managers, Slovenská sporiteľňa performs continual evaluation and upgrading of support tools. Modern client approaches are being introduced in order to create a comprehensive and integrated summary of individual clients using a variety of information sources, to confirm the loyalty and stability of existing clients, to gain new clients, and to increase the profitability of the whole client portfolio.

TRANSACTION BUSINESS

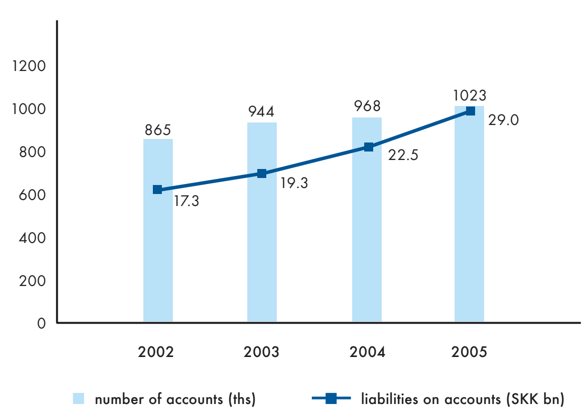
One area in which Slovenská sporiteľňa is doing outstandingly well, along with loan sales, is transaction business. Clients perform more and more cashless transactions (more than 90%) as well as use the largest ATM network and make card payments. The bank's objective to make cashless transactions more advantageous by means of fee policy is something that clients have come to understand and be familiar with.

This type of transaction is included in the package of services launched on the market in 2005. Slovenská sporiteľňa is a market leader in cashless payments in almost all segments.

Current accounts

Positive trend was recorded in retail current accounts in 2005. As of year-end, the total volume of current account deposits reached SKK 28 billion, an increase by 32% compared to the same period of the previous year. The number of current account transactions grew by 5% year-on-year, especially cashless transactions, which account for 90% of all transactions. Notable sales success was seen in the use of electronic channels, up by 30%, and POS terminals (10%). This favourable development was undoubtedly a consequence of the new package of products and services through which the bank meets client needs in electronic banking business.

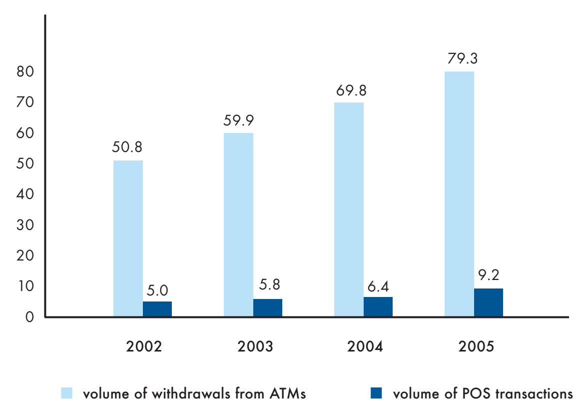
Personal accounts (thousands)



Card transactions

As for the card business, Slovenská sporiteľňa not only maintained its dominant market position in 2005 but even increased the number of issued cards by 5% to 1,086,318. Cards use also grew considerably. Almost 39 million transactions were carried out with Slovenská sporiteľňa cards presenting an increase by 10% year-on-year. Meanwhile, the number of card transactions performed through POS terminals grew by 38%. Overall volume of transactions executed with our bank cards likewise recorded substantial 16% growth, while the increase in POS terminal transaction volumes was as much as 45%. For 2006, Slovenská sporiteľňa is preparing to add a credit card to its product portfolio in order to further strengthen its leading position in the card business.

Transactions with cards issued by Slovenská sporiteľňa (SKK bn.)



Payments

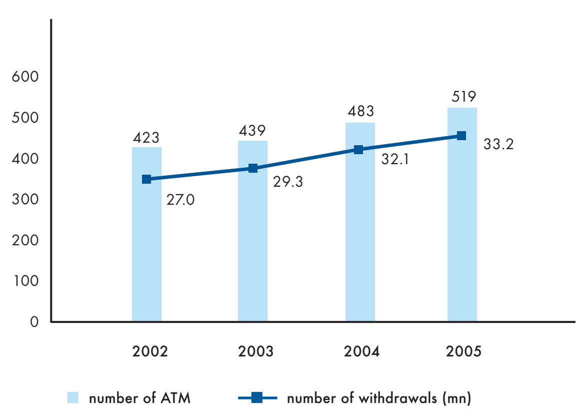
Slovenská sporiteľňa has also maintained its top position in domestic inter-bank payments, last year clearing 22% of their total number. The number of client transactions grew by 7% year-on-year. As for foreign payments, we recorded considerable growth over the past four years. In comparison with 2005, the number of foreign payments grew by 33%, with incoming foreign payments up by 46%. This growth in client transactions was facilitated by the increased of payment processing automation. For payments made to the EU member states, Slovenská sporiteľňa applies the STEP2 system for the euro payments settlement.

MULTIPLE SALES CHANNELS

ATM network

Last year, Slovenská sporiteľňa completed installation of a new generation of ATMs in order to have devices certified for VISA chip technology. In terms of hardware, all the bank's ATMs are now compatible with EMV chip technology. Slovenská sporiteľňa operates the largest ATM network in Slovakia, and having added further 35 ATMs last year, it now has 519 installations and a market share of 28%. In terms of transaction volume executed through ATMs, the market share is as high as 40%. The use of ATMs for cash withdrawals grew by 3.5% year-on-year to more than 33 million transactions.

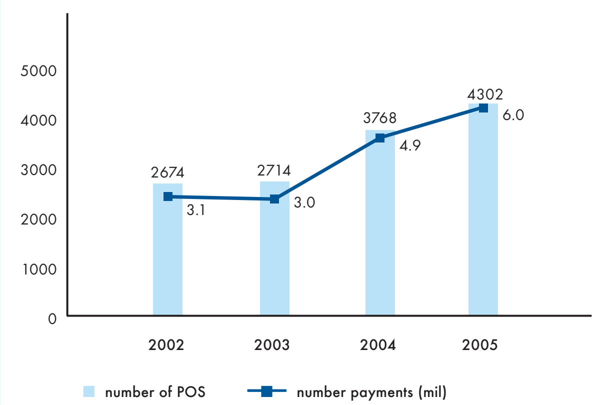
ATMs of Slovenská sporiteľňa



POS payment terminals

Replacement of POS terminals in line with preparations for VISA chip certification continued during 2005. The number of transactions processed by Slovenská sporiteľňa through POS terminals increased by 21% year-on-year, to almost 6 million. Together with VISA company, Slovenská sporiteľňa initiated creation of a new clearing centre for settlement of domestic transactions in SKK, and will act as an agent bank for all VISA members in Slovakia.

POS terminals of Slovenská sporiteľňa



Electronic banking

Slovenská sporiteľňa is intensively supporting electronic sales channels enhancement. In transaction business, Internetbanking which has been activated by more than 80% of e-banking users plays a key role. More than 40% of e-banking transactions are executed via the Internet. During last year, customers concentrated on services supporting corporate business. Multicash was added to electronic services for large corporate customers.

Call centre Sporotel

The Sporotel service holds a special place among multiple sales channels, being an add-on and provider of personal support to electronic banking services, POS terminals, ATMs and payment cards. Total number of calls made to Sporotel grew by more than 5% year-on-year and the number of transactions made via Sporotel increased by more than 16%. Support to Homebanking services was centralized in the call centre last year. Active selling of products and services over the phone was one of the major activities launched in 2005.

Databanking

Last year saw the introduction of Databanking in our portfolio of e-banking services. Databanking connects company financial systems directly with the bank. Databanking is integrated into 15 software applications accounting for 60% of the market of financial systems for Micros and SME segments. We will continue to extend the scope of Databanking and to encourage our clientele to have their financial systems linked directly to the bank through this service.

SME SERVICES

Last year, Slovenská sporiteľňa succeeded to confirm its position among the leading banks providing services to SMEs (enterprises with annual turnover between SKK 30 million and SKK 1.5 billion). Since establishment of a new SME care concept in 2002, Slovenská sporiteľňa has achieved substantial growth in this segment. This trend continued in 2005 with volume of loans up by 59% and volume of deposits higher by 23%.

Last year saw the opening of the bank's new commercial centre in Prešov bringing its total number to ten. Location of regional business centres allows their employees and product specialists to provide SMEs with high-quality and comprehensive services as effectively as possible.
Slovakia's accession to the European Union has helped to create within the country a favourable environment for the attraction of foreign investors. Our objective is to support companies entering this market and to offer services for their investments and business in Slovakia. The Bank's efforts to provide comprehensive support to existing and potential foreign clients have also resulted in establishment of the International Desk contact point, which offers foreign clients information on products and services of Slovenská sporiteľňa in three languages – English, German and Hungarian. Experience of the Erste Bank Group is applied in approach to clients who are serviced by account managers in the respective regions.

Treasury services for Small and Medium-sized Enterprises are becoming more and more important. In 2005, number of treasury contracts conducted by the SME clients rose by 44% and the total volume of trade increased by 40%. Furthermore, the income from treasury transactions grew significantly as well, ending the year 45% higher in comparison to 2004.

CORPORATE BANKING

Despite the challenging situation in the corporate banking market mainly due to the substantially growing competition after Slovakia joining the EU and due to apparent preference of foreign currency loans in the large corporate clients segment, Slovenská sporiteľňa managed to increase its assets volume by 54% to SKK 32 billion and considerably increase its market share.

Public sector
The total volume of loans to institutions from the public sector amounted SKK 2 billion, rising by SKK 0.5 billion in comparison to the previous year.

Large corporate clients
The long-term strategy of partnership between Slovenská sporiteľňa and large corporate customers (companies with annual turnover of more than SKK 1.5 billion and multinational companies) resulted in the number of clients increasing from 80 to 100 during last year and the volume of provided loans rising from SKK 19 billion at the end of 2004 to more than SKK 25 billion one year on. At the same time, the bank developed far-ranging cooperation with customers in all areas of banking products and services – especially in treasury product sales and trade financing, in the development of domestic and foreign payments and in the development of new cash management solutions.

Erste Bank's common approach to regional clients
In 2005, we were successful in several tenders organized by large corporate clients for the selection of long-term banking partners and syndicated transactions. The Erste Bank Group has further strengthened its position as a provider of services to multinational corporations by the inclusion of the Large Corporate Clients Staff Unit into the Group Large Corporates (GLC) network. The main point of GLC is to coordinate its local organizational units, to communicate with large corporate clients of Erste Bank Group and to satisfy with greater effectiveness and quality the needs of such clients in countries in which Erste Bank Group is present.

Special financing
Slovenská sporiteľňa can look back on a very successful year in special financing. In terms of project financing and public sector financing, the bank's assets grew from SKK 0.4 billion to SKK 4.4 billion. In real estate financing, we managed to increase the volume of assets more than three times from SKK 2.1 billion to SKK 7.1 billion. Among real estate financing projects, prevailing were projects for construction of office buildings and apartments. Product that became most popular is a combination commercial financing for developers and construction companies and investment and consumer loans for the future apartment owners.

FINANCIAL MARKETS

Investment in financial markets
In terms of total turnover of interest rate instruments and their derivatives, last year, the money market share of Slovenská sporiteľňa reached 12%, bracketing the bank among the three most active in Slovakia. In terms of foreign-exchange transactions it's the bank's share on inter-bank market turnover reached 22% and thus became the second best domestic bank.

Capital market trading
Of the Bratislava Stock Exchange's turnover in 2005, Slovenská sporiteľňa accounted for 46%, or SKK 923 billion, the highest share among securities traders and stock-exchange members. The bank maintained its long-term leading position also owing to successful bond trading.

Primary issues of securities
In 2005, Slovenská sporiteľňa maintained its leading position on the market of new securities issues with bond issues totalling more than SKK 3.5 billion (including own bond and mortgage bonds issues). At the same time, we continue to mediate securities trading and to make compulsory takeover bids on behalf of our customers.

HUMAN RESOURCES

Maintaining the staff stability and raising work performance continues to be the main task in the human resources area. The remuneration system was changed in 2005, the variable component of salary increased. It was linked to employees performance and personal involvement in meeting targets. Sales results and growth of average salaries prove eligibility of this decision.

Processes aimed at speeding up and improving client services underwent further optimization. Slovenská sporiteľňa had 4,762 employees at the end of 2005, a reduction by 278 compared to the previous year. Employees released due to organizational changes were offered support in terms of outplacement program as well as social aid.

Share of employees with university degree increased slightly during 2005 to almost one third of the total number of employees. The average age of employees reached 38.7 years. The proportion of women remained unchanged at 81%. Voluntary staff turnover increased slightly to 6.4% compared to 2004, indicating a healthy turnover of employees.

As for human resources management we continued in targeted support of employees development. In 2005, the third line of comprehensive development programs for managers was launched. The bank's priority is to support the internal mobility of employees and to facilitate their career development.

The same trend in education continued as in the previous year. Majority of trainings covered professional fields and sales skills training courses (58%) especially for retail and commercial centres. Managerial trainings, individual courses and language courses continued to be provided. In total, all trainings accounted for 24,704 man-days, 5.1 days per employee.

Benefits represent an important part of the remuneration system in Slovenská sporiteľňa and make employment with the bank even more attractive. Our package of employee benefits is among the most generous around. Employer's contribution to supplementary pension savings scheme continues to be the most popular benefit. By the end of last year this benefit was taken up by 73% of staff. Last year, the above-standard medical examinations for diagnosis/prevention of oncological and cardiovascular diseases continued and contributions for travel expenses and sports/cultural events were also paid out. As for the cafeteria system, employees could decide on the form of spending the contribution for workforce regeneration.

SPONSORING ACTIVITIES

Last year, Slovenská sporiteľňa focused sponsoring activities on education, culture, sport, ecology and charity. The bank continued to apply the principle of social responsibility in everyday life.

Successful cooperation with major music ensembles – the Slovak Philharmonic, the Slovak State Philharmonic of Košice, and the State Chamber Orchestra of Žilina continued. For the third year in a row the bank showed its support of young music talents by presenting them the Zlatá nota Slovenskej sporiteľne (Golden Note of Slovenská sporiteľňa) award. In addition, our general partnership with the Bratislava Jazz Days makes this annual festival a wonderful experience.

Slovenská sporiteľňa played an important role in enabling the theatres Aréna (Arena), Radošinské naivné divadlo (Naive Theatre of Radošina and Divadlo Andreja Bagara Nitra (Theatre of Andrej Bagar in Nitra) to present renowned plays of Slovak and foreign playwrights to the audience.

Support of education belongs to our major long-term interests. By investing in CISCO Networking Academy Program, Slovenská sporiteľňa became the first European financial institution to support e-learning as a modern form of education. The bank cooperates intensively with 12 universities in Slovakia. In 2005, Slovenská sporiteľňa successfully concluded the three-year cooperation with the University of Economics in Bratislava on the basis of which students had the opportunity to participate in scholarship programs at universities abroad.

Since 2002, the bank has been a major partner of the Slovan Tennis Club. Slovenská sporiteľňa has contributed to a great success of the Slovak Association of White Water Canoeing in international championships and supported young promising talents in developing their sports skills.

Slovenská sporiteľňa belongs to the largest donors to regional and community projects in Slovakia. Last year Slovenská sporiteľňa together with Erste Bank provided extraordinary financial aid for the recovery of the High Tatras damaged by disaster of nature. In the previous year, the bank supported the Hodina deťom (An Hour for Children) project and thus significantly influenced the total amount of collected funds. The bank intensely cooperated also with the Slovak Catholic Charity.
Several of the bank's projects have a Central European dimension. Slovenská sporiteľňa cooperates with other members of the Erste Bank Group on these projects. As an example, the bank is a long-term partner of the Tranzit project, a common group initiative in modern fine arts, and the bank has for two years been a member of the Association for the Support of Fine Arts in Central, Eastern and South-Eastern Europe.

Risk Management in 2005

Liquidity risk

Liquidity risk in structural liquidity is managed by the ALCO Committee. The Treasury Division is responsible for operational management of liquidity (daily liquidity and compliance with the minimum reserves requirements). Liquidity risk is expressed in quantitative terms according to the NBS measure on banks liquidity. In addition, the in-house system for measuring and predicting financing requirements provides high-quality information for liquidity management. The bank's liquidity is ensured by the high share of government securities in balance sheet total of the bank. As of 31 December 2005, the ratio between the bank's fixed and non-liquid assets and its capital and reserves as required by the regulatory authority, reached 0.74. The bank's liquidity is secured satisfactorily.

Interest-rate risk

The Bank Book interest-rate risk is quantified using a model that contains detailed information on all interest-rate positions of the bank. Results of analysing sensitivity of interest income and market value of the bank to interest rate changes are, broken down by currency, submitted to the ALCO Committee on a monthly basis. The interest-rate risk is subsequently managed by means of bond investments and hedging transactions.

Market risk

Responsibility for managing market risk in the bank's Trading Book lies with the Central Risk Management Staff Unit. In managing the bank's risks, it uses an internal model based upon the value-at-risk (VAR) methodology. The VAR, calculated with an historical simulation method, estimates the maximum possible loss on positions (in portfolio) with a probability of 99% and for a position-holding period of one day. The VAR is calculated on a daily basis for each traded instrument individually at the trading desk level and also for the whole Trading Book. The VAR model is tested every day and undergoes stress testing on a regular monthly basis. Risk management is further complemented by a sensitivity analysis where an evaluation is made of how position values are impacted by changes in market factors (interest rates, exchange rates, etc.). All Trading Book positions are revalued in real time in the Kondor+ system using independent market prices. In order to limit the maximum acceptable risk a comprehensive system of limits was adopted.

Operational risk

In 2005, Slovenská sporiteľňa continued to develop a software application for collection of operational risk data. The application will enable data to be collected in accordance with the Basel II Advanced Measurement Approaches for Operational Risk. The database is gradually extended to include for example recording of insurance events and insurance benefits as a basis for insurance events investigation and operational risk elimination.

In 2004, Slovenská sporiteľňa joined the Erste Bank Group insurance program which covers the property damage and other losses resulting from operational risk. Based on initial evaluations, this insurance program is considered an effective method of reducing losses from operational risks. The common strategy of the Erste Bank Group insurance makes it possible to access information on insurance events held in any part of the group, which represents a useful source of information for operational risk management at the level of both the group and individual bank. Reports covering operational risk and its development, the insurance program evaluations and operational risk management are submitted to the bank's management on a regular basis.

Provisions to receivables

Since 2005 Slovenská sporiteľňa has been applying a new methodology for receivables in accordance with IAS 39. Clients are divided into two classes – retail or corporate.

Retail credit balances are deemed individually insignificant and therefore are treated on a portfolio basis. Items with similar risk properties are grouped into portfolios and their inherent risk is covered by provisions. The division into portfolios reflects the product types and internal ratings.

Conversely, the balances in corporate credit accounts are considered as individually significant and are therefore treated on an individual basis. If impairment is identified in a particular item, an individual provision is created to cover the loss incurred. An internal rating scale is used as an indicator of impairment within individually significant items.

Objectives for 2006

Favourable outlook for the Slovak economy supports the ambitious objectives that Slovenská sporiteľňa has set for 2006. In the sixth year after being acquired by Erste Bank, we are setting out in excellent financial condition and can look forward to further development in which the bank's leading position in the Slovak market is to be strengthened. Our priority is not merely to grow with the market but to increase our share, and that of our subsidiaries, in all market segments.

The strategic objective of Slovenská sporiteľňa for 2006 is to achieve the return on equity at the level of 20% and net profit of SKK 3.6 billion. Operating expenses as a percentage of income are not to exceed 55%. This is a realistic goal provided that the projected income is met and that expenses continue to be managed effectively so that their growth is not higher than inflation.

In order to achieve these objectives in 2006, several key conditions need to be fulfilled.
We want to strengthen our leading position in retail funds management. Existing products will be extended by long-term investment products such as guaranteed deposits and new asset management products. New services will also be introduced in private banking and portfolio management. High-quality advisory combined with coordination of investment decisions are good prerequisites for future returns on our clients' financial assets and at the same time constitute a strong competitive advantage of the bank.

In retail loans, we see an opportunity to follow up the successes of last year, since the overall indebtedness of the household sector continues to be at a very low level and the lending market will keep growing sharply. Small and Medium-sized Enterprises will be our priority in company financing. In corporate lending we are taking advantage of the sharp growth in the real estate market. We will seek to increase our involvement in developer projects financing in which a strong potential is also seen in the field of private financing of housing. The upward trend in the number of current accounts of private individuals is to be continued and offer products and services for the micro clients segment broadened as well.

Notwithstanding our ambitions for the lending and deposit markets, Slovenská sporiteľňa wants to reduce its dependence on net interest income. In 2006, our fee income is to grow due to an increase in the number of executed transactions as well as significant contribution from subsidiaries.

This year will see preparation for the introduction of new regulations on the capital adequacy of banks in accordance with Basel II. From 2007, the capital adequacy for lending will be calculated according to the borrower's financial standing. Slovenská sporiteľňa has to prepare its internal processes and especially its clients for this change.

With Slovakia planning to adopt euro in 2009, our aim is to profile Slovenská sporiteľňa as a leading provider of relevant information on the European single currency. We want the bank to be seen not only as a relevant source of information but also as a qualified partner for clients on the way to adoption of euro.

We will continue to seize any opportunities the market brings and also to create our own opportunities for growth. Knowing that we are stronger than our competitors in many areas, we will focus on further strengthening of our position in the market. Only in this way we will satisfy the needs of our clients and at the same time the expectations of our shareholders.

Consolidated Financial Statements

Prepared in Accordance with International Financial Reporting Standards for the Year Ended 31 December 2005 and Independent Auditors' Report

Independent Auditors' Report to the Shareholder of Slovenská sporiteľňa, a.s.

Deloitte.

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Slovenská sporiteľňa, a.s.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Board of Directors of Slovenská sporiteľňa, a.s.:

We have audited the accompanying consolidated balance sheet of Slovenská sporiteľňa, a.s. (the "Bank") as of 31 December 2005 and the related consolidated statements of profit and loss, changes in equity and cash flows, for the year then ended and notes. These consolidated financial statements are the responsibility of the Bank's management and Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and the results of its consolidated operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Bratislava, 17 February 2006

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

Zuzana Letková
Ing. Zuzana Letková
Responsible auditor
Licence SKAU No. 865

Audit . Tax . Consulting . Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 MSKK	2004 MSKK
ASSETS			
I. Cash and balances at the central bank	6	4 066	4 814
II. Loans and advances to financial institutions	7	67 681	63 805
III. Loans and advances to customers	8	96 928	62 609
IV. Provisions for losses on loans and advances	9	(3 624)	(4 938)
V. Financial assets at fair value through profit or loss	10	8 963	12 419
VI. Securities available for sale	11	23 638	29 580
VII. Securities held to maturity	12	50 491	57 930
VIII. Investments in associates and other investments	14	974	977
IX. Intangible assets	15	1 265	950
X. Property and equipment	16	5 772	6 464
XI. Investment property	16	156	339
XII. Deferred income tax asset	17	13	15
XIII. Other assets	18	2 669	3 279
Total assets		**258 992**	**238 243**
LIABILITIES AND EQUITY			
I. Amounts owed to financial institutions	19	45 485	32 123
I. Amounts owed to customers	20	177 550	175 094
III. Debt securities in issue	21	9 775	6 213
IV. Provisions for liabilities and other provisions	22	998	1 485
V. Other liabilities	23	5 904	4 695
VI. Current income tax	17	19	678
VII. Deferred income tax liability	17	110	173
VIII. Total equity, thereof	24	19 151	17 782
– Equity attributable to equity holders of the parent		19 138	17 775
– Minority interest		13	7
Total liabilities and equity		**258 992**	**238 243**

Notes on pages 32 to 85 are an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors of the Bank on 17 February 2006.

Mag. Regina Ovesny-Straka
Chairwoman of the Board of Directors and
General Manager

Ing. Štefan Máj
Vice Chairman of the Board of Directors and
First Deputy General Manager

Consolidated Statement of Profit and Loss

For the Year Ended 31 December 2005

		Note	2005 MSKK	2004 MSKK
1.	Interest income	25	11 854	12 379
2.	Interest expense	25	(4 059)	(4 592)
3.	Income from investments in associates	25	120	34
I.	**Net interest and investment income**		**7 915**	**7 821**
4	Provisions for losses on loans, advances and off-balance sheet credit risks	27	(430)	32
II.	**Net interest and investment income after provisions**		**7 485**	**7 853**
5.	Fee and commission income	26	3 403	2 848
6.	Fee and commission expense	26	(219)	(185)
	Net fee and commission income		3 184	2 663
7.	Net profit on financial operations	28	574	663
8.	General administrative expenses	29	(6 487)	(6 317)
9.	Other operating result	30	(510)	(1 374)
III.	**Profit for the year before income taxes**		**4 246**	**3 488**
10.	Income tax expense	31	(674)	(362)
IV.	**Net profit for the year after income taxes**		**3 572**	**3 126**
	Net profit attributable to:			
	Equity holders of the parent		3 569	3 125
	Minority interest		3	1
	Total		3 572	3 126
	Basic and diluted net profit per SKK 1 000 share (SKK)	**32**	**560**	**490**
	Basic and diluted net profit per SKK 100 million share (SKK)	**32**	**55 995 314**	**49 031 103**

Notes on pages 32 to 85 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2005

	Share capital MSKK	Legal reserve fund MSKK	Other Funds MSKK	Retained earnings MSKK	Hedging reserves MSKK	Revaluation reserves MSKK	Attributable to equity holders of the parent MSKK	Minority interests MSKK	Total equity MSKK
As at 31 December 2003	**6 374**	**2 404**	**1 680**	**5 057**	**-**	**-**	**15 515**	**-**	**15 515**
Effect of implementation of Revised IAS 39	-	-	-	(28)	-	692	664	-	664
Effect of first-time consolidation	-	-	-	-	-	-	-	6	6
As at 1 January 2004	**6 374**	**2 404**	**1 680**	**5 029**	**-**	**692**	**16 179**	**6**	**16 185**
Dividends paid	-	-	-	(2 023)	-	-	(2 023)	-	(2 023)
Unrealised fair value adjustments on available for sale securities	-	-	-	-	-	494	494	-	494
Net profit for the year	-	-	-	3 125	-	-	3 125	1	3 126
As at 31 December 2004	**6 374**	**2 404**	**1 680**	**6 131**	**-**	**1 186**	**17 775**	**7**	**17 782**
Dividends paid	-	-	-	(1 946)	-	-	(1 946)	-	(1 946)
Unrealised fair value adjustments on available for sale securities	-	-	-	-	-	(188)	(188)	-	(188)
Transfer to profit or loss on sale of available for sale securities	-	-	-	-	-	(116)	(116)	-	(116)
Unrealised fair value adjustments on cash flow hedges	-	-	-	-	44	-	44	-	44
Net profit for the year	-	-	-	3 569	-	-	3 569	3	3 572
Other changes	-	-	(502)	502	-	-	-	3	3
As at 31 December 2005	**6 374**	**2 404**	**1 178**	**8 256**	**44**	**882**	**19 138**	**13**	**19 151**

Notes on pages 32 to 85 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2005

	Note	2005 MSKK	2004 MSKK
Cash flows from operating activities			
Profit before income taxes	31	4 246	3 488
Adjustments for:			
Provisions for losses on loans, advances, off-balance sheet and write-offs		402	(27)
Provisions for liabilities and other provisions		14	211
Depreciation, amortisation and impairment		1 102	1 486
Loss on disposal of fixed assets		155	(67)
Equity in earnings of associates and subsidiaries		2	(53)
Unrealised revaluation of securities		524	(346)
Interest expense - accrued part		1 704	(261)
Trasfer of interest income of HTM portfolio to investment activity		(2 577)	(3 406)
Cash flows from operations before changes in operating assets and liabilities		**5 572**	**1 025**
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the central bank	6	546	838
Placements with the central bank	7	620	(1 900)
Loans and advances to financial institutions	7	2 165	6 358
Loans and advances to customers		(36 700)	(6 864)
Financial assets at fair value through profit or loss and securities available for sale		6 625	11 665
Other assets		(43)	(627)
Increase in operating liabilities:			
Amounts owed to financial institutions		12 885	18 445
Amounts owed to customers		458	2 558
Other liabilities		478	1 492
Net cash flows (used in) / provided by operating activities before income tax		**(7 394)**	**32 990**
Income taxes paid		(1 346)	(21)
Net cash flows (used in) / provided by operating activities		**(8 740)**	**32 969**
Cash flows from investing activities			
Net cash flow from securities held to maturity		10 647	9 984
Dividends received from associated undertakings	14	90	139
Net (increase) / decrease in investments in subsidiaries and associates		(89)	111
Purchase of intangible assets, property and equipment		(1 781)	(1 509)
Proceeds from sale of property and equipment		1 271	148
Net cash flows provided by investing activities		**10 138**	**8 873**

	Note	2005 MSKK	2004 MSKK
Cash flows from financing activities			
Net issuance of bonds	21	3 200	2 411
Dividends paid		(1 946)	(2 023)
Loans to group companies		1 358	1 140
Net cash flows provided by financing activities		**2 612**	**1 528**
Effect of foreign exchange rate changes		7	(41)
Net decrease in cash and cash equivalents	**33**	**4 017**	**43 329**
Cash and cash equivalents at the beginning of the year	**33**	**60 060**	**16 731**
Cash and cash equivalents at the end of the year	**33**	**64 077**	**60 060**

Notes on pages 32 to 85 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. Introduction

Slovenská sporiteľňa, a. s. (hereafter 'the Bank') has its registered office address at Suché mýto 4, Bratislava. The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial and private customers in the Slovak Republic.

The Board of Directors of the Bank is comprised of Mag. Regina Ovesny-Straka (the Chairwoman), Ing. Štefan Máj (Vice Chairman), Ing. Peter Krutil, Mr Michael Vogt, Ing. Oskar Soták (until 21 December 2005) and JUDr. Samuel Vlčan (from 1 January 2006) as members. The Chairwoman of the Board of Directors is simultaneously also a Company Managing Director. The Vice Chairman of the Board of Directors is simultaneously also a First Deputy Managing Director of the Company. The Vice Chairman fully represents the Chairwoman in her absence. Other members of the Board of Directors are simultaneously deputies of the Company Managing Director.

The members of the Supervisory Board as at 31 December 2005 were as follows: Mag. Reinhard Ortner (Chairman), Mag. Andreas Treichl (Vice Chairman), Dr. Manfred Wimmer, Dr. Heinz Kessler, Dr. Christian Coreth, JUDr. Beatrica Melichárová, Ing. Ján Trgiňa, Herbert Juranek, and Mgr. Eva Striebliková.

As at 31 December 2005 the only shareholder of the Bank was Erste Bank der österreichischen Sparkassen AG (hereafter 'Erste Bank').

During 2004, Erste Bank purchased shares from the Ministry of Finance of the Slovak Republic representing 10.01% shareholder rights and so increased its share to 80.01%. The remaining 19.99% of shares that were owned by the EBRD as at 31 December 2004 were purchased by Erste Bank on 10 January 2005.

2. Significant Events Affecting the 2005 and 2004 Results

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the European Union ('EU') that are relevant to its operations and effective for accounting periods commencing 1 January 2005 (see also Note 3). The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

a) The revised version of IAS 39 (hereinafter the 'Revised IAS 39') changed the alternatives of re-measurement of assets included in the available-for-sale portfolio ('AFS portfolio'). From 1 January 2005, the possibility to re-measure the AFS portfolio assets through profit and loss was eliminated and the re-measurement of the available-for-sale portfolio is only recognised in retained earnings (see Note 13).

b) On 1 January 2005, the Group reallocated certain securities held in Held to maturity portfolio ('HTM portfolio') to AFS porfolio and at the same time the original AFS (originally revalued through profit and loss) was split between the new AFS portfolio (revalued through retained earnings) and at fair value through profit and loss portfolio (see Note 13).

In the second quarter of 2005, the Bank released provision for a legal case that was won at the Supreme Court of the Slovak Republic (see Note 22 (c)).

In 2005, the Bank sold a portfolio of buildings as a result of the planned relocation to a new head office building under construction. The Bank has entered into a lease-back agreement, an operating lease, for a 3 year period, with a prolongation option for an additional 2 years (see Note 16).

In 2005, the Bank assigned part of the loss receivables from customers to the mandate partners. Related provisions were used (see Note 8).

During 2004, part of the sponsoring provision was used as the contribution of the Bank to the subscribed capital of the foundation Nadácia Slovenskej sporiteľne (see Note 22 (d)).

In 2004, the Bank assessed the impairment of buildings that were partially owner-occupied, unused or rented to other parties. The negative difference between their net book value and the estimated recoverable amount has been recognised as an impairment of assets and included in the Profit and loss account (see Note 16).

During 2004, the major part of the uncertainties related to the interpretation of the new tax legislation effective from 1 January 2004 was resolved. Consequently, a deferred tax asset was recognised by the Bank as at 31 December 2004 (see Note 17).

3. Basis of Preparation

These consolidated financial statements comprise the accounts of the Bank and its subsidiaries (together 'the Group') and have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union (the 'EU'). As at the date of issuance of these consolidated financial statements, IFRS as adopted for use in the EU do not differ from IFRS.

At the date of authorisation of these financial statements, the following Standards were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (effective 1 January 2007);
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' (effective 1 January 2006);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective 1 January 2006);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective 1 January 2006); and
- Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective 1 January 2007).

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

These consolidated financial statements were prepared using the going concern assumption that the Group will continue in operation for the foreseeable future.

The Bank holds controlling interests in subsidiaries as described in Note 5 and 14. Since 2004 the subsidiaries have been fully consolidated.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial investments, financial assets, financial liabilities, and derivatives at fair value.

The presentation of financial statements in conformity with IFRS requires the management of the Bank to make judgements about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and future changes in the economic conditions, business strategies, regulatory requirements, accounting rules or/and other factors could result in a change in estimates that could have a material impact on the reported financial position and results of operations. Significant areas of subjective judgement include:

- Provisioning for incurred credit losses and identified contingencies involve many uncertainties about the outcome of those risks and require the management of the Group to make many subjective judgements in estimating the loss amounts.
- The Group invested in structured assets portfolio with limited market liquidity resulting in inherent risk of estimates of reported fair values.
- Income tax rules and regulations have undergone significant changes in recent years and there is little historical precedent or interpretative rulings on a number of complex issues affecting the banking industry. Also, tax authorities have broad powers in interpreting the application of the tax laws and regulations in the course of its examination of taxpayers. Accordingly there is a high level of inherent uncertainty about the ultimate outcome of examinations by the tax authorities.

All data is stated in Slovak Crowns (SKK). The unit of measurement is million of SKK (SKK million), unless stated otherwise. The amounts in parentheses represent negative values.

The format of the financial statements has been adjusted to comply, where possible, with Erste Bank's presentation requirements. Comparative information has been reclassified, where necessary, on a basis consistent with current year presentation.

4. Significant Accounting Policies

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

(a) Principles of Consolidation

The consolidated financial statements present the accounts and results of the Bank and its controlled and associated companies.

Subsidiary Undertakings

Investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50% of its share capital or in which the Bank can exercise more than 50% of the voting rights, or where the Bank can appoint or dismiss a majority of the Board of Directors or Supervisory Board members. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

All intercompany balances and transactions, including unrealised intercompany profits, are eliminated on consolidation. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Minority interests of other owners in the equity and results of companies that are controlled by the Bank are shown as a separate item within equity in the consolidated financial statements.

Associated Undertakings

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Associates are accounted for under the equity method of accounting. Equity accounting involves recognizing in the Profit and loss account the Bank's share of the associates' profit or loss for the period and the Bank's share of changes recognised directly in the associate's equity during the period. The Bank's interest in an associate is carried in the balance sheet at an amount that reflects its share of net assets of the associate.

Other Investments

Other investments represent investments with a share of less than 20% of the share capital and voting rights. They are valued at fair value. If market value is not available, investments are valued at cost less impairment provisions.

(b) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit and loss.

(c) Cash and Cash Equivalents

The Group considers cash, current accounts with the National Bank of Slovakia ('central bank' or 'NBS'), or other financial institutions, treasury bills with a residual maturity up to three months and loro accounts owed to other financial institutions to be cash equivalents. For the purposes of determining cash flows, the minimum reserve deposit with the NBS is not included as cash equivalent due to restrictions on its availability.

(d) Loans and Advances and Provisions for Losses on Loans and Advances

Loans and advances are carried at amortised cost using the effective interest rate, less any provisions for impairment. Origination fees from the loans and advances are amortised over the contractual life of the loan. All loans and advances are initially recognised when cash is advanced to borrowers.

Provisions for loan impairment are recognised in the profit and loss for the estimated irrecoverable amounts of Loans and Advances when there is objective evidence that they are impaired. Provisions are created through the Profit and loss account – 'Provisions for losses on loans, advances and off-balance sheet'. If the reason for provisioning no longer exists or the provision is not appropriate, the redundant provisions are released through the Profit and loss account – 'Provisions for losses on loans, advances and off-balance sheet'.

Write-offs are generally recorded into expenses when all reasonable restructuring or collection activities have taken place and further recovery is considered to be ineffective taking into account loans outstanding, expenses on collection, and forecasted result. Use of provisions resulting from write-offs is charged into income. Recoveries of loans and advances previously written-off are reflected into income.

The Bank analyses the credit risk of exposures in four asset classes – retail, corporate, institutions and sovereigns. The retail asset class includes private persons or legal persons with exposure less than SKK 40 million and turnover less than SKK 100 million.

Single loans and advances within the Bank's portfolio are further divided into a group of individually non-significant financial assets and a group of individually significant financial assets.

Loans and advances under retail asset class are individually non-significant and are treated on a portfolio basis. These exposures are divided by product and internal rating into portfolios with homogenous risk characteristics. The basis for calculation of portfolio provisions is the probability of default ('PD') as defined in Basel II. To conform with the 'incurred loss' concept as stipulated in Revised IAS 39, PD is transformed to a parameter reflecting estimated incurred losses until maturity. Portfolio provisions are then calculated based on 'loss-to-maturity' and loss given default ('LGD'). Portfolio provisions cover losses, which have not yet been individually identified, but based on prior experience, are deemed to be inherent in the portfolio as at the balance sheet date.

Loans and advances from corporate, institutions and sovereign classes that are individually significant are analysed on an individual basis. The calculation of specific provisions is based on an estimate of expected cash flows reflecting estimated delinquency in loan repayments, as well as proceeds from collateral. Impairment amount is determined by the difference between loan's gross carrying amount and net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate. Specific provisions are recorded when there is objective evidence of a loss event which occurred after initial recognition.

Both, portfolio and specific provision estimates are based on many subjective judgements and assumptions based on presently available data, knowledge and considering significant inherent uncertainties.

A loan is impaired when the Bank has identified objective evidence of one or more loss events that occurred after initial recognition of the loan. A loan is defaulted when the payment delinquency estimated in the future cash-flows projection exceeds 50% or any payment related to the loan is overdue more than 90 days.

In the normal course of business, the Bank enters into credit-related commitments, which are recorded in off-balance sheet accounts. The Bank creates provisions that reflect the management's estimate of the credit risk concerning guarantees, letters of credit and undrawn credit limits present as at the balance sheet date.

(e) Debt and Equity Securities

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of the securities and pursuant to the Group's security investment strategy. The Group has developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to the 'Financial assets at fair value through profit or loss' portfolio, the 'Available for sale' portfolio, and the 'Held to maturity' portfolio. The main difference between the portfolios relates to the measurement of securities in fair value and amortised costs and reporting of unrealised gains or losses.

All 'regular way' purchases and sales of securities are recognised using settlement date accounting and are initially measured at their cost including transaction costs.

Financial Assets at Fair Value through Profit or Loss

A financial asset at fair value through profit or loss is a financial asset classified as either held for trading or designated by the entity upon initial recognition.

The Group designates assets upon initial recognition to the fair value portfolio when it intends to hold it for an indefinite period of time. This portfolio may be used for recognition of structured products or economic hedging. Assets in this portfolio are initially recognised at cost and are subsequently re-measured to fair value. Interest income is calculated using the effective interest rate and is recognised in the 'Net interest and investment income'. Changes in the market values are recognised in 'Other operating result'.

Trading debt and equity securities are defined as securities held by the Group with the intention of reselling them, thereby generating profits on price fluctuations in the short term. Debt and equity securities held for trading purposes are initially recorded at cost on acquisition and subsequently re-measured to fair value. Changes in the fair values of such assets are recognised in the Profit and loss account as 'Net profit on financial operations'. If there are market prices available for securities from stock exchange or from other sources (Reuters, Bloomberg) they are used for mark-to-market revaluation. For securities for which there are no market prices available, the fair values are determined according to bond yield curves, reflecting appropriate margins (the same applies for securities in the Available for Sale Securities).

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives (forward transactions).

Available for Sale Securities ('AFS securities')

Available for sale securities are securities held by the Group that are intended to be held for an indefinite period of time or which may be sold as liquidity requirements arise or market conditions change. AFS securities are initially recognised at cost and are subsequently re-measured to fair value. Interest is recognised using the effective interest rate in the 'Net interest and investment income'. Unrealised changes in the market values of AFS securities are recognised as adjustment to equity. In the case of maturity or sale of AFS securities, previously unrealised changes in the market values are released in the 'Other operating result'.

Securities Held to Maturity ('HTM securities')

Securities held to maturity are financial assets with fixed maturity that the Group has the positive intent and ability to hold to maturity. HTM securities are initially recognised at cost. HTM securities are subsequently reported at amortised cost using the effective interest method, less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When the impairment of assets is identified, the Group recognises provisions through the Profit and loss account.

Changes in fair value of HTM securities are not recognised in the financial statements, but are disclosed in Note 41.

As further described in Note 13, upon implementation of Revised IAS 39 as at 1 January 2005, Financial Instruments: Recognition and Measurement, the Bank reallocated significant portfolio of securities. In accordance with transitional provisions of this standard, Revised IAS 39 has been applied retrospectively.

(f) Sale and Repurchase Agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain at the fair value or amortised cost within the relevant portion on the balance sheet and the consideration received is recorded in 'Amounts owed to financial institutions' or 'Amounts owed to customers'. Conversely, debt or equity securities purchased under a commitment to resell at a pre-determined price are not recognised in the balance sheet and the consideration paid is recorded in 'Loans and advances to financial institutions' or 'Loans and advances to customers'. Interest is accrued evenly over the life of the repurchase agreement.

(g) Intangible Fixed Assets

Costs associated with acquiring software are treated as intangible assets and are amortised on a straight-line basis over estimated useful life – 4 years through 'General administrative expenses' as amortisation of intangible assets.

Costs associated with the maintenance of existing software are expensed through 'General administrative expenses' as incurred whilst costs of technical improvements are capitalised and increase the acquisition cost of the software.

(h) Property and Equipment and Investment Property

Property and equipment is stated at historical cost less accumulated depreciation using a straight-line basis depreciation over estimated useful lives as follows:

Type of property and equipment	Depreciation period 2005 and 2004
Buildings and structures	30 years
Electronic machines and equipment	4 – 6 years
Hardware	4 years
Vehicles	4 years
Fixture and fittings	6 - 12 years
Leasehold improvements	Shorter of lease period or life of asset

Land and assets under construction are not depreciated.

Gains and losses on the disposal of property and equipment are determined by reference to their carrying amount and are recognised in the Profit and loss account in the year of disposal. Low value fixed assets and technical improvements costing less than SKK 30 000 in the case of tangible fixed assets, and SKK 50 000 in the case of intangible fixed assets with an estimated useful life greater than one year, are charged to the Profit and loss account when the expenditure is incurred.

Investment property is property, i.e. land or a building, held to earn rentals. Investment property is stated at historical cost less impairment provisions and accumulated depreciation using a straight-line basis depreciation over estimated useful lives. The carrying amount of investment property, its depreciation, and rental revenues are disclosed in the Note 16.

(i) Impairment of Property and Equipment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is determined as the higher of estimated net realisable value or value in use. The largest components of the Group's assets are periodically tested for impairment, and temporary impairments are provisioned through the profit and loss 'Other operating result' in respect of assets under construction or those not used or rented to third parties. Repairs are charged to the Profit and loss account line 'General administrative expenses' under – 'Other administrative expenses' in the year in which the expenditures are incurred.

(j) Provisions

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

(k) Long-term Employee Benefit Provisions

The Group operates unfunded defined long-term benefit programs comprising lump-sum post-employment and jubilee benefits. According to IAS 19, the employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date. Under this method, the cost of providing benefits is charged to the statement of profit and loss so as to spread the regular cost over the service lives of employees. The benefit obligation is measured as the present value of the estimated future cash outflows discounted by interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. The Group derives the discount rate based on the interest rate of 3.92% p. a. and projected Slovak Crown inflation. The assumed retirement age is 60 for women and men. The part of the actuarial gains and losses, exceeding 10% of defined benefit pension obligation is amortized over the remaining services of the Group's employees, starting from the next reporting period. The whole amount of the actuarial gains and losses from the jubilee benefit obligation is charged to the Profit and loss account in the current year.

(l) Accounting for Factoring Transactions

Receivables arising from recourse and non-recourse factoring transactions are carried at amortised cost, presented in 'Other assets' (unfunded portion) and 'Loans and advances to customers' (funded portion). Liabilities payable to client arising from these transactions are recorded as other liabilities. Fees charged to customers are recognised as 'Other operating revenues' with interest recorded as 'Interest income'. Assets and liabilities from non-recourse factoring transactions are shown on a net basis. Income received from customers for factoring services are shown in the 'Net interest and investment income'.

(m) Dividends to shareholder

Dividends are recognised in equity in the period in which they are declared by the General Assembly.

(n) Taxation

Income tax on the Bank's current year results consists of both current income tax and deferred tax. Dividends received by the Group are subject to income tax only if they were paid from profit generated prior to 1 January 2004. Current tax consists of tax payable estimated on the basis of the expected taxable income for the year, using the tax rates enacted as at the balance sheet date, and any adjustment of the estimates of tax payable in previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that the Group will be able to realise the deferred tax assets in the future.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(o) Derivative Financial Instruments

Derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency options (both put and call options) and other finance derivative instruments. The Group uses various types of derivative instruments in both its trading and hedging activities.

Financial derivative instruments entered into for trading purposes are stated at fair value. Unrealised gains and losses are reported as 'Financial assets at fair value through profit or loss' and 'Other liabilities' on the balance sheet. Fair values of derivatives are based on quoted market prices or pricing models, which take into account the current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with gains and losses reported in the Profit and loss account.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in 'Net profit on financial operations'.

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

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

(a) Fair value hedge

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

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity adjustment. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recorded to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative fair value adjustments reported in equity at that time remains in equity and is recognised in the profit and loss when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative fair value adjustments reported in equity is immediately recorded to the income statement.

(p) Accrued Interest

Interest receivable accrued on outstanding loan balances is included in 'Loans and advances to financial institutions' and 'Loans and advances to customers'. Interest payable accrued on deposit products is included in 'Amounts owed to financial institutions' and 'Amounts owed to customers'. Interest receivable accrued on outstanding securities balances is included in 'Other assets' account balances.

Accrued interest receivable related to the non-performing loans that are overdue more than 90 days is not recognised as a receivable in the balance sheet and as revenue in the Profit and loss account but is recorded in the off-balance sheet.

(q) Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in local currency at official exchange rates as announced by the National Bank of Slovakia (the 'NBS') on the date of transaction. Assets and liabilities denominated in foreign currencies are translated into local currency at the prevailing NBS exchange rate on the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the Profit and loss account in 'Net profit on financial operations'.

(r) Interest Income and Interest Expense

Interest income and expense are recognised in the Profit and loss account when earned or incurred, on an accrual basis using the effective interest rates. Interest on non-performing loans, those that have overdue interest and/or principal, or for which management of the Group otherwise believes the contractual interest or principal due may not be received, are only recognised on collection.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Trading results from trading securities and derivatives included in 'Net profit on financial operations' is shown net of funding costs included in 'Net interest and investment income'.

(s) Fees and Commissions

Fees and commissions are recognised in the Profit and loss account on an accrual basis. Loan origination fees in excess of direct loan origination costs are deferred and recognised in the Profit and loss account over the duration of the related loans.

(t) Leases

Group Company as the Lessee

Finance leases of property and equipment under which the Group assumes substantially all the risks and rewards incidental to ownership are recognised in the balance sheet by recording an asset and liability equal to the present value of all future lease payments. Leasehold improvements on leased assets are depreciated in accordance with the estimated useful life of the asset, or the lease term if shorter. Lease liabilities are reduced by repayments of principal, whilst the finance charge component of the lease payment is charged directly to the Profit and loss account.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Group Company as the Lessor

Amounts due from lessees under finance leases are recorded as 'Loans and advances to customers' at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(u) Earnings per Share

Earnings per share has been calculated by dividing the net profit or loss applicable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, and has been separately calculated for shares with nominal value of SKK 1 000 and SKK 100 million based on their share on rights to receive dividends.

(v) Assets under Administration

Assets under administration are not recognised as assets or liabilities on the balances sheet, but are accounted for as off-balance sheet items since the Group does not bear risks and rewards associated with such items. More details are included in Note 43.

(w) Regulatory Requirements

The Bank is subject to the regulatory requirements of the central bank. These regulations include those pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, credit risk connected to clients of the Bank, liquidity, interest rate, and foreign currency position.

Similarly, consolidated companies are subject to regulatory requirements of the Financial Market Authority.

5. Companies included in consolidation

The consolidated financial statements include the following subsidiaries and associates:

Name of the company	Registered office	Principal activity	Group interest 2005	Group voting rights 2005
Subsidiaries – fully consolidated				
Asset Management Slovenskej sporiteľne, správ. spol., a. s.	Záhradnícka 95 812 02 Bratislava	Asset management	100.00%	100.00%
Derop, B.V.	Naritaweg 165 1043 BW Amsterdam	Incorporate, manage and finance companies	100.00%	100.00%
Laned, a. s. (100% subsidiary of Derop, B.V.)	Suché mýto 4 816 07 Bratislava	Rent, operate and manage real estate	100.00%	100.00%
Factoring Slovenskej sporiteľne, a. s.	Priemyselná 1/a 821 09 Bratislava	Factoring	90.00%	90.00%
Leasing Slovenskej sporiteľne, a. s.	Nedbalova 17 811 01 Bratislava	Leasing, real estate	96.66%	96.66%
Associates – consolidated at equity				
Prvá stavebná sporiteľňa, a. s.	Bajkalská 30 829 48 Bratislava	Banking	9.98%	35.00%
SporDat, spol. s r. o.	Prievozská 14 821 09 Bratislava	Software company	23.50%	23.50%
Erste Corporate Finance, a. s.	Na Perštýně 1 111 01 Prague	Financial and legal advisory	25.00%	25.00%
Poisťovňa Slovenskej sporiteľne, a. s.	Priemyselná 1/a 821 09 Bratislava	Insurance	33.33%	33.33%
Slovak Banking Credit Bureau, s. r. o.	Na vŕšku 10 811 01 Bratislava	Retail credit register	33.33%	33.33%

In January 2005, the Bank established a 100% owned subsidiary Laned, a. s. to facilitate the financing, acquisition and construction of the new head office building of the Group.

In June 2005, the Bank acquired from Erste Bank a 23.5% share on ownership and voting rights of SporDat, spol. s r. o. SporDat provides software development and maintenance services to the Erste Group.

In May 2005, the Bank increased the registered capital of Leasing Slovenskej sporiteľne, a.s. and has thus increased its share to 93.3%. As at 31 October 2005, Leasing Slovenskej sporiteľne, a .s. and SPORING, a. s. merged.

SPORING, a. s. was wound up without liquidation and its business activities were transferred to Leasing Slovenskej sporiteľne, a. s. Share of the Bank on Leasing Slovenskej sporiteľne, a. s. has increased from 93.3% to 96.7% as a result of this transaction.

As at 16 December 2005, the Bank established Derop B.V. as a 100% subsidiary with domicile in Netherlands. Subsequently, the Bank's share on Laned, a.s. was transferred to Derop B.V.

During 2005, the Bank's associate CDI Corporate Advisory, a. s. changed its name to Erste Corporate Finance, a. s.

6. Cash and Balances at the Central Bank

	2005 MSKK	2004 MSKK
Cash balances	3 582	3 622
Nostro account with NBS	479	641
Minimum reserve deposit with NBS	5	551
Total	**4 066**	**4 814**

Minimum reserve deposit represents a mandatory deposit (bearing 1.5% interest) calculated in accordance with regulations issued by the central bank (2% of certain Bank's liabilities) with restricted withdrawal. Nostro balances represent balances with the NBS relating to settlement activities and available for withdrawal.

During the one month period that included the year end date, the Bank maintained, as required, an average reserve balance at the NBS of approximately SKK 3.8 billion.

7. Loans and Advances to Financial Institutions

	2005 MSKK	2004 MSKK
Loans and advances on demand (nostro accounts)	278	402
Repo trades with central bank treasury bills	59 738	52 910
Placements with central bank	1 280	1 900
Placements with financial institutions	6 385	8 593
Total	**67 681**	**63 805**

Repurchase agreements with the central bank are collateralised by the bills issued by the National Bank of Slovakia.

8. Loans and Advances to Customers

	2005 MSKK	2004 MSKK
Commercial clients	53 080	34 166
Syndicated loans	9 934	6 331
Overdrafts	9 839	6 218
Direct provided loans	28 664	19 448
Finance leasing	2 091	489
Factoring	2 552	1 680
Retail clients	41 870	26 989
Mortgage loans	8 623	8 793
Consumer loans	27 286	13 166
Social loans	1 848	2 227
Overdrafts	4 013	2 762
Finance leasing	100	41
Public sector	1 978	1 454
Total	**96 928**	**62 609**

As at 31 December 2005, the 15 largest customers accounted for 20% of the gross loan portfolio in the amount of SKK 19 852 million. (2004: 21%, SKK 13 387 million).

Industry sector analysis

The table below shows a detailed breakdown of loans and advances to customers by industry sector.

	2005 MSKK	2004 MSKK
Financial institutions	9 370	7 279
Non-financial institutions	36 230	21 678
Public sector	1 978	1 454
Sole proprietors	2 792	2 896
Individuals	41 770	27 056
Subtotal - Bank only	**92 140**	**60 363**
Loans and advances of other Group companies	4 788	2 246
Total	**96 928**	**62 609**

Risk categorisation of loans and advances to customers

The tables below details the breakdown of loans and advances to customers by the level of credit risk identified within the portfolio of loans and advances of the Bank as at 31 December 2005.

As at 31 December 2005 MSKK	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions					
(Retail Asset Class)	**53 458**	**2 542**	**4.8%**	**22 576**	**47.0%**
Private persons	41 871	2 139	5.1%	19 595	51.9%
thereof defaults	1 692	956	56.5%	291	73.7%
Legal persons	11 587	403	3.5%	2 981	29.2%
thereof defaults	323	218	67.5%	63	87.0%
Individual credit risks					
(Corporate Asset Class)	43 470	1 082	2.5%	11 307	28.5%
Not impaired exposures	37 524	-	-	9 030	24.1%
Impaired exposures *	4 353	230	5.3%	1 538	40.6%
Defaulted exposures **	1 593	852	53.5%	739	99.9%
Subtotal for balance sheet credit risks	**96 928**	**3 624**	**3.7%**	**33 883**	**38.7%**
Off-balance sheet Retail Asset Class	4 744	117	2.5%		
Off-balance sheet Corporate Asset Class	23 521	135	0.6%		
Subtotal for off-balance sheet credit risks	**28 265**	**252**	**0.9%**		
Total	**125 193**	**3 876**	**3.1%**		

As at 31 December 2005 MSKK	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions					
(Retail Asset Class)	**34 169**	**3 597**	**10.5%**	**12 640**	**47.5%**
Private persons	27 250	2 088	7.7%	11 019	48.1%
thereof defaults	1 064	809	76.0%	85	84.0%
Legal persons	6 919	1 509	21.8%	1 621	45.2%
thereof defaults	1 509	1 396	92.5%	50	95.8%
Individual credit risks					
(Corporate Asset Class)	28 440	1 457	5.1%	9 128	37.2%
Not impaired exposures	20 355	-	-	4 709	23.1%
Impaired exposures *	6 437	227	3.5%	4 057	66.6%
Defaulted exposures **	1 648	1 230	74.6%	362	96.6%
Subtotal for balance sheet credit risks	**62 609**	**5 054**	**8.1%**	**21 768**	**42.8%**
Transfer due to methodology change	-	(116)	-	-	-
Total for balance sheet credit risks	**62 609**	**4 938**	**7.9%**	**21 768**	**42.7%**
Off-balance sheet Retail Asset Class	3 203	81	2.5%		
Off-balance sheet Corporate Asset Class	17 426	185	1.1%		
Subtotal for off-balance sheet					
credit risks	**20 629**	**266**	**1.3%**		
Transfer due to methodology change	-	116	-		
Total for off-balance sheet credit risks	**20 629**	**382**	**1.9%**		
Total	**83 238**	**5 320**	**6.4%**		

* Loan is impaired when the Bank has identified an objective evidence of one or more loss events that occurred after initial recognition of the loan.

** Loan is defaulted when the payment delinquency estimated in the future cash-flows projection exceeds 50% or any payment related to the loan is overdue more than 90 days.

The total risk provisions as at 1 January 2005 determined under the new methodology are unchanged compared to the total of the risk provisions reported as at 31 December 2004. There was a change in the structure of the provisions, with no impact on profit and loss or equity. Accordingly, the 2004 financial statements were not restated as a result of the new methodology.

Loan impairment estimate methodology

Effective from 1 January 2005 the Bank has implemented new accounting policies regarding loan impairment to comply with the requirements of the Revised IAS 39, including procedures for identification of incurred losses and calculation of estimated provisions for such losses. The implementation of these requirements did not result in any adjustments to the amount of loan loss provisions originally reported as at 31 December 2004.

The approach and models used by the Bank to quantify the amount of incurred losses are partly dependant on historical data concerning the amount of loss in case of loan default. The availability and quality of this information was limited as at 1 January 2005. The Bank relied on prudent assumptions based on general knowledge and experience about the portfolio of credit exposures and market environment.

During 2005, component parameters of the model were calibrated to reflect actual development of the portfolio taking into account its risk profile and increasing volumes. The Bank has been continuing to collect data, such as migration matrices, to create a history data-pool that should enable quantification of the estimated loan impairment with reduced level of uncertainty.

The Bank's management believes estimates used in the process of quantifying provisions for loan losses (in particular estimates regarding future cash-flows from impaired loans and probabilities of loan default) represent the most reasonable projection on the future development of relevant exposures available under current circumstances. The management considers the recognised amount of provisions to be adequate to absorb incurred losses from impaired credit exposures.

Provisions for off-balance sheet exposures reflect the Bank's estimate concerning losses from credit-related commitments such as guarantees, letters of credit, and unused credit limits outstanding as at 31 December 2005.

Collateral values are taken into consideration when calculating estimate of portfolio provisions, except portfolio provisions for mandate loans.

In 2005, the changes in the level provisions for loan impairment were mainly influenced by the assignment and sale of impaired receivables realised in December 2005 and related use of provisions in the amount of SKK 1.6 billion.

The increase of risk provisions due to increasing loan volumes was partially compensated for by adjustment of risk parameters underlying the model. The reason for adjustment of the parameters was the enhancement of credit risk data-pool indicating reduced risk of loss. Improved quality and availability of data enabled reduced the level of uncertainty in parameters used to reflect current development of the Bank's portfolio.

Transfer of loans from Slovenská konsolidačná, a. s.

In 2004, the Bank paid SKK 21 million to Slovenská konsolidačná, a. s. ('SK') as a consideration for non-qualifying loans that had been previously transferred to SK in the period 1999 – 2000 during pre-privatisation restructuring of the Bank. These loans did not qualify for transfer according to valid contractual arrangements between the Bank and SK and were rejected by SK. Since the loans received in 2004 represented non-recoverable receivables that had already been written-off by the Bank, the loan balances in the amount of USD 10 million and SKK 185 million were posted to the off-balance sheet.

Social loans

In 2003, the Bank performed an analysis of circumstances related to loans provided in the past as a part of the social system program supported by the government ('social loans'). Based on this analysis the statutory body of the Bank approved a plan to restructure the social loans portfolio in the total amount of SKK 1.3 billion. As a result of the restructuring process the Bank will write-off part of the social loans outstanding. The management estimated total losses that are likely to arise upon the portfolio restructuring and recognised a provision in the amount of SKK 460 million as at 31 December 2003.

In 2004, the Bank realized the first phase of social loans portfolio restructuring focused on the segment of 'marriage social loans'. These loans represented SKK 169 million of the portfolio originally dedicated to the restructuring and were covered by SKK 34 million of provisions. During this phase, 40% of the loans were resolved and provisions in the amount of SKK 20 million were used to cover losses from partial write-offs of the related receivables.

During 2005, the Bank updated its estimate of losses incurred as a result of the restructuring program and released SKK 63 million of provisions. As at 31 December 2005 the provisions for social loans amounted SKK 377 million and are considered to be adequate to cover losses, which will arise from next phase of the restructuring. As at 31 December 2005 the remaining social loans to be resolved amounted SKK 906 million.

Mandate loans

Following contracts entered into in prior periods, the Bank continued its cooperation with two external non-related parties under which management and administration of certain non-performing receivables ('mandate loans') is outsourced. The Bank maintains the risks and rewards associated with the underlying credit exposures and shares part of cash recoveries with the external service providers. The Bank's management has analysed potential recoveries relating to the outsourced receivables and recorded provisions reflecting estimated losses - the expected future net cash recoveries. Total outsourced gross loans, including suspended interest recorded on off-balance sheet, amounted to SKK 891 million as at 31 December 2005 (2004: SKK 2 901 million).

Sale of receivables

In December 2005, the Bank assigned loans to the mandate partners that resulted in the derecognising of receivables in the gross amount of SKK 1 618 million. The consideration received amounted to SKK 24 million. The loss on sale was partly compensated by the use of provisions totalling SKK 1 594 million.

Finance leases

Loans and advances to customers also include net investments in finance leases. The principal assets held under lease arrangements include cars and other technical equipment.

	2005 MSKK	2004 MSKK
Gross investment in finance leases	2 580	741
Thereof:		
– Less than 1 year	759	157
– From 1 year to 5 years	1 647	394
– Over 5 years	174	190
Unearned income	(389)	(211)
Subtotal	**2 191**	**530**
Provision	(13)	(2)
Net investment in finance leases	**2 178**	**528**
Thereof:		
– Less than 1 year	628	121
– From 1 year to 5 years	1 471	332
– Over 5 years	79	75

9. Provisions for Losses on Loans and Advances

The Group accounts for provisions for losses on loans and advances to customers in the amount of SKK 3 624 million as at 31 December 2005 (2004: SKK 4 938 million). Movements in provisions for losses on loans and advances are shown below:

	2005 MSKK	2004 MSKK
As at 1 January	4 938	5 161
Net allocation / (release) of provisions (Note 27)	530	(64)
Use of provisions due to sale and write-off of receivables and other adjustments	(1 844)	(189)
Effect of first-time consolidation of subsidiaries	-	30
As at 31 December	**3 624**	**4 938**

Use of provisions results mainly from the assigned receivables, see Note 8.

10. Financial Assets at fair value through profit or loss

	2005 MSKK	2004 MSKK
Trading securities		
Debt securities and other fixed income securities – listed	1 092	5 245
Equity securities – shares – listed	-	55
Financial derivatives with positive fair value (Note 36)	1 345	1 800
Interest Rate Agreements	637	640
Exchange Rate Agreements	695	1 160
Other	13	-
	2 437	7 100
Assets at fair value		
Debt securities and other fixed income securities – listed	5 110	4 015
Equity securities (listed) and participation certificates	1 416	1 304
	6 526	5 319
Total	**8 963**	**12 419**

Debt securities and other fixed income securities at fair value by issuer, comprise:

	2005 MSKK	2004 MSKK
State institutions in the Slovak Republic	623	1 419
Foreign state institutions	74	2 486
Financial institutions in the Slovak Republic	-	1 146
Foreign financial institutions	356	194
Other entities In the Slovak Republic	39	-
Total	**1 092**	**5 245**

In its portfolio the Bank has structured products in the amount of SKK 5 110 million as at 31 December 2005 (2004: SKK 4 016 million). These include collateralised debt obligations, residential mortgage backed securities, and managed funds.

Collateralised debt obligations (‘CDOs’) are securitised interests in pools of assets (‘collateral’), usually loans or debt instruments. Investors bear the credit risk of the collateral. From the total portfolio of CDOs (SKK 2 443 million), senior tranches and mezzanine tranches represent 36% and 64%, respectively (2004: 51% and 49%).

Residential mortgage backed securities (‘RMBS’) represent securitised interests in pools of (typically residential) mortgages.

Managed funds are investments to the funds managed by the fund manager who invests an administrated amount into different asset classes (fixed income assets, asset backed securities, funds, etc.) in accordance with the prearranged regulations. In its portfolio the Bank has managed funds invested through the purchase of bonds and managed funds invested through the purchase of shares.

The composition of the structured products portfolio is as follows:

Type of instrument	Actual rating range	Carrying amount 2005 MSKK	Carrying amount 2004 MSKK	Notional amount 2005 MSKK	Notional amount 2004 MSKK
CDOs	AAA-BB	2 443	1 669	2 453	1 679
Managed Funds	A-BBB	2 590	2 267	2 593	2 267
RMBS	AA	77	79	78	80
Total		**5 110**	**4 015**	**5 124**	**4 026**

Equity securities (listed) and participation certificates at fair value by issuer, comprise:

	2005 MSKK	2004 MSKK
Financial institutions in the Slovak Republic	203	224
Foreign financial institutions	1 213	1 079
Other entities in the Slovak Republic	-	1
Total	**1 416**	**1 304**

11. Securities Available for Sale

	2005 MSKK	2004 MSKK
Debt securities and other fixed income securities	23 632	29 580
listed	23 632	29 580
unlisted	-	-
Equity securities – shares	6	-
listed	6	-
unlisted	-	-
Total	**23 638**	**29 580**

Debt securities and other fixed income securities at fair value by type of issuer, comprise:

	2005 MSKK	2004 MSKK
State institutions in the Slovak Republic	18 633	23 116
Financial institutions in the Slovak Republic	2 499	1 562
Foreign state institutions	496	-
Foreign financial institutions	1 524	1 610
Other entities in the Slovak Republic	475	3 287
Other foreign entities	5	5
Total	**23 632**	**29 580**

During 2004, the Bank purchased into its portfolio fixed rate EUR denominated bond with face value of EUR 30 million. As the purchase of the bond would increase the exposure to interest rate risk in the period from five to ten years, the Bank entered into an interest rate swap in order to hedge the changes of fair value caused by changes of risk-free interest rates. Notional and fair value of the aforementioned hedging derivative is reported in Note 36.

12. Securities Held to Maturity

	2005 MSKK	2004 MSKK
Debt securities and other fixed income securities	50 491	57 930
listed	48 490	55 930
unlisted	2 001	2 000
Total	**50 491**	**57 930**

Debt securities and other fixed income securities at carrying value by type of issuer, comprise:

	2005 MSKK	2004 MSKK
State institutions in the Slovak Republic	43 868	50 919
Financial institutions in the Slovak Republic	3413	3 663
Foreign financial institutions	2001	2 002
Other entities in the Slovak Republic	910	1 046
Other foreign entities	299	300
Total	**50 491**	**57 930**

As at 31 December 2005, the securities included in held to maturity portfolio placed as collateral include state bonds amounting to SKK 19 922 million notional value.

Effective 1 January 2005, the Group reallocated its portfolios of the securities and derivatives based on the implementation of Revised IAS 39 as described in Note 13. In accordance with transitional provisions of this standard, Revised IAS 39 has been applied retrospectively.

13. Change in the Structure of Securities

The Revised IAS 39 changed the alternatives of re-measurement of assets included in the available for sale portfolio. From 1 January 2005, the possibility to re-measure the portfolio assets through profit and loss was eliminated and the re-measurement of the available for sale portfolio is only recognised in retained earnings.

Revised IAS 39 valid from 1 January 2005 also defines a new portfolio to which certain financial assets or liabilities may be classified. These assets and liabilities are re-measured at fair value through profit and loss.

In accordance with the transitional provisions of the Revised IAS 39, at the first application of this Standard the Bank may change the original classification of securities from portfolios valid until 31 December 2004. The Bank applied the above provision as at 1 January 2005 and changed the structure of securities classified in portfolios as follows:

Category	31 December 2004 MSKK	Category	1 January 2005 MSKK
Trading	7 100	At fair value through profit or loss, thereof:	12 419
		- held for trading	7 100
		- other	5 319
Available for sale	12 322	Available for sale	29 580
Held to maturity	79 171	Held to maturity	57 930
Total	**98 593**	**Total**	**99 929**

On 1 January 2005, the Group reallocated certain securities held in HTM portfolio to AFS and at the same time the original AFS (originally revalued through profit and loss) was split between new AFS portfolio (revalued through retained earnings) and at fair value through profit and loss portfolio.

As a result of this reallocation, the Group revalued transferred securities to fair value and credited its equity by SKK 1.3 billion as at 1 January 2005. Following the reallocation, the Group retrospectively restated the 2004 financial statements with the negative adjustment to profit for 2004 by SKK 119 million. The Group also booked deferred tax liability to the amount of transferred securities. Deferred tax liability related to the AFS securities revaluation is presented in the revaluation reserves within equity.

14. Investments in Associates and Other Investments

	2005 MSKK	2004 MSKK
Investment in associates	945	824
Other investments	29	153
Total	974	977

During 2005, the Bank received dividends from participations in the amount of SKK 92 million (2004: SKK 139 million).

(a) Investment in associates

Name	Principal activity	Holding % 2005	2004	Carrying amount 2005	2004
Prvá stavebná sporiteľňa, a. s.	bankovníctvo	9,98	9,98	755	739
SporDat, spol. s r. o.	vývoj softvéru	23,50	-	88	-
Poisťovňa Slovenskej sporiteľne, a. s.	poistenie	33,33	33,33	82	73
Erste Corporate Finance, a. s. finančné a právne poradenstvo		25,00	25,00	18	11
Slovak Banking Credit Bureau, s. r. o. register retail. úverov		33,33	33,33	2	1
Spolu				945	824

The Bank held a 9.98% shareholding in PSS at 31 December 2004 and 31 December 2005. The Bank based on the contract with Erste Bank represents shareholder interests of the parent company in PSS (25.02%). In 2004, following the approval of the NBS, the Bank's representative replaced a representative of Erste Bank on the Supervisory board of PSS. As a result of the abovementioned, the Bank established a significant influence over PSS in 2004. The investment in PSS is therefore presented as associate, with the income from this investment reported under 'Income from investment in associates' in 2004 and 2005.

As at 31 December 2005, the amounts related to PSS are based on the preliminary balance sheet and income statement of PSS prepared in accordance with International Financial Reporting Standards. These financial statements will be audited by another auditor. However, that audit is not yet complete as at the date of the approval of the Group's financial statements. The Bank has undertaken consultations with PSS on the amounts presented in these draft financial statements and believes these provide sufficient basis for the valuation of the Bank's investment in PSS as at 31 December 2005.

b) Other investments

Name	Principal activity	Holding % 2005	Holding % 2004	Carrying amount 2005	Carrying amount 2004
Burza cenných papierov, a. s.	Stock exchange	10.98	10.98	13	14
Servis 1 – CS, a. s.	IT services	-	3.68	-	138
RVS, a. s.	-	7.20	13.84	15	-
PB Leasing, a. s.	Leasing	10.00	10.00	-	-
S.W.I.F.T. s.c.	Communication	0.01	0.01	1	1
Total				**29**	**153**

Income earned from investments received is further described in Note 25.

On 14 January 2005 the company Servis 1 – CS, a. s. decreased its share capital, with the Bank's share being decreased from CZK 106 million to CZK 106 thousand. The amount of CZK 105.8 million was repaid in cash in March 2005. Remaining participation in the company was sold in December 2005.

15. Intangible Assets

	Software MSKK	Other IFA MSKK	Assets not yet put in service MSKK	Total MSKK
Cost				
1 January 2005	**2 719**	**393**	**193**	**3 305**
Additions	1	1	652	654
Disposals	(51)	(75)	(28)	(154)
Transfers	472	(85)	(387)	-
31 December 2005	**3 141**	**234**	**430**	**3 805**
Accumulated amortisation				
1 January 2005	**(2 113)**	**(242)**	**-**	**(2 355)**
Amortisation	(286)	(24)	-	(310)
Disposals	50	75	-	125
Provisions for impairment	-	-	-	-
Transfers	3	(3)	-	-
31 December 2005	**(2 346)**	**(194)**	**-**	**(2 540)**
Net book value				
31 December 2004	**606**	**151**	**193**	**950**
31 December 2005	**795**	**40**	**430**	**1 265**

Original cost of fully amortised intangible assets that are still in use by the Bank amounts to SKK 2.1 billion.

16. Property, Equipment and Investment Property

	Land and buildings MSKK	Equipment fixtures and fittings MSKK	Motor vehicles MSKK	Assets not yet put in service MSKK	Total property and equipment MSKK	Investment property MSKK
Cost						
1 January 2005	**7 253**	**7 238**	**145**	**243**	**14 879**	**515**
Additions	209	62	42	810	1 123	24
Disposals	(1 904)	(1 596)	(19)	(1)	(3 520)	(273)
Transfers	484	512	4	(966)	34	(34)
31 December 2005	**6 042**	**6 216**	**172**	**86**	**12 516**	**232**
Accumulated depreciation						
1 January 2005	**(2 527)**	**(5 818)**	**(67)**	**(3)**	**(8 415)**	**(176)**
Depreciation	(183)	(563)	(38)	-	(784)	(8)
Disposals	746	1 546	17	-	2 309	68
Provisions for impairment	167	12	-	2	181	6
Transfers	(35)	(5)	4	1	(35)	34
31 December 2005	**(1 832)**	**(4 828)**	**(84)**	**-**	**(6 744)**	**(76)**
Net book value						
31 December 2004	**4 726**	**1 420**	**78**	**240**	**6 464**	**339**
31 December 2005	**4 210**	**1 388**	**88**	**86**	**5 772**	**156**

Original cost of property and equipment that is fully depreciated but still in use by the Bank amounts to SKK 3.2 billion.

The Bank has assessed impairment of assets (buildings and hardware) that were owner occupied, unused or rented to other parties. The negative difference between the net book value of buildings and their estimated recoverable amount has been recognised as an impairment of assets. As at 31 December 2005 provisions for impairment of buildings amounted to SKK 406 million (2004: SKK 529 million). There was no provision to impairment of hardware at the end of 2005 (2004: SKK 70 million).

In 2005, the Bank sold a portfolio of buildings in total net book value of SKK 1 300 million (thereof SKK 205 million represents sale of investment property) as a result of planned relocation to a new head office building currently under construction. The proceedings from sale amounted to SKK 1 061 million. The difference between net book value and the proceedings is presented within ‘Other operating result’. The

Bank has together with the sale signed a lease back contract until the new head office construction is completed.

Sale and lease-back

The Bank has entered into a lease-back agreement, an operating lease, for a 3 years period, with an option to extend the lease for an additional 2 years.

Outstanding commitments under non-cancellable operating lease	2005	2004
Payable in period:		
- Less than 1 year	143	-
- From 1 year to 5 years	286	-
- Over 5 years	-	-
Operating leasing payments recognised as expense in the period	7	-

Investment property

The Bank owns buildings rented to other parties in the total net book value of SKK 156 million (net of effect of impairment SKK 6 million presented within 'Other operating result') as at 31 December 2005. The total rental income earned by the Bank amounted to SKK 58 million and is presented within 'Other interest income and similar income' or the 'Interest income' caption. The depreciation on rented buildings is presented within 'General administrative expenses' and amounted to SKK 8 million. The carrying amount of buildings rented to other parties approximates their fair value as at 31 December 2005. Administrative costs related to Investment property amounted to SKK 14 million in 2005 and are presented within 'General administrative expenses'.

17. Deferred income tax asset and liability

The structure of deferred tax position as at 31 December 2005 and 31 December 2004 was as follows:

	2005 MSKK	2004 MSKK
Deferred income tax assets	13	15
Total income tax assets	**13**	**15**
Deferred income tax liability	110	173
Current income tax liability	19	678
Total income tax liabilities	**129**	**851**

	2005 MSKK	2004 MSKK
Deferred income tax assets		
Provisions for losses on loans and advances	268	275
Securities held to maturity	-	92
Assets at fair value	27	-
Loans and advances to customers	58	-
Investments in subsidiaries at equity, associates and other investments	37	-
Provisions for liabilities and other provisions	61	88
Tax losses carried forward	24	37
Other	3	38
	478	**530**
Less: unrecognised deferred tax assets	(285)	(413)
Less: netting of assets and liabilities	(180)	(102)
Total deferred income tax assets	**13**	**15**
Deferred income tax liabilities		
Securities available for sale (recognised in equity)	207	247
Securities held to maturity	31	-
Property and equipment	42	-
Amounts owed to financial institutions	-	18
Other	10	10
	290	**275**
Less: netting of assets and liabilities	(180)	(102)
Total deferred income tax liabilities	**110**	**173**

The Bank applies a conservative approach for the recognition of deferred tax assets and liabilities. All deferred tax liabilities are recognised in full amount, while only those deferred tax assets are recognised for which the Bank expects to realise the tax benefits in the future.

A potential deferred income tax asset of SKK 691 was not recognised as at 31 December 2003 as a result of the existence of uncertainties related to the application of new income tax legislation valid from 1 January 2004. The uncertainties resulted in the Bank's inability to reliably forecast the future tax bases as well as the timing of the reversal of temporary differences.

In 2004, following the resolution of the uncertainties described above, the Bank reassessed its deferred income tax position. A deferred income tax position has been calculated for all temporary differences by providing full deferred income tax liabilities and recognizing 50% of those deferred income tax asset that are expected to be realized in the period 2005 – 2008. Potential deferred income tax assets with uncertain timing of reversal were not considered by the Bank in calculation of deferred income tax assets. Potential additional deferred income tax benefits not recorded as at 31 December 2004 total SKK 413 million.

In 2005, the Bank reassessed its deferred tax position taking into account the uncertainties in application of the revised Income tax act in 2006, when the Bank is preparing its income tax return using the IFRS financial statements. As a result of these uncertainties, the Bank calculated its deferred tax position by providing full deferred tax liabilities but recognizing only 10% of deferred tax asset from temporary deductible differences related to provisions for losses on loans, advances and off-balance sheet items. Deferred tax assets from other temporary deductible differences were recognised to full extent. Potential additional deferred tax assets not recorded as at 31 December 2005 total SKK 285 million.

18. Other Assets

	2005 MSKK	2004 MSKK
Accrued income	1 906	2 674
Prepaid expenses	121	163
Other	642	442
Total	**2 669**	**3 279**

19. Amounts Owed to Financial Institutions

	2005 MSKK	2004 MSKK
Amounts owed on demand	135	297
Repo trades with debt securities	31 747	15 692
Term deposits	13 603	16 134
Total	**45 485**	**32 123**

The liabilities at 31 December 2005 in the amount of SKK 31 747 million from repo trade are collateralised by state bonds and treasury bill.

20. Amounts Owed to Customers

	2005 MSKK	2004 MSKK
Amounts owed on demand	59 288	55 055
Savings deposits	16 621	20 663
Term deposits	101 641	99 376
Total	**177 550**	**175 094**

Savings deposits are deposits with defined period of notice, however, term deposits have defined maturity date. Savings deposits are usually used as long-term period.

	2005 MSKK	2004 MSKK
Savings deposits	16 621	20 663
Term deposits and amounts owed on demand:		
Corporate clients	41 120	41 887
Retail clients	101 741	105 593
Public sector	15 373	4 253
Other	2 695	2 698
Total	**177 550**	**175 094**

The amount of savings deposits includes balance of anonymous deposits of SKK 1 728 million as at 31 December 2005 (2004: SKK 2 583 million). In accordance with valid legislation, all unclaimed anonymous deposits outstanding as at 31 December 2006 will be forfeited to the state.

In 2005, in accordance with the valid legislation, the Bank cancelled dormant deposit accounts with already expired limitation period (more than 20 years) in total amount of SKK 130 million.

As at 31 December 2005 no amounts owed to clients were collateralised by securities.

21. Debt Securities in Issue

	2005 MSKK	2004 MSKK
Bonds in issue	9 440	6 213
less bonds held by the Group	(10)	-
Total bonds	**9 430**	**6 213**
Short term debt securities	345	-
Total	**9 775**	**6 213**

Bonds in issue are presented in the following table:

	Date of issue	Maturity date	Interest rate	Nominal value 2005 MSKK	Nominal value 2004 MSKK
Mortgage bonds	July 2002	July 2007	7.40%	1 000	1 000
Mortgage bonds	July 2003	July 2008	4.60%	1 000	1 000
Mortgage bonds	August 2003	August 2010	4.65%	500	500
Mortgage bonds	October 2003	October 2008	4.60%	1 000	1 000
Mortgage bonds	June 2004	June 2009	4.50%	1 000	1 000
Mortgage bonds	August 2004	August 2010	4.40%	500	500
Mortgage bonds	November 2004	November 2009	4.50%	1 100	1 100
Mortgage bonds	March 2005	March 2008	2.70%	400	-
Other bonds	May 2005	April 2009	2.88%	2 000	-
Mortgage bonds	July 2005	July 2008	2.60%	800	-
Total nominal value				**9 300**	**6 100**
Accrued interest				140	113
Net debt securities in issue				**9 440**	**6 213**
less bonds held by the Group				(10)	-
Total				**9 430**	**6 213**

All of the bonds shown above are listed and traded on the Bratislava Stock Exchange ('BSE'). As at 31 December 2005, the Bank complies with the requirements of the NBS relating to mortgage lending by covering at least 70% of mortgage loans by issued mortgage bonds.

Part of the mortgage bonds issued is collateralised by state bonds included in the HTM portfolio in the carrying amount of SKK 3 560 million.

The Bank started to offer the new product SPORO bill of exchange from July 2005 available in SKK as well as in foreign currencies. Total amount of these short-term debt securities as at 31 December 2005 was SKK 345 million.

22. Provisions for Liabilities and Other Provisions

	2005 MSKK	2004 MSKK
Provision for off-balance sheet items	252	379
Interest bearing deposit products	70	104
Legal cases	369	678
Sponsoring	66	122
Employee benefit provisions	94	108
Other provisions	147	94
Total	**998**	**1 485**

a) Provision for off-balance sheet and other risks

The provisions for credit risk of off-balance sheet items have been created to cover estimated losses present in the balances of unused loan commitments, guarantees and letters of credits accounted for on off-balance sheet. The movement of the provisions for off-balance sheet is shown in Note 27.

b) Provisions for interest-bearing products

The provision has been made for the estimated losses on several deposit products, which were offered by the Bank at high fixed interest rates in the past.

The following table provides a roll forward of the provision for interest-bearing products:

	MSKK
1 January 2005	**104**
Allocation	21
Use / Release	(55)
31 December 2005	**70**

c) Provision for legal cases

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2005. These litigations have arisen from normal banking activities, both prior and after the privatisation in 2001. Pursuant to the review of litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision for these legal disputes. In the second quarter of 2005, the Bank released a provision for a legal case that was won at the Supreme Court of the Slovak Republic amounting to SKK 311 million. The release of the provisions is reported on the line 'Other operating result' in the profit and loss.

d) Sponsoring provision

The Group has been involved in significant sponsoring activities in the fields of education, culture, charity, public affairs and economic development, and fully provisioned its contractual and legal commitments for these activities including commitment related to the 2001 privatisation of the Bank.

In 2004, part of the provision in the amount of SKK 200 million was used as the contribution of the Bank to the subscribed capital of a foundation Nadácia Slovenskej sporiteľne (previously SPORO Nadácia) established by the deed of foundation dated 5 November 2004. According to the currently valid legislation, the contribution to the subscribed capital cannot be reclaimed and cannot be distributed to the founders in the future.

During 2005, part of the sponsoring provision in the amount of SKK 57 million was used for the financing of various sponsoring activities. According to the decision of Ministry of Finance of the Slovak Republic, the remaining portion of the provision shall be used until the end of 2006.

e) Long – term employee benefits provisions

During the year ending 31 December 2005, the actuarial calculation based on the projected unit credit method was performed resulting in the final employee benefit obligation in the amount of SKK 95 million.

The Bank has a defined benefit program, under which employees are entitled to a lump-sum payment upon taking retirement or a working/life jubilee. As at 31 December 2005 there were 4 805 employees at the Bank covered by this program (2004: 5 148 employees).

The amounts recognised in the balance sheet and profit and loss as at 31 December 2005 are as follows:

	Pension provisions MSKK	Jubilee provisions MSKK	Total long-term provisions MSKK
Long-term employee provisions at 31. December 2003	**-**	**-**	**-**
New commitments from acquisitions of companies	-	-	-
Service costs	2	8	10
Interest costs	-	-	-
Payments	-	-	-
Past service costs	22	76	98
Net present value at 31. December 2004	**24**	**84**	**108**
Unrecognised actuarial gains/losses (corridor)	-	-	-
Long-term employee provisions at 31. December 2004	**24**	**84**	**108**
New commitments from acquisitions of companies	-	-	-
Service costs	2	7	9
Interest costs	1	3	4
Payments	(3)	(7)	(10)
Actuarial gains/losses	1	(16)	(15)
Net present value at 31. December 2005	**25**	**71**	**96**
Unrecognised actuarial gains/losses (corridor)	(1)	-	(1)
Long-term employee provisions at 31. December 2005	**24**	**71**	**95**

Key assumptions used in actuarial valuation:

Long-term employee provisions were calculated in accordance with the currently valid mortality tables issued by the Statistical Office of the Slovak Republic.

As at 31 December 2005	
Real annual discount rate	3.92%
Annual future real rate of salary increases	2.50%
Annual employee turnover	3.56% – 16.80%
Retirement age	60 years

f) Other provisions

Other provisions are comprised mainly of provisions for certain social benefit obligations.

23. Other Liabilities

	2005 MSKK	2004 MSKK
Financial derivatives with negative fair value (Note 36)	1 883	1 804
Fair value of hedging instrument	(55)	-
Other short-term payables to customers related to money transfer	2 738	1 924
Accruals for general administrative expenses	887	520
Various creditors	427	442
Accrued expenses	24	5
Total	**5 904**	**4 695**

24. Equity

Share capital

Authorised, called-up and fully paid share capital consists of the following:

Nominal value	Number of shares	2005 MSKK	Number of shares	2004 MSKK
SKK 1,000 each	2 174 207	2 174	2 174 207	2 174
SKK 100,000,000 each	42	4 200	42	4 200
Total		**6 374**		**6 374**

Voting rights and rights to receive dividends are attributed to each class of share pro rata to their share on share capital of the Bank.

During 2004, Erste Bank purchased the shares from the Ministry of Finance of the Slovak Republic representing 10.01% of share capital and thus increased its share to 80.01%. The remaining 19.99% of share capital that was owned by the EBRD as at 31 December 2004 was sold to Erste Bank in January 2005. As a result, Erste Bank became the 100% shareholder of the Bank as at 10 January 2005.

Based on the General Assembly decision dated 5 May 2005, dividends from the profit for 2004 were paid to Erste Bank in the amount of SKK 1 946 million.

The distribution of profit is shown in the following table:

Dividends per share	Attributable from the profit for the year 2005* MSKK	2004 MSKK
Dividends paid to shareholder from profit for the year (MSKK)	2 146	1 946
Number of shares SKK 1 000 each	2 174 207	2 174 207
Number of shares SKK 100 million each	42	42
Amount of dividends per SKK 1 000 share (SKK)	**337**	**305**
Amount of dividends per SKK 100 million share (SKK)	**33 666 855**	**30 535 045**

* Based on the proposed profit distribution.

Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Bank is obliged to contribute an amount to the fund each year which is not less than 5% of its annual net profit (calculated in accordance with Slovak accounting regulations) until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve Fund is not available for distribution to shareholder.

Other funds

Other funds as at 31 December 2005 included only the Statutory fund amounting to SKK 1 178 million.

The Statutory fund was created from distributable profits to strengthen the Bank's capital base. The statutory fund may be terminated and transferred back to distributable profits if the Bank's share capital or legal reserve fund is increased. Such termination and transfer requires the approval of the Supervisory Board and the General Assembly.

In 2005, the Risk fund previously presented in 'Other funds' was transferred to 'Retained earnings' based on the decision of the Board of Directors of the Bank and in accordance with the Fund statute.

Other funds, hedging reserves and revaluation reserves are not available for distribution to shareholder.

25. Net Interest and Investment Income

	2005 MSKK	2004 MSKK
Interest income from:		
Loans and advances to financial institutions	2 734	2 612
Loans and advances to customers	4 700	3 800
Debt securities and other fixed income securities	4 360	5 929
Other interest income and similar income	60	38
Total interest and similar income	**11 854**	**12 379**
Interest expense for:		
Amounts owed to financial institutions	(1 339)	(1 034)
Amounts owed to customers	(2 358)	(3 332)
Debts evidenced by certificates	(362)	(226)
Total interest and similar expenses	**(4 059)**	**(4 592)**
Net interest income	**7 795**	**7 787**
Income from investments in associates	120	34
Net interest and investment income	**7 915**	**7 821**

Income from investments in associates

Company	2005 MSKK	2004 MSKK
Prvá stavebná sporiteľňa, a. s. (PSS)	106	33
Poisťovňa Slovenskej sporiteľne, a. s.	9	(7)
Erste Corporate Finance, a. s.	6	2
Other	(1)	6
Total	**120**	**34**

26. Net fee and commission income

	2005 MSKK	2004 MSKK
Fee and commission income from:		
Payment transfers	2 066	1 700
Lending business	605	662
Securities	552	44
Other fees	180	442
Total fee and commission income	**3 403**	**2 848**
Fee and commission expense for:		
Payment transfers	(168)	(147)
Lending business	(14)	(10)
Securities	(33)	(25)
Other fees	(4)	(3)
Total fee and commission expense	**(219)**	**(185)**
Net fee and commission income	**3 184**	**2 663**

27. Provisions for Losses on Loans, Advances and Off-balance Sheet

	2005 MSKK	2004 MSKK
Provisioning charges	(4 366)	(2 023)
Release of provisions	3 836	2 087
Net provisions for losses on loans and advances (Note 9)	**(530)**	**64**
Recoveries of loans written off / other	(27)	5
Net provisions released / (charged) for off-balance risks	127	(37)
Net provisions	**(430)**	**32**

28. Net Profit on Financial Operations

	2005 MSKK	2004 MSKK
Foreign exchange gains and currency derivatives	625	544
Interest derivatives	5	20
Trading securities	(42)	85
Other	(14)	14
Total	**574**	**663**

29. General Administrative Expenses

	2005 MSKK	2004 MSKK
Personnel expenses		
Wages and salaries	2 304	2 166
Social security expenses	573	625
Long term employee benefits	(13)	108
Other personnel expenses	165	40
Total personnel expenses	**3 029**	**2 939**
Other administrative expenses		
Data processing expenses	814	712
Building maintenance and rent	411	414
Costs of bank operations	464	502
Advertising and marketing	278	272
Legal fees and consultation	126	92
Other administrative expenses	263	241
Total other administrative expenses	**2 356**	**2 233**
Depreciation		
Amortisation of intangible assets	310	280
Depreciation	792	865
Total depreciation, amortisation	**1 102**	**1 145**
Total	**6 487**	**6 317**

The average number of employees in the Group was 4 901 and 5 233 in 2005 and 2004, respectively.

30. Other Operating Result

	2005 MSKK	2004 MSKK
Revaluation of securities at fair value, net	56	46
Profit on sale of securities available-for-sale	167	3
Other operating income	776	275
Total other operating income	**999**	**324**
Contribution to deposit protection fund	(985)	(1 056)
Other operating expense	(524)	(642)
Total other operating expense	**(1 509)**	**(1 698)**
Total other operating result	**(510)**	**(1 374)**

Major components of 'Other operating income' in 2005 include reversed provision to impairment for buildings amounting to SKK 173 million and the release of provision to legal case amounting to SKK 275 million (see also Note 22(c)).

Major components of 'Other operating expense' in 2005 include the effect from the sale of buildings portfolio in amount of SKK 239 million (see Note 16).

The Bank is obliged by law to make a contribution to the deposit protection fund of Slovakia calculated based on its customer deposit liabilities.

'Other operating result' included impairment to buildings in the amount of SKK 300 million in 2004.

31. Income Tax Expense

	2005 MSKK	2004 MSKK
Current tax expense	706	698
Deferred tax income (Note 17)	(32)	(336)
Total	**674**	**362**

The actual tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Slovak Republic as follows:

	2005 MSKK	2004 MSKK
Profit before tax	4 246	3 488
Income not subject to corporate income tax:		
Release of provisions and reserves	(3 895)	(5 165)
Income from securities	(250)	(631)
Other	(240)	(296)
Expenses not deductible for tax purposes:		
Allocation of provisions and reserves	3 667	5 261
Other	108	889
Tax base	**3 636**	**3 546**
Tax calculated at a tax rate of 19%	702	698
Corporate income tax expense	**702**	**698**
Withholding tax expense – dividends	4	-
Deferred tax income	(32)	(336)
Total tax expense	**674**	**362**

The accounting for changes in deferred tax position of the Bank in 2005 and 2004 were significantly affected by the development of the Slovak income tax legislation, as described in Note 17.

Deferred tax income in the Profit and loss account comprises the following temporary differences:

	2005 MSKK	2004 MSKK
Investments in associates and other investments	(5)	(157)
Loans and advances to customers	(49)	-
Provisions for losses on loans and advances	29	(56)
Property and equipment and investment property	(18)	11
Tax losses carried forward		(37)
Securities held to maturity	67	(36)
Securities available for sale	(26)	-
Provisions for liabilities and other provisions	(31)	(10)
Other temporary differences	1	(51)
Total deferred tax income	**(32)**	**(336)**

32. Earnings Per Share

	2005 MSKK	2004 MSKK
Net profit applicable to ordinary shares (MSKK)	3 569	3 125
Number of shares SKK 1 000 each	2 174 207	2 174 207
Number of shares SKK 100 million each	42	42
Basic and diluted profit per SKK 1 000 share (SKK)	560	490
Basic and diluted profit per SKK 100 million share (SKK)	**55 995 314**	**49 031 103**

33. Supplementary Data to Statements of Cash Flows

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

	2005 MSKK	2004 MSKK
Cash on hand (Note 6)	3 582	3 622
Nostro accounts with the NBS (Note 6)	479	641
Accounts with other financial institutions repayable on demand (Note 7)	278	402
Repo trades with the central bank treasury bills (Note 7)	59 738	52 910
Trading securities	-	2 485
Total cash and cash equivalents	**64 077**	**60 060**

34. Financial Instruments

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset), or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

Credit risk

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

Market risk

Market risks arise from open positions sensitive to interest rates, foreign currency exchange rates and equity prices. The Group applies a 'value at risk' ('VaR') methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors establishes VaR limits as the Group's maximum exposure to market risks that may be accepted on a daily basis.

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions. The Group's net open foreign exchange positions as at 31 December 2005 and 2004 are shown in Note 38.

Interest rate risk

Interest rate risk is the risk that net interest income or the value of financial instruments will fluctuate due to changes in market interest rates. The Group manages its interest rate risk through monitoring interest rate behaviour and the re-pricing dates of the Group's assets and liabilities and developing models showing the potential impact that changes in interest rates may have on the Group's net interest income and market value of the Group's assets and liabilities. Refer to Note 38 for an analysis of the Group's interest rate risk as at 31 December 2005 and 2004.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Group's liquidity position is monitored and managed based on expected cash inflows and outflows, and adjusting interbank deposits and placements accordingly. Refer to Note 40 for an analysis of the Group's liquidity risk as at 31 December 2005 and 2004.

In addition to the risks noted here, the Group also deals in derivative financial instruments, discussed in greater detail in Note 36.

Operational risk

Operational risk management mainly includes the collection and evaluation of data about operational risk losses, implementation of insurance strategy, coordination of business continuity plans development for the Bank's management in time of crisis, establishing basic principles for outsourcing, and implementing measures to mitigate the Bank's risk exposure.

The Group is joining the operational risk insurance program of Erste Group, which provides wider coverage of risks. Insurance policies cover losses due to operational risk in compliance with the definition of operational risk and the valid legislation.

In 2005, the Group implemented an upgrade version of software application for operational risk data collection. The current application is in line with Basel II standards and the requirements of Erste Bank, the range of collected information enables the use of advanced measurement approach of capital requirement calculation for operational risk in the future.

35. Contingent Liabilities and Commitments

Legal disputes

Provisions are maintained to cover the risks related to the possible commitments of the Group related to legal cases. Provisions for legal cases are described in Note 22 (c).

Tax review

In January 2006, the Slovak Tax Office started an examination of the Income Tax return of the Bank for the year ended 31 December 2004. This review has not been completed as at the date of issue of the financial statements for the year 2005. The Tax Authorities are in the early stages of the review and the ultimate outcome of the tax examination is uncertain. However, the Bank has not been informed by the Tax Office of any matters of non-compliance and has not otherwise identified any issues that are expected to have material impact on the current or deferred income tax position presented in these financial statements.

36. Off-balance Sheet Items and Derivate Financial Instruments

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as at off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

a) Commitments from Guarantees and Letters of Credit

Bank guarantees and letters of credit cover liabilities to clients (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represents an irrevocable liability of the Bank to pay a certain amount as stated in the bank guarantee in the case when the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Group performed according to the instruction of the buyer to pay a specified amount to the seller against the documents that meet the letter of credit requirements. The Group deals with letters of credit subject to the 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

The primary purpose of these instruments is to ensure that funds are available as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The following table contains off-balance sheet credit exposures (see Note 8) and also treasury commitments:

	2005 MSKK	2004 MSKK
Guarantees provided	4 600	3 506
Guarantees from letters of credit	73	419
Loan commitments and undrawn loans	26 705	19 349
Total	**31 378**	**23 274**

In 2003, the Bank provided a guarantee in the amount of EUR 17 million to Erste Bank for the government bonds with Moody's higher investment grade rating. In the case of any default of the issuer on any of its debts the Bank is obliged to purchase these bonds from the parent company for their nominal value. This guarantee is still effective as at 31 December 2005.

b) Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits vis-_-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most cases requires margin deposits.

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date).

Foreign currency contracts are used by the Group for risk management and trading purposes. The Group's risk management foreign currency contracts provide effective economic hedges against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency. The Group holds open currency position. Part of this position qualifies for hedge accounting under the specified rules of IAS 39. The rest of the position is monitored on a daily basis using sensitivity analysis – delta and VAR methodology.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Group's interest rate swaps were used for the management of interest rate exposures and have been accounted for at marked-to-market fair value. The Group designates one interest rate swap for hedging of changes in fair value of bonds. One interest rate swap is designated to hedge amount of future cash flows from interest income from a specific loan. Both contracts qualify for hedge accounting under the specified rules of IAS 39.

Option contracts represent the formal reservation of the right to buy or sell an asset at the specified quantity, within a given time in the future and at a certain price. The buyer of the option has the right, but not the obligation, to exercise the right to buy or sell an asset and the seller has the obligation to sell or purchase the asset at the specified quantity and at the price defined in the option contract.

A forward rate agreement is an agreement to settle amounts at a specific future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for the management of interest rate exposures and have been accounted for at mark to market fair value.

Currency interest rate swaps are combinations of interest rate swaps and a series of foreign currency contracts. As with interest rate swaps, the Group agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, gross, and not settled on a net basis. Unlike interest rate swaps, the notional balances of the different currencies to which these interest payments are based are typically exchanged at the beginning and re-exchanged at the end of the contract period.

Credit derivatives are financial instruments that consist of two or more underlying interest instruments and the value of which is influenced by risk interest rate of a particular party. They facilitate one party (protection buyer or originator) to transfer the credit risk of a reference asset, which it may or may not own, to one or more other parties (the protection sellers).

1. Derivatives in notional and fair value

	2005			
	Receivables		Liabilities	
	Notional value MSKK	Fair value MSKK	Notional value MSKK	Fair value MSKK
Hedging	**1 135**	**-**	**1 135**	**76**
Total hedging instruments	**1 135**	**-**	**1 135**	**76**
Trading derivatives				
Forward rate agreements (FRA)	29 702	8	29 702	13
Foreign currency forwards	26 196	294	26 241	330
Option contracts	15 290	78	15 302	95
Interest rate swaps (IRS)	28 151	629	28 151	754
Currency interest rate swaps (CIRS)	1 386	5	1 661	213
Currency swaps	88 890	318	88 963	402
Credit derivatives	852	13	852	0
Total trading derivatives	**190 467**	**1 345**	**190 872**	**1 807**
Total	**191 602**	**1 345**	**192 007**	**1 883**

	2004			
	Receivables		Liabilities	
	Notional value MSKK	Fair value MSKK	Notional value MSKK	Fair value MSKK
Hedging	**1 164**	**-**	**1 164**	**77**
Total hedging instruments	**1 164**	**-**	**1 164**	**77**
Trading derivatives				
Forward rate agreements (FRA)	24 200	31	24 200	26
Foreign currency forwards	12 212	157	12 262	217
Futures	-	-	-	-
Option contracts	12 598	193	12 552	191
Interest rate swaps (IRS)	21 299	609	21 299	727
Currency interest rate swaps (CIRS)	1 171	5	1 496	326
Currency swaps	32 437	805	31 869	240
Total trading derivatives	**103 917**	**1 800**	**103 678**	**1 727**
Total	**105 081**	**1 800**	**104 842**	**1 804**

2. Derivatives based on the trading place

	2005			
	Receivables		Liabilities	
	Notional value MSKK	Fair value MSKK	Notional value MSKK	Fair value MSKK
Hedging				
OTC	1 135	-	1 135	76
Total hedging instruments	**1 135**	**-**	**1 135**	**76**
Trading derivatives				
Forward rate agreements (FRA)	29 702	8	29 702	13
Quoted	-	-	-	-
OTC	29 702	8	29 702	13
Option contracts	15 290	78	15 302	95
Quoted	-	-	-	-
OTC	15 290	78	15 302	95
Interest rate swaps	28 151	629	28 151	754
Quoted	-	-	-	-
OTC	28 151	629	28 151	754
Other derivatives	117 324	630	117 715	945
Quoted	-	-	-	-
OTC	117 324	630	117 715	945
Total trading derivatives	**190 467**	**1 345**	**190 870**	**1 807**
Total	**191 602**	**1 345**	**192 005**	**1 883**

	2004			
	Receivables		Liabilities	
	Notional value MSKK	Fair value MSKK	Notional value MSKK	Fair value MSKK
Hedging				
OTC	1 164	-	1 164	77
Total hedging instruments	**1 164**	**-**	**1 164**	**77**
Trading derivatives				
Forward rate agreements (FRA)	24 200	31	24 200	26
Quoted	-	-	-	-
OTC	24 200	31	24 200	26
Option contracts	12 598	193	12 552	191
Quoted	-	-	-	-
OTC	12 598	193	12 552	191
Interest rate swaps	21 299	609	21 299	727
Quoted	-	-	-	-
OTC	21 299	609	21 299	727
Other derivatives	45 820	967	45 627	783
Quoted	-	-	-	-
OTC	45 820	967	45 627	783
Total trading derivatives	**103 917**	**1 800**	**103 678**	**1 727**
Total	**105 081**	**1 800**	**104 842**	**1 804**

3. Maturity analysis

	2005		2004	
	Receivables MSKK	Liabilities MSKK	Receivables MSKK	Liabilities MSKK
Hedging				
Up to 1 month	-	-	-	-
From 1 to 3 months	-	-	-	-
From 3 to 12 months	-	-	-	-
From 1 to 5 years	-	-	-	-
Over 5 years	1 135	1 135	1 164	1 164
Hedging – total	**1 135**	**1 135**	**1 164**	**1 164**
Trading derivatives				
Forward rate agreements (FRA)	29 702	29 702	24 200	24 200
Up to 1 month	5 502	5 502	5 300	5 300
From 1 to 3 months	5 300	5 300	10 500	10 500
From 3 to 12 months	18 900	18 900	8 400	8 400
From 1 to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Foreign currency forwards	26 196	26 240	12 212	12 262
Up to 1 month	3 438	3 459	3 430	3 428
From 1 to 3 months	3 667	3 696	2 094	2 146
From 3 to 12 months	16 303	16 405	4 865	4 981
From 1 to 5 years	2 788	2 680	1 823	1 707
Over 5 years	-	-	-	-
Futures	-	-	-	-
Option contracts	15 291	15 303	12 598	12 552
Up to 1 month	3 220	3 225	1 482	1 475
From 1 to 3 months	4 200	4 193	3 716	3 706
From 3 to 12 months	4 659	4 635	7 400	7 371
From 1 to 5 years	3 212	3 250	-	-
Over 5 years	-	-	-	-
Interest rate swaps (IRS)	28 150	28 150	21 299	21 299
Up to 1 month	1 714	1 714	150	150
From 1 to 3 months	878	878	400	400
From 3 to 12 months	3 164	3 164	4 402	4 402
From 1 to 5 years	17 256	17 256	9 795	9 795
Over 5 years	5 138	5 138	6 552	6 552

	2005		2004	
	Receivables MSKK	Liabilities MSKK	Receivables MSKK	Liabilities MSKK
Currency interest rate swaps (CIRS)	1 386	1 661	1 171	1 496
Up to 1 month	-	-	-	-
From 1 to 3 months	-	-	-	-
From 3 to 12 months	438	500	-	-
From 1 to 5 years	948	1 161	1 171	1 496
Over 5 years	-	-	-	-
Currency swaps	88 890	88 962	32 437	31 869
Up to 1 month	68 925	69 065	23 239	23 058
From 1 to 3 months	9 120	9 125	5 662	5 443
From 3 to 12 months	9 800	9 754	3 536	3 368
From 1 to 5 years	1 045	1 018	-	-
Over 5 years	-	-	-	-
Credit derivatives	852	852	-	-
Up to 1 month	-	-	-	-
From 1 to 3 months	-	-	-	-
From 3 to 12 months	-	-	-	-
From 1 to 5 years	852	852	-	-
Over 5 years	-	-	-	-
Total trading derivatives	190 467	190 870	103 917	103 678
Total	**191 602**	**192 005**	**105 081**	**104 842**

37. Net Foreign Exchange Positions

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are included under 'Other'.

	EURO MSKK	US Dollar MSKK	Czech Crown MSKK	Other MSKK	Slovak Crowns MSKK	Total MSKK
Cash and balances at the central bank	314	104	111	134	3 403	4 066
Loans and advances to financial institutions	60	575	3	40	67 003	67 681
Loans and advances to customers, net	19 022	1 664	967	169	71 482	93 304
Financial assets at fair value through profit or loss	2 624	514	-	74	5 751	8 963
Securities available for sale	3 857	164	-	-	19 617	23 638
Securities held to maturity	-	-	-	-	50 491	50 491
Investments in associates and other investments	291	-	18	-	665	974
Intangible assets	-	-	-	-	1 265	1 265
Property and equipment and investment property	-	-	-	-	5 928	5 928
Other assets	434	16	-	9	2 223	2 682
Total assets	**26 602**	**3 037**	**1 099**	**426**	**227 828**	**258 992**
Amounts owed to financial institutions	20 794	786	705	52	23 148	45 485
Amounts owed to customers	10 164	2 699	667	813	163 207	177 550
Debt securities in issue	5	17	-	-	9 753	9 775
Provisions for liabilities and other provisions	-	-	-	-	998	998
Other liabilities	396	97	6	30	5 504	6 033
Equity	305	9	-	-	18 837	19 151
Total liabilities	**31 664**	**3 608**	**1 378**	**895**	**221 447**	**258 992**
Net FX position at 31 December 2005	(5 062)	(571)	(279)	(469)	6 381	-
Off-balance sheet assets	490	19 969	42 408	4 681	55 535	123 083
Off-balance sheet liabilities	90	19 989	41 782	4 117	57 635	123 613
Net off-balance sheet FX position	400	(20)	626	564	(2 100)	(530)
Total net FX position at 31 December 2005	**(4 662)**	**(591)**	**347**	**95**	**4 281**	**(530)**
Total assets at 31 December 2004	17 756	3 036	677	1 985	214 789	238 243
Total liabilities at 31 December 2004	22 447	3 514	880	1 456	209 946	238 243
Net FX position at 31 December 2004	(4 691)	(478)	(203)	529	4 843	-
Net off-balance sheet FX position	777	450	227	(388)	(633)	433
Total net FX position at 31 December 2004	**(3 914)**	**(28)**	**24**	**141**	**4 210**	**433**

38. Interest Rate Risk

a) Interest rate re-pricing analysis

The following table presents the interest rate re-pricing dates of the Group. Variable yield assets and liabilities have been reported according to their next rate re-pricing date. Fixed income assets and liabilities have been reported according to their scheduled principal repayment dates.

As at 31 December 2005	Demand and less than 1 month MSKK	1 to 3 months MSKK	3 months to 1 year MSKK	1 to 5 years MSKK	Over 5 years MSKK	Un-defined MSKK	Total MSKK
Cash and balances at the central bank	484	-	-	-	-	3 582	4 066
Loans and advances to financial institutions	64 242	1 714	1 310	224	-	191	67 681
Loans and advances to customers	46 225	10 724	20 037	13 356	1 174	1 788	93 304
Financial assets at fair value through profit or loss	807	958	4 783	542	455	1 418	8 963
Securities available for sale	6	-	382	18 133	5 117	-	23 638
Securities held to maturity	37 404	-	3 228	3 352	6 507	-	50 491
Investments in associates and other investments	-	-	-	-	-	974	974
Intangible assets, Property and equipment, investment property and Other assets	1 227	369	306	-	50	7 923	9 875
Total assets	**150 395**	**13 765**	**30 046**	**35 607**	**13 303**	**15 876**	**258 992**
Amounts owed to financial institutions	38 869	3 073	1 413	2 041	26	63	45 485
Amounts owed to customers	90 277	22 196	28 720	35 622	-	735	177 550
Debt securities in issue	217	66	192	9 300	-	-	9 775
Other liabilities	2 198	183	1 389	544	445	2 272	7 031
Total liabilities	**131 561**	**25 518**	**31 714**	**47 507**	**471**	**3 070**	**239 841**
Current gap	**18 834**	**(11 753)**	**(1 668)**	**(11 900)**	**12 832**	**12 806**	**19 151**
Cumulative gap	**18 834**	**7 081**	**5 413**	**(6 487)**	**6 345**	**19 151**	**-**

As at 31 December 2004	Demand and less than 1 month MSKK	1 to 3 months MSKK	3 months to 1 year MSKK	1 to 5 years MSKK	Over 5 years MSKK	Un-defined MSKK	Total MSKK
Cash and balances at the central bank	4 814	-	-	-	-	-	4 814
Loans and advances to financial institutions	60 392	1 133	1 981	177	-	122	63 805
Loans and advances to customers	15 576	15 264	17 300	6 735	219	2 577	57 671
Financial assets at fair value through profit or loss	1 847	3 668	4 092	864	589	1 358	12 418
Securities available for sale	-	993	5 361	13 776	9 450	-	29 580
Securities held to maturity	27 704	-	10 405	12 811	7 011	-	57 931
Investments in associates and other investments	-	-	-	-	-	977	977
Intangible assets, Property and equipment, investment property and Other assets	1 511	400	1 772	-	-	7 364	11 047
Total assets	**111 844**	**21 458**	**40 911**	**34 363**	**17 269**	**12 398**	**238 243**
Amounts owed to financial institutions	27 257	3 086	1 440	280	49	11	32 123
Amounts owed to customers	85 473	33 719	24 513	30 934	-	455	175 094
Debt securities in issue	-	-	113	5 100	1 000		6 213
Other liabilities	1 985	997	1 622	607	486	1 334	7 031
Total liabilities	**114 715**	**37 802**	**27 688**	**36 921**	**1 535**	**1 800**	**220 461**
Current gap	**(2 871)**	**(16 344)**	**13 223**	**(2 558)**	**15 734**	**10 598**	**17 782**
Cumulative gap	**(2 871)**	**(19 215)**	**(5 992)**	**(8 550)**	**7 184**	**17 782**	**-**

b) Effective yield information

The effective yields of significant financial assets and liabilities by major currencies as at 31 December 2005 and 2004 are as follows:

	31 December 2005		31 December 2004	
%	Average effective interest rate SKK	Average effective interest rate Other	Average effective interest rate SKK	Average effective interest rate Other
Assets				
Cash and balances at the central bank	1.50%	-	1.47%	-
Loans and advances to financial institutions	2.94%	2.07%	4.88%	1.89%
Loans and advances to customers	6.81%	3.66%	7.15%	3.15%
Treasury bills and bonds	4.99%	4.75%	5.96%	4.77%
Liabilities				
Amounts owed to financial institutions	2.66%	2.06%	4.00%	1.92%
Amounts owed to customers	1.31%	0.94%	1.82%	0.77%

The effective interest rates for bonds held to maturity shown in the table above are calculated as their effective yield to maturity. Weighted average effective interest rate was used for other categories of financial assets and liabilities.

39. Concentration of Credit Risk to Slovak Republic

The following table presents the distribution of the Group's credit risk to the Slovak Republic, companies controlled by the Slovak government, guarantees issued by the Slovak government, and similar exposures:

	Portion of total assets %	2005 MSKK	2004 MSKK
Cash and balances at the central bank	0.68%	1 764	3 092
Loans and advances to financial institutions	23.07%	59 738	52 910
Loans and advances to customers	1.58%	4 090	5 703
Securities portfolios	25.21%	65 281	82 999
Other assets	0.65%	1 673	2 445
Total	**51.18%**	**132 546**	**147 149**

The Group holds a large volume of state debt securities. A breakdown of the state debt securities is shown below by portfolio and type of security:

	2005 MSKK	2004 MSKK
Trading portfolio	**626**	**3 905**
Treasury bills	493	3 138
State bonds denominated in SKK	133	767
Available for sale portfolio	**20 076**	**27 464**
Treasury bills	-	3 263
State bonds denominated in SKK	16 400	17 511
Slovak government Eurobonds	2 233	2 341
Companies controlled by the Slovak government	1 443	4 348
Held to maturity portfolio	**44 579**	**51 630**
State bonds denominated in SKK	43 869	50 920
Companies controlled by the Slovak government	710	710
Total	**65 281**	**82 999**

40. Maturity Analysis

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to ever be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The table below analyses assets and liabilities of the Group into relevant maturity based on the remaining period as at the balance sheet date to the contractual maturity date:

As at 31 December 2005	Demand and less than 1 month MSKK	1 to 3 months MSKK	3 months to 1 year MSKK	1 to 5 years MSKK	Over 5 years MSKK	Un-defined MSKK	Total MSKK
Cash and balances at the central bank	4 066	-	-	-	-	-	4 066
Loans and advances to financial institutions	64 242	1 714	1 310	224	-	191	67 681
Loans and advances to customers	8 043	4 630	14 688	26 152	38 491	1 300	93 304
Financial assets at fair value through profit or loss	231	220	787	4 250	2 057	1 418	8 963
Securities available for sale	6	-	230	18 133	5 269	-	23 638
Securities held to maturity	9 701	-	2 300	21 356	17 134	-	50 491
Investments in associates and other investments	-	-	-	-	-	974	974
Intangible assets, Property and equipment, investment property and Other assets	1 242	369	675	-	50	7 539	9 875
Total assets	**87 531**	**6 933**	**19 990**	**70 115**	**63 001**	**11 422**	**258 992**
Amounts owed to financial institutions	38 869	3 073	1 413	2 041	26	63	45 485
Amounts owed to customers	130 225	18 567	16 107	11 973	-	678	177 550
Debt securities in issue	217	66	192	9 300	-	-	9 775
Other liabilities	2 783	358	1 564	544	445	1 337	7 031
Total liabilities	**172 094**	**22 064**	**19 276**	**23 858**	**471**	**2 078**	**239 841**
Current gap	**(84 563)**	**(15 131)**	**714**	**46 257**	**62 530**	**9 344**	**19 151**
Cumulative gap	**(84 563)**	**(99 694)**	**(98 980)**	**(52 723)**	**9 807**	**19 151**	**-**

As at 31 December 2004	Demand and less than 1 month MSKK	1 to 3 months MSKK	3 months to 1 year MSKK	1 to 5 years MSKK	Over 5 years MSKK	Un-defined MSKK	Total MSKK
Cash and balances at the central bank	4 814	-	-	-	-	-	4 814
Loans and advances to financial institutions	60 392	1 133	1 981	177	-	122	63 805
Loans and advances to customers	3 790	4 764	11 133	18 151	19 833	-	57 671
Financial assets at fair value through profit or loss	706	2 664	1 628	4 776	1 287	1 358	12 419
Securities available for sale	-	993	5 208	13 776	9 603	-	29 580
Securities held to maturity	-	-	7 039	33 253	17 638	-	57 930
Investments in associates and other investments	-	-	-	-	-	977	977
Intangible assets, Property and equipment, investment property and Other assets	1 511	400	1 772	-	-	7 364	11 047
Total assets	**71 213**	**9 954**	**28 761**	**70 133**	**48 361**	**9 821**	**238 243**
Amounts owed to financial institutions	27 257	3 086	1 440	280	49	11	32 123
Amounts owed to customers	122 728	22 650	17 324	12 019	-	373	175 094
Debt securities in issue	-	-	113	5 100	1 000	-	6 213
Other liabilities	1 985	997	1 622	607	486	1 334	7 031
Total liabilities	**151 970**	**26 733**	**20 499**	**18 006**	**1 535**	**1 718**	**220 461**
Current gap	**(80 757)**	**(16 779)**	**8 262**	**52 127**	**46 826**	**8 103**	**17 782**
Cumulative gap	**(80 757)**	**(97 536)**	**(89 274)**	**(37 147)**	**9 679**	**17 782**	**-**

Amounts owed to customers which may be withdrawn on demand, are disclosed in terms of contractual maturities (i.e. in the first column) to reflect the liquidity risks attached. However, in practice, these deposits are often maintained for long periods without withdrawal or repayment; hence, the effective date of repayment is later than the contractual date.

41. Fair Values of Financial Assets and Liabilities

In the following table, the fair values of the balance sheet items are compared with the carrying amounts.

The fair value is the amount for which a financial instrument could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. In those cases where market prices were available, they were used in measurement, otherwise internal valuation models were applied, in particular the present value method.

	Carrying value 2005 MSKK	Estimated fair value 2005 MSKK	Carrying value 2004 MSKK	Estimated fair value 2004 MSKK
Financial assets				
Loans and advances to financial institutions	67 681	67 554	63 805	63 815
Loans and advances to customers	93 304	94 367	57 671	58 048
Held to maturity securities	50 491	51 113	57 930	58 730
Financial liabilities				
Amounts owed to financial institutions	45 485	45 497	32 123	32 125
Amounts owed to customers and debt securities in issue	187 325	186 865	181 307	181 618

Loans and advances to financial institutions

The fair value of current account balances approximates their carrying amount, as the Group's term placements generally re-price within relatively short time periods.

Loans and advances to customers

Loans and advances are net of specific and other provisions for impairment. The fair value represents management's estimate of the ultimate fair value of the loans and advances to customers..

Held to maturity securities

The fair value of held-to-maturity securities was calculated based on the same principles used for the valuation of available-for-sale securities and trading and at fair value through profit and loss securities as described in Note 4(e).

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

42. Segment Reporting

Income included in operating income was substantially generated from the provision of banking and other services in the Slovak Republic. Based on this fact no other material geographical or business segment was identified.

43. Assets under Administration

The Group provides custody, trustee, investment management, and advisory services to third parties, which involve the Group making allocation, and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group administered SKK 42 791 million and SKK 26 538 million of assets as at 31 December 2005 and 2004, respectively, representing securities from customers in its custody for administration.

44. Related Party Transactions

a) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Erste Bank, which holds 100% of the voting rights of the Group's total votes. Related parties include associates of the Group and other members of Erste Bank group.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits. These transactions were carried out on commercial terms and conditions and at market rates.

b) Related party transactions

Assets and liabilities include accounting balances with related parties, mainly with the parent bank and its subsidiaries, as follows:

	2005 MSKK	2004 MSKK
Assets		
Loans and advances to financial institutions	19	58
Loans and advances to customers	1 945	353
Securities held to maturity	2 001	2 000
Other assets	41	21
Total	**4 006**	**2 432**
Liabilities		
Amounts owed to financial institutions	19 773	12 630
Amounts owed to customers	374	373
Other liabilities	78	58
Total	**20 225**	**13 061**

The Bank received a guarantee issued by its parent bank with a maximum value of SKK 5.3 billion (2004: SKK 7.7 billion) covering all the Bank's exposures to the parent bank and its group companies. Under the agreement, the parent bank pledged securities issued or guaranteed by the Republic of Austria in face value amounts totalling EUR 140 million (2004: EUR 190 million).

Income and expenses from related parties include the following:

	2005 MSKK	2004 MSKK
Interest income	110	172
Interest expense	(597)	(208)
Net fees and commissions	14	7
General administrative expenses	(236)	(281)
Profit / (loss) on sale of investment	5	(24)
Total	**(704)**	**(334)**

c) Directors and officers

Loans and advances granted to the members of the Board of Directors and Supervisory Board represent SKK 706 thousand and SKK 156 thousand, and liabilities SKK 3.8 million and SKK 17 million as at 31 December 2005 and 2004, respectively.

Remuneration of members of the Board of directors and Supervisory board paid out during 2005 amounts to SKK 57 million (2004: SKK 14 million). The amount of remuneration paid out in 2005 has increased as a result of some of the board members becoming salaried employees of the Bank in 2005.

45. Post-balance Sheet Events

Changes in IFRS from 1 January 2006

Revised IAS 39 valid from 1 January 2006 limits the fair value option in relation to the designation of financial assets and liabilities on initial recognition into 'Financial assets at fair value through profit or loss' portfolio. Such a designation is now permitted only when it results in more relevant information because it either significantly reduces or eliminates a measurement or recognition inconsistency or a group of financial instruments is managed and evaluated on a fair value basis.

The mutual fund certificates investments do not meet the conditions to be held in the Bank's Financial assets at fair value through profit or loss portfolio and therefore they have been transferred to the 'Available for sale portfolio' as at 1 January 2006. Profits from the mutual funds were relocated against the AFS portfolio reserve and the related deferred income tax asset was recognised.

	MSKK
Equity according to IFRS as at 1 January 2006	**19 151**
Changes as at 1 January 2006 as a result of changes in the IFRS	
Retained earnings	
– transfer of mutual funds	(117)
– change in the deferred income tax asset	22
AFS reserve	
– transfer of mutual funds	117
– change in the deferred income tax asset	(22)
Equity based on the Revised IFRS as at 1 January 2006	**19 151**

Independent Auditors' Report on Annual Report

Deloitte.

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Slovenská sporiteľňa, a.s.

Independent Auditor's Report

To the Shareholder and Board of Directors of Slovenská sporiteľňa, a.s.:

We have audited the consolidated balance sheet of Slovenská sporiteľňa, a.s. (the "Bank") as of 31 December 2005 and the related consolidated statements of profit and loss, changes in equity and cash flows, for the year then ended and notes, prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In our Audit Report of 17 February 2006 we expressed an unqualified opinion on these financial statements.

We have read other financial information included in this annual report for consistency with the aforementioned financial statements. The Board of Directors of the Bank is responsible for the completeness and accuracy of the information included in this annual report. In our opinion, the other financial information included in this annual report, to the extent that such information is derived from the aforementioned financial statements, is consistent, in all material respects, with the relevant financial statements.

Bratislava, 17 February 2006

Deloitte

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

Zuzana Letková

Ing. Zuzana Letková
Responsible auditor
Licence No. SKAu No. 865

This is an English language translation of the original Slovak language document.