SLOVENSKÁ SPORITEĽŇA

Member of Erste Bank Group

Annual Report 2006

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 2006:	Erste Bank 100%
Significant participation interests:	
Asset Management Slovenskej sporiteľne, správ. spol., a. s.	100.00%
Realitná spoločnosť Slovenskej sporiteľne, a. s. (est. in December 2006, registered in January 2007)	100.00%
Derop B.V.	85.00%
Factoring Slovenskej sporiteľne, a. s.	90.00%
Leasing Slovenskej sporiteľne, a. s.	96.66%
3on private equity, a. s.	35.29%
Poisťovňa Slovenskej sporiteľne, a. s.	33.33%
Slovak Banking Credit Bureau, spol. s r.o	33.33%
Erste Corporate Finance, a. s.	25.00%
s IT Solutions SK, s. r. o. (previously SporDat, s. r. o.)	23.50%
Slovenský Rozvojový Fond, a. s.	19.50%
Czech and Slovak Property Fund, B.V.	10.00%
Prvá stavebná sporiteľňa, a. s.	9.98%

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This Annual Report was prepared in accordance with the Act no. 431/2002 Coll. on Accountancy, as amended.

Ratings of Slovenská sporiteľňa, a. s., as of 31 December 2006

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

Consolidated Results and Selected Indicators

According to IFRS Prepared in accordance with the International Financial Reporting Standards	as of 31 Dec 2003 (MSKK)	as of 31 Dec 2004 (MSKK)	ıs of 31 Dec 2005 (MSKK)	as of 31 Dec 2006 (MSKK)
Balance sheet total	208 338	238 243	258 992	297 908
Receivables from banks	27 380	63 805	67 681	69 110
Receivables from clients	54 691	62 609	96 928	129 520
Securities and participations	114 367	100 906	84 066	81 629
Liabilities towards clients	172 335	175 094	177 550	210 029
Shareholders' equity*	15 515	17 782	19 137	20 318
After tax profit*	2 731	3 126	3 569	3 860

* Amounts after deduction of minority interest

Selected ratios

ROE**	19.2%	19.7%	19.3/20.7%	20.3/20.7%
ROA**	1.3%	1.4%	1.3%	1.4%
Cost income ratio	52.0/62.2%*	56.6%	55.5%	54.1%
Non-interest income to Operating income	26.4%	29.8%	32.2%	30.3%
Net interest margin	5.54/4.4%*	3.9%	3.2%	3.5%
Loans to Deposits ratio	31.7%	35.8%	54.6%	61.7%
Capital adequacy (%) according to NBS	24.3%	16.8%	11.01%	9.1%

* Without effect of PSS

** Calculation based on amounts after deduction of minority interest

Other figures

Number of employees	5 300	5 233	4 901	4 870
Number of branches	339	336	302	271
Number of ATMs	439	483	519	555
Number of Payment cards	958 720	1 058 565	1 086 318	1 138 466
Year-end SKK/EUR exchange rate	41.2	38.8	37.8	34.6

Slovak Economy in 2006

Economy progressed at a record pace

The Slovak economy had a very successful year in 2006 as it recorded a further increase in growth. Gross domestic product rose in real terms by 8.2 %, and that dynamic pace is expected to be maintained also this year. The growth was driven by both the domestic consumption and investments, particularly those in the automotive industry. Apart from the domestic demand, growth in the Eurozone and associated increase in foreign demand were key contributors to the economy's expansion. Strong economic growth was accompanied also by creation of jobs and rise in employment. The average unemployment rate fell from 16.2% in 2005 to 13.5* % in 2006.

Energy prices had an inflationary effect during the year

The average inflation rate increased sharply during 2006, from 2.7% to 4.5%. However, almost half of the total rise in consumer prices was related to energy prices and their increase as a response to climbing world oil prices. Higher inflation resulted more from the increase in cost factors than from rising consumption. By the end of the year, inflation outlook improved substantially with oil prices on the world markets having retreated significantly. This supported a notable slowdown in energy prices compared to the previous period and even a decline in some prices. Consequently, the prospects for meeting the inflation Maastricht criterion have risen even further.

Public finances developing in line with the euro adoption plan

In 2006, public finances developed in line with the convergence programme that is consistent with the official plan to adopt the euro in 2009. Higher than expected tax revenues and stronger rise in GDP helped reduce the general government deficit to 2.4%* of GDP (ESA 95), against the original projection of 2.9%. In its manifesto the new coalition government has subscribed to the plan for euro adoption in 2009, and the budget for 2007 also takes this objective into account. By keeping the deficit at or below 2.9% of GDP (including expenditures on pension reform), Slovakia should take a substantial step towards fulfilling the Maastricht criteria.

Koruna exchange rate stronger again

During 2006, koruna went through a relatively lively period, fluctuating within a band of SKK/EUR 34 – 39. The weakest level of 38.88 was reached in mid-July, being related mainly to parliamentary elections in several Central European countries and uncertainty over the plans of the new Slovak government regarding euro adoption in 2009. This adverse trend was halted by the National Bank of Slovakia (NBS) when it shored up the koruna in summer interventions worth EUR 3.1 billion. The markets were crucially swayed, too, when the government made clear its determination to introduce the euro according to the original timeframe and when it approved the state budget. The significant outflow of short-term capital during the interventions made koruna an attractive buy. As a result, the currency began appreciating again from October, and went on to record all-time highs. Throughout the year it strengthened by 9%, including a fourth-quarter value increase of 7.5%, to a historical high of SKK/EUR 34.06 (28 December). This pace of appreciation did not, according to the NBS, chime with economic fundamentals, and when koruna began approaching SKK/EUR 34, the central bank intervened in the foreign exchange market by buying EUR 500 million in order to weaken koruna.

Inflation growth forced the NBS to tighten monetary conditions

Higher energy prices and concerns about rising second-round effects on inflation led the central bank to tighten the monetary policy during 2006. The NBS key interest rates increased from 3% to 4.75%. There were no rate rises from September, since koruna's rapid appreciation in the second half of the year was itself serving to tighten the monetary conditions. The central bank's monetary policy is, at present, on course to fulfil the inflation criterion and maintain the currency within ERM II, as required if Slovakia is to adopt the euro in 2009.

* Slovenská sporiteľňa Market Research Department estimate

Board of Directors of Slovenská sporiteľňa

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

Mag. Regina Ovesny-Straka is an Austrian citizen and graduate of the Vienna University of Economics and Business Administration. From 1982 to 1994, she worked for Creditanstalt Bankverein in Vienna, where she began at the Public Relations Department before moving to the Retail Banking Department and then, in 1992, becoming a branch manager. Since 1994, she has been working in Slovakia. She was a member and spokesperson of the Board of Directors of Creditanstalt, a. s. Bratislava until 1999. In the same year, Creditanstalt merged with Bank Austria and she was appointed Chairperson of the Board of Directors of Bank Austria Creditanstalt Slovakia, a. s. Following the privatization of Slovenská sporiteľňa and its sale to Austria's Erste Bank, on 4 April 2001, Ms. Ovesny-Straka was elected Chairperson of the Board of Directors of Slovenská sporiteľňa, a. s., Bratislava. Her responsibilities include retail banking, marketing, communication and human resources. Ms. Ovesny-Straka is also President of the Slovak Banking Association, Chairperson of the Supervisory Board of Leasing Slovenskej sporiteľne, a. s., and a member of the Supervisory Boards of Asset Management Slovenskej sporiteľne, a. s., and Prvá stavebná sporiteľňa, a. s.

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

Štefan Máj is a graduate of the Management Faculty at the University of Economics in Bratislava. From 1991 to 1995, he worked for Slovenská sporiteľňa, first as head of the Property Management Staff Unit, then as general director of the Technology Division, and later 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 Vice President until December 1998, when he returned to Slovenská sporiteľňa to become Deputy Chairman of the Board of Directors and the First Deputy General Manager. Mr. Máj made a significant contribution to the bank's privatisation process 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. As financial director of Slovenská sporiteľňa, his responsibilities include internal control and risk management.
Mr. Máj is also Chairman of the Supervisory Board of Factoring Slovenskej sporiteľne, a. s.

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, and served internships at Creditanstalt Vienna and Creditanstalt London. From 1991 to 1993, he was a securities dealer for VÚB, a. s., Bratislava, where he worked on quotation 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 that year, he took up a senior management position at Creditanstalt Securities, o. c. p., a. s., Bratislava, where he served until 1998, eventually becoming a member of the Board of Directors. In 1998, Mr. Krutil moved to the Slovak Ministry of Economy, and in December of the same year, he was elected a member of the Board of Directors and Deputy Vice President of Slovenská sporiteľňa, a. s. His responsibilities include financial markets and corporate clients.
Mr. Krutil is also a member of the Supervisory Board of Asset Management Slovenskej sporiteľne, a. s.

SAMUEL VLČAN
Member of the Board of Directors and
Deputy General Manager

Samuel Vlčan graduated from the Faculty of Law at the Comenius University, and studied at the Moscow State Institute of International Relations and the Faculty of Law at the University of Bremen. He worked as lawyer both in Slovakia and abroad. From 1997 to 1999, he led the Legal Department of Bank Austria, a. s., in Slovakia, and then became head of the Legal Department and a member of the Credit Committee of Bank Austria Creditanstalt Slovakia, a. s. From 2001, he served as head of the Legal Services Staff Unit, general proxy, and compliance officer of Slovenská sporiteľňa, a. s. Mr. Vlčan is a member of several professional and advisory bodies. Since 1 January 2006, he has been a member of the Board of Directors of Slovenská sporiteľňa. He is in charge of services for small and medium-sized enterprises, special financing, subsidiaries, and legal services.
Mr. Vlčan is also Chairman of the Supervisory Board of Asset Management Slovenskej sporiteľne a. s. and a member of the Supervisory Boards of Leasing Slovenskej sporiteľne, a. s., Factoring Slovenskej sporiteľne, a. s., and Prvá stavebná sporiteľňa, a. s.

Board of Directors of Slovenská sporiteľňa

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

Michael Vogt is an Austrian citizen and graduate of the Vienna Business School. From 1982 to 1992, he worked for Donau-Bank AG Vienna in IT-related positions. In 1992 - 1993, as a project manager with MMI Informatik Zurich he was in charge of implementing banking software. In 1994, he joined Bank Austria Creditanstalt Hungary, where he worked as head of the Operations Division until 1998. He left that year to join 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. His responsibilities cover payment systems, organization and information technologies.

SUPERVISORY BOARD OF SLOVENSKÁ SPORITEĽŇA

REINHARD ORTNER
Chairman of the Supervisory Board

ANDREAS TREICHL
Deputy Chairman of the Supervisory Board

HEINZ KESSLER
Member of the Supervisory Board

HERBERT JURANEK
Member of the Supervisory Board

MANFRED WIMMER
Member of the Supervisory Board until 4 April 2006

CHRISTIAN CORETH
Member of the Supervisory Board until 4 April 2006

PETER NEMSCHAK
Member of the Supervisory Board since 5 April 2006

ANDREAS KLINGEN
Member of the Supervisory Board since 5 April 2006

BEATRICA MELICHÁROVÁ
Member of the Supervisory Board

JÁN TRGIŇA
Member of the Supervisory Board

EVA STRIEBLIKOVÁ
Member of the Supervisory Board

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

Dear shareholders, dear clients,

Slovenská sporiteľňa is looking back on a successful year, one of the most successful in its history indeed. Not only did we achieve the objectives with which we started out 2006, we even surpassed our expectations in many fields. I am happy to say that we managed to take advantage of favourable conditions in Slovakia in order to maintain and, in certain banking products and services, even strengthen our position of a market leader.

The figures say it all: compared to 2005, the consolidated net profit increased by 8%, to almost SKK 3.9 billion. To even match the previous year's profit had initially seemed a major challenge, given that we had to face a loss of income on a large package of restructuring bonds during 2006. So to have increased the profit by almost SKK 300 million is really a great success, driven mainly by lending growth and partly also by the favourable development of money market interest rates. Return on equity rose to 20.3%, and I must stress that the higher income was not achieved at the expense of excessive spending – the cost-to-income ratio ended the year well below the 55% limit.

Summary of the successes behind these figures would be too long, so I will simply mention the most important ones. Lending is certainly included, whether in loans to private clients (up by 37% year-on-year) or to small and medium-sized enterprises (a rise of 36%). We achieved the second place in the corporate lending market, a field not previously among our main strengths. With new structured deposit products included in our portfolio with tremendous success we became an immediate market leader.

It is important for the future that we are becoming an increasingly attractive financial partner to young people, whether students or graduates. They, too, see Slovenská sporiteľňa as a bank most appropriate for them and the one that best meets their needs and expectations. In focusing special attention on young people, in 2006, we have developed products that strike a chord with this segment – the iXtra products.

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

I know that to repeat our performance of 2006 will not be easy. Nevertheless, we are committed to improving results from one year to the other. In order to fulfil this, we will not only have to work hard but we will also have to make several changes. Undoubtedly, among the most challenging changes will be preparations for the euro, which we have began in 2006 and will continue through to 2008. As for the necessary modification of our internal systems, we want to ensure that they make our operation more efficient, faster and simpler, thereby allowing us to serve more clients and to offer them even higher quality and broader scope of services.

Our intention is to increasingly benefit from the untapped potential of our membership in the Erste Bank Group. The Group's projects in bank cards and wealth management are already bringing results – including the previously mentioned structured products and implemented sales skills.

Another significant progress has been experienced in preparations for the new Basel II rules. In March 2006, we became the first bank in Slovakia to gain NBS approval for use of our own market risk calculation model. Since the bank's market risk exposure is now more precisely calculated, we will be able to save capital for the coverage of other types of risk. Also in March 2006, we became the first Slovak signatory of the European Agreement on a Voluntary

Code of Conduct on Pre-Contractual Information for Home Loans – we want to communicate openly and correctly with our clients.

In short, we have all reasons to be satisfied. I will go as far as to say that we are the best bank in Slovakia, based not simply on our awards from such prestigious magazines as Euromoney and Trend, but also according to the opinions of an ever larger number of people in Slovakia.

None of the results that we proudly present today would have been possible without shareholders trusting us in meeting our promises, without clients trusting us in taking good care of their financial needs, or without the dedication of all our employees. For the trust given and the work done, I say thank you, and I am convinced that the years ahead will bring further success.

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

Report of the Supervisory Board

In 2006, the Supervisory Board of Slovenská sporiteľňa was governed by the statutory provisions and carried out its tasks under the Bank's Articles of Association and the Statute of the Supervisory Board.

The Board of Directors regularly informed members of the Supervisory Board on the Bank's business activities and the fulfilment of its business plan, and it regularly submitted the financial results and a report on the Bank's assets. The Supervisory Board convened four times in 2006. The topics of its meetings included consolidated financial statements as at 31 December 2006, proposal for profit distribution, report on our equity participations, budget for 2007, strategic plan up to 2009, and report on the internal audit plan for 2007, including an outlook to 2009.

The consolidated balance sheet of Slovenská sporiteľňa as at 31 December 2006 and accompanying consolidated income statements were audited by Deloitte Audit s. r. o. in accordance to the International Auditing Standards as adopted by the European Union. The auditor confirmed that the consolidated financial statements present fairly, in all material respects, the financial position of the Bank and its subsidiaries as at 31 December 2006 and their financial performance and cash flow for the year ended 31 December 2006.

Considering these facts, the Supervisory Board recommends the General Meeting to approve the Bank's consolidated financial statements for 2006 and the distribution of the Bank's profit as proposed by the Board of Directors.

Corporate Governance

The management of Slovenská sporiteľňa, a. s. is fully aware of the importance of the Code of Corporate Governance, enforces legally binding standards, and adopts appropriate measures in accordance with the OECD's Principles of Corporate Governance.
One of the key elements of the corporate culture in the parent company Erste Bank is the Austrian Code of Corporate Governance. Erste Bank takes measures aimed at implementing the code's principles in full and ensuring transparency for all shareholder groups.
The Erste Bank Group corporate culture includes allowing employees to share in the company's profits. The opportunity to purchase Erste Bank shares under advantageous conditions has been particularly popular.
Employees are kept regularly informed about the Bank's results and near-term objectives by top managers at road shows, while managers receive important information at regular management conferences. Staff discussions and suggestions are welcome whether at the meetings or in online chats with members of the Board of Directors as well as through the idea manager who collects all suggestions for improvement and is also responsible for their implementation. Involvement of employees in corporate governance is also reflected in regular independent corporate culture surveys the results of which are mirrored in the decisions of the Bank's management. Further research of this kind will be carried out under a unified methodology and for the first time will cover the whole Erste Bank Group.

Organization of the Company

Board of Directors

The Board of Directors manages the company's activities and acts on behalf of the company; it decides on all company matters which are not subordinated to the General Meeting or Supervisory Board by a generally binding legal provisions or the Articles of Association. It may establish advisory committees with delegated tasks and competences, their members consisting of members of the Board of Directors and selected Bank's managers.

ALCO – Assets and Liabilities Committee

The ALCO Committee evaluates and approves the financial flows management and control process and the Bank's asset and liability structure, so as to achieve an optimal balance between the Bank's profitability and its exposure to market risks.

Credit Committee

The Credit Committee approves credit transactions (new transactions, modifications to the terms of previously approved transactions, restructuring and work-out) with corporate clients, local authorities and retail clients.

Product Pricing Committee (PPC)

The PPC Committee is responsible for the prices at which the Bank and its subsidiaries sell products to clients.

IT Committee

The IT Committee was set up to ensure more efficient spending of resources on the further development of the Bank's information system and to improve the information system change request management.

Business Committee

The Business Committee analyses the business results and adopts measures aimed at fulfilling the business plan.

Cost Committee

The Cost Committee is responsible for expenditures, mainly in project investments, operational costs, and provisions. It supervises the strategy of cost reduction, responsibility of gestors for budget allocation and keeping the expenses on or below the budget level.

Security and Operational Risk Committee (SORC)

The SORC committee sets strategy for information security, approves/rejects strategies and processes for the management of operational risk and decides on measures for the reduction or mitigation of operational risk.

Supervisory Board

As the company's supreme supervisory body, the Supervisory Board oversees how the Board of Directors exercises its powers and how the company carries on its business activities. There are nine members of the Supervisory Board, six of whom are elected by the General Meeting and

three by the company employees. The term of office of Supervisory Board members is five years. Membership of the Supervisory Board may not be substituted.
The Supervisory Board may set up committees and set the scope of their competences. These committees operate in accordance with the Bank's rules of corporate governance, and include:

Credit Committee of the Supervisory Board

In accordance with the company's Competence Rulebook, the Credit Committee approves credit transactions in compliance with limits laid down by the Supervisory Board and transactions defined in the Articles of Association. Its decision-making is governed by the company's credit policy principles.

Personnel Committee of the Supervisory Board

The Personnel Committee deals with personnel issues relating to members of the Board of Directors, other than their election or recall. Its decision-making is governed by principles laid down by the Supervisory Board and by the company's internal regulations.

Audit Committee of the Supervisory Board

The Audit Committee oversees the financial reporting process, the effectiveness of the internal control system (including information technologies security and compliance with legal requirements), and effectiveness of risk management and internal audit, as well as analysing recommendations made by external and internal auditors.

Relations between the company and shareholders

The Bank complies with statutory provisions concerning protection of shareholder rights, particularly referring to timely provision of all relevant information on the company and to convening and holding of its General Meeting.
The General Meeting, as the company's supreme body, has competence to amend the Articles of Association, to decide on capital increases or reductions, to appoint or recall members of the Supervisory Board and other bodies stipulated in the Articles of Association (except for members of the Supervisory Board elected or recalled by the company employees), to approve the ordinary and extraordinary individual financial statements, to decide on distribution of profit (or settlement of losses) and royalties, to decide on winding up of the company or a change in its legal form, to terminate quotation of company's shares on the stock-exchange and to decide that the company will cease to be a public joint stock company.

Disclosure and transparency

The company strictly observes and complies with legal regulations and corporate governance principles, regularly provides the parent company's shareholders and investors with all relevant information on its business activities, financial and operational results and other relevant events.
All information is prepared and disclosed in accordance with standards of accounting and disclosure of financial and non-financial information.
The company consistently seeks to prevent the misuse of internal information that could enable persons in a special relationship towards the Bank to gain an unfair advantage. The Bank has established a Compliance Section, whose main tasks include overseeing compliance of the Bank's internal regulations with the legal regulations laid down by the regulatory authorities.
The Bank has adopted the Global Compliance Code, governing the core principles of compliance with ethical standards in Slovenská sporiteľňa. This Code is a response to the EU requirement for harmonization of legal provisions, as well as the need to bring the internal standards of Slovenská sporiteľňa in line with internal standards of Erste Bank. The Code also reflects the requirement for higher level of corporate culture, especially in the field of securities trading. For Slovenská sporiteľňa, the Code represents a binding body of rules and serves as source of information for employees. It is also a practical guide to application of statutory provisions concerning day-to-day contact with information that could alter the behaviour of market entities. The Code is also referred to in preventing or solving conflicts of interest between the Bank, employees, management and clients.

Responsibility towards clients and society

Quality management and management of client complaints via the ombudsman service belong to significant Bank's res-

ponsibilities towards clients. For more than four years, customers have been addressing the ombudsman with various suggestions, mostly relating to the Bank's business terms and conditions, information system, payment cards, ATMs or the quality of branch services. In 2006, the ombudsman's staff handled 2,103 complaints from non-anonymous clients and 102 complaints from anonymous clients.
In 2006, service quality was examined by quality measurement and management instruments, including the Customer Satisfaction Barometer (a satisfaction index covering external clients from all segments), by mystery shopping (used as the basis for calculating the Customer Service Index), and by internal clients satisfaction measurement.
Internal clients satisfaction is an important precondition for providing a high quality of services to external clients. The internal services quality improvement has been reflected in rise of the respective index, from 86.8% in 2003 up to 92.4% in 2006.
Slovenská sporiteľňa is aware of its social responsibility and moral obligation to support projects that benefit the public in fields of culture, education, sports and charity. The Bank seeks to spread its help across all the regions in which it operates. Social and charitable activities are supported through its own foundation, which works in close cooperation with civic associations, foundations and other endowment funds.

Charity

In 2006, for the seventh year in a row, the last-hour-of-the-year earnings were donated under the Children's Hour Project organized in cooperation with The Foundation for Children in Slovakia in order to assist abandoned, abused and disabled children.
Together with the Slovak Catholic Charity, Slovenská sporiteľňa has been involved in a campaign to support families in need. The Bank has also funded the establishment of advice centres at which the socially dependent can find information and help on how to solve their problems.

Education

The development of the CISCO Networking Academy Programme in cooperation with the Slovak Ministry of Education has enabled more students to take advantage of e-learning and to improve skills in networking technologies.
Cooperation with the Junior Achievement Slovakia has helped teachers and students of selected secondary schools to deepen their knowledge of the banking sector through a virtual financial market.
Under a new programme for educational process quality development at Slovak secondary schools, favourable conditions have been created for 44 innovation projects.
In partnership with weekly magazine Trend, the Bank has launched a new project under which secondary school students can acquire economic knowledge in informal discussion clubs.

Culture

A number of theatres have put on performances and realized avant-garde projects with backing from the Bank, including the Aréna Theatre, the Radošina Naive Theatre, Theatre of Andrej Bagar in Nitra, the Slovak Chamber Theatre in Martin, and Theatre of Jonáš Záborský in Prešov.
Cooperation with the Slovak Philharmonic, the Slovak State Philharmonic Košice, and the State Chamber Orchestra Žilina has supported presentations of Slovak music and the interpretive mastery of Slovak virtuosos.
In the field of classical music, the talent of young musicians was acknowledged in the Golden Note of Slovenská sporiteľňa.
As general partner of the Bratislava Jazz Days, Slovenská sporiteľňa helped prepare what is the largest jazz event in Central Europe.
As part of the Tranzit multinational project, a forum has been created where young artists and art theorists can hold a creative dialogue on modern art.
Exhibitions of artworks at Slovenská sporiteľňa Gallery in Bratislava were open to public throughout the year.

Sports

Continuing cooperation with the Slovak Association of Physically Disabled Sportsmen.
Cooperation with the Slovak Association of White Water Canoeing.
Partnership with the Slovan Tennis Club.
International Olympic Games for children and young people were held in Trnava under the Calocagatia Project and contributed to the overall development of schoolchildren aged up to 15 years.

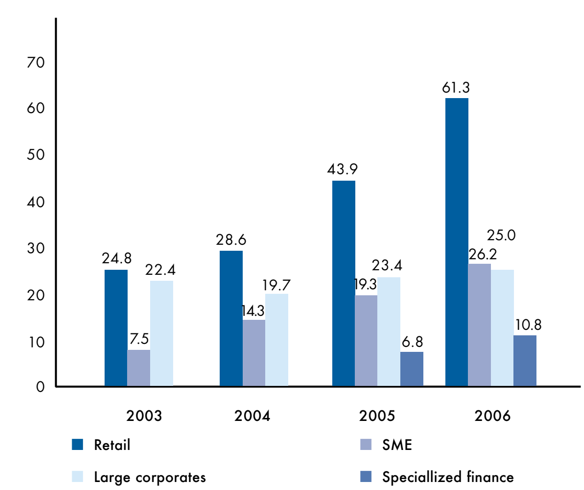
Management Report on Activities in 2006

REVIEW OF FINANCIAL RESULTS FOR 2006

Balance sheet changes

For 2006, Slovenská sporiteľňa reported a consolidated balance sheet total of SKK 298 billion, representing an increase of SKK 39 billion on the previous year, or more than 20% of the Slovak banking market. Client loans recorded the sharpest growth, rising by SKK 33 billion (37%) to account for more than 43% of the balance sheet total. There were also increases in total deposits, equity and the value of interests in subsidiaries, while securities fell in line with expectations (another package of restructuring government bonds matured).

Loans to customers, segmented (SKK bn)

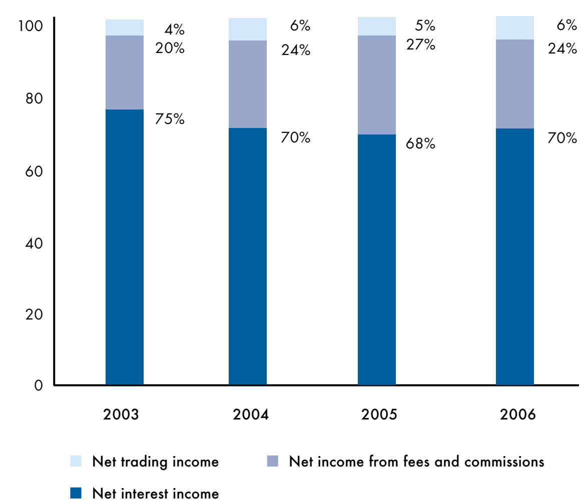


Note: Unconsolidated data from Slovenská sporiteľňa Datawarehouse

Net interest income

The net interest income of Slovenská sporiteľňa rose by SKK 1 billion, or 12% year-on-year. The upward trend in interest rates was offset by the loss of income from redeemed government securities (the impact on net interest income represented around SKK 500 million). Nevertheless, the continuing sharp increase in lending to households and SMEs again made an appreciable contribution to interest income growth. As a result, the loan-to-deposit ratio improved still further, from 54.6% in 2005 to 61.7% in 2006, providing Slovenská sporiteľňa with a good basis for stable growth in interest income. Interest income on loans rose by almost 78% owing to the introduction of a new methodology under which amortization of loan-related charges is included in interest income on loans, whilst previously it used to be part of income from fees.

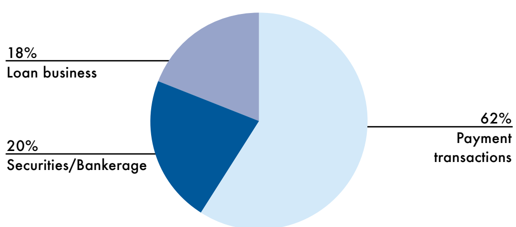
Structure of operating income



Net fees and commissions income

Income from fees and commissions was affected by several factors. The strongest effect was caused by a methodological change in posting of loan-related fees and their transfer to interest income. A key source of revenue is sale of subsidiaries products. Owing to a considerable rise in interest income, net fees and commissions income accounted for a lower share on the Bank's total income.

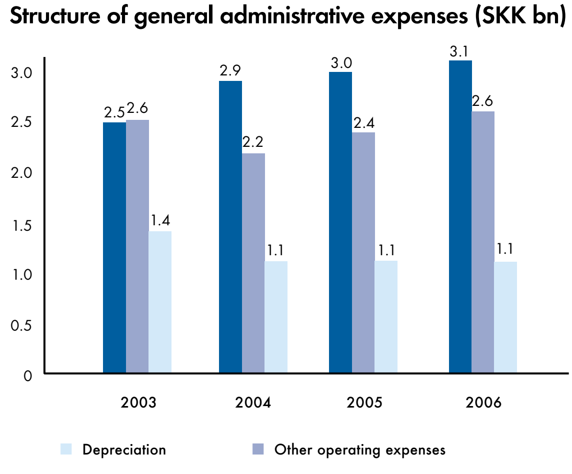
Structure of net fee and commission income



General administrative expenses

General administrative expenses of Slovenská sporiteľňa rose by 6.2% year-on-year in 2006, yet, income growth ensured that the cost/income ratio, the main indicator of efficiency, stayed well below the target figure of 56%, in fact, down at 54.1%. Personnel expenses increased by SKK 114 million (3.8%) in consequence of performance bonuses payout that resulted from significant growth of lending volumes (as well as the year-on-year rise in the employees' participation on Erste Bank Group profit and in contributions to supplementary pension insurance scheme).

Structure of general administrative expenses (SKK bn)



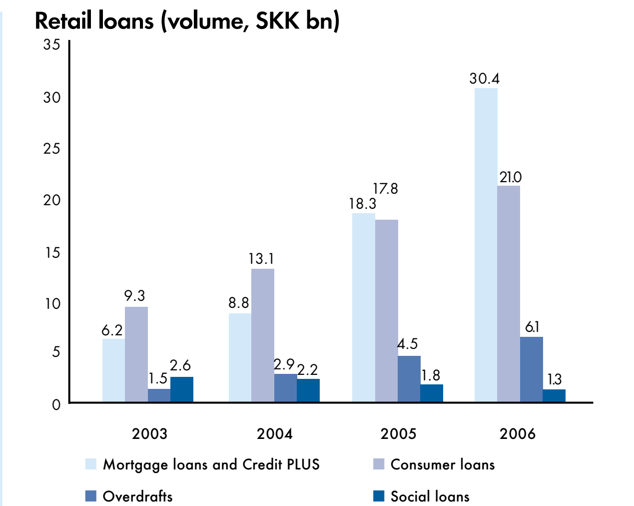
Net profit

Slovenská sporiteľňa made a consolidated net profit of almost SKK 3.9 billion in 2006, representing an increase of SKK 293 million (8%) in comparison with 2005. Even higher was the year-on-year rise in operating profit, which exceeded SKK 5.8 billion or 12%.

SERVICES TO PRIVATE INDIVIDUALS

Slovenská sporiteľňa is a clear leader on the Slovak banking market with more than 2.4 million private clients. Every other person above 15 years of age uses services of the Bank in Slovakia. With 271 branches and 555 ATMs, Slovenská sporiteľňa is a bank closest to clients and, according to a market research, it is perceived as the strongest brand in the banking market. The Bank heads the traditional market of deposits, whether retail or total. Not only does Slovenská sporiteľňa hold the first place on the lending market for the second year in a row, it even increases its market share and opens up a gap on its rivals.

Lending to retail clients increased by 38%, or SKK 15.8 billion year-on-year, and amounted to SKK 57.7 billion at the end of 2006. Most significantly, housing loans rose by more than 53% to SKK 28 billion. All in all, in 2006, Slovenská sporiteľňa provided more than 109,000 consumer loans, 13,000 housing loans, and over 83,000 authorized overdrafts. In terms of the total amount of retail loans provided in 2006 (SKK 16 billion), Slovenská sporiteľňa again outperformed all other banks in Slovakia.



Note: Unconsolidated data from Slovenská sporiteľňa Datawarehouse

Housing loans

In 2006 Slovenská sporiteľňa continued providing its successful CreditPLUS for housing. Loan applicants have since the previous year been able to take advantage of progressive repayments, which allow them to take on a larger loan than would be possible with standard repayments. Slovenská sporiteľňa lent SKK 11.8 billion in housing loans in 2006, almost SKK 1 billion more than it did in 2005, and its share of the housing loan market is close to one-third. Successful development of housing loans is being markedly supported by lending under large projects.

In March 2006, Slovenská sporiteľňa became the first bank in Slovakia to sign the European Agreement on a Voluntary Code of Conduct on Pre-Contractual Information for Home Loans; this step is consistent with its client-care concept, according to which transparency in communication is an inevitable condition for building long-term relationships with clients. Since 1 January 2007, Slovenská sporiteľňa has also been providing state-subsidized mortgage loans for young people with a rebate of 1 percentage point on the interest rate.

Consumer loans

Slovenská sporiteľňa has long led the market in consumer loans, and at the end of 2006 its share in the market amounted to 33%. Compared to 2005, the total amount borrowed by the Slovak households through consumer loans (including Slovenská sporiteľňa's MINIcredit and American mortgage) increased by SKK 3.5 billion to almost SKK 21 billion.

Revolving products

As for revolving products, in 2006, notable growth was recorded mainly in authorized overdrafts included in product packages. More than 83,000 authorized overdrafts were provided in 2006 in total amount of SKK 2.5 billion that represents an increase of SKK 550 million on 2005.

Private deposits

Slovenská sporiteľňa is striving to tailor products for those clients who will no longer settle for standard types of deposits and investment. Accordingly, the total funds of private clients under the Bank's management have been ever increasing. The Bank is modernizing and diversifying its deposit product portfolio by bringing out new and innovative products, and results for 2006 confirmed that the Bank is on the right track. In order to address client needs comprehensively, the Bank also offers products of its subsidiaries. With respect to investment and insurance, it is Asset Management Slovenskej sporiteľne and Poisťovňa Slovenskej sporiteľne whose products supplement the portfolio of the parent company.

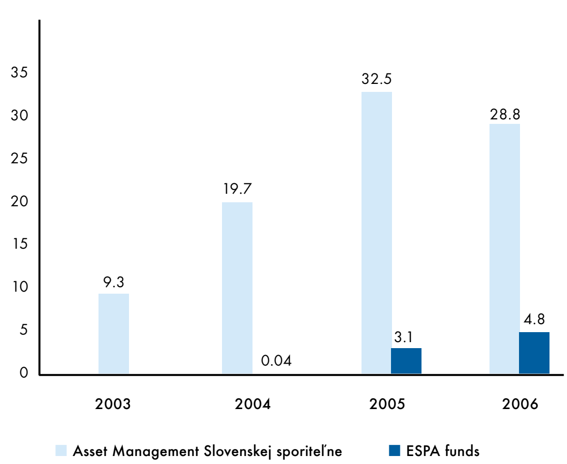
Developments in the banking market and stiffer competition are forcing Slovenská sporiteľňa to keep searching for new ways to meet clients' investment needs. In 2006, the Bank continued to develop new products for clients who are looking for more modern ways of investing their funds. In 2006, the product portfolio was extended by nine guaranteed deposits, one of them in form of bond. These products allow even small investors to participate in high-earning and higher risk investments in equity and foreign exchange markets. Such products have proved to be a success with clients investing SKK 5 billion in these products in 2006, almost ten times as much as in 2005. It is evident that clients are attracted to products which offer a guaranteed principal and minimum guaranteed return and which allow them to participate in various types of investment without risking the loss of their money.

Household deposits totalled SKK 132.2 billion at the end of the 2006, representing a year-on-year increase of 11.7% (almost SKK 13.9 billion). They accounted for 62.9% of the Bank's total deposits. This growth was driven mainly by rising interest rates on all the Bank's products and the subsequent shift of investments from more risky to conservative products (time deposits and passbooks).

Mutual funds

With the increase in NBS interest rates and the related rise in rates on standard products in 2006, as well as the stagnation on certain stock markets, mutual funds saw an outflow of investments. This development affected also Asset Management Slovenskej sporiteľne. The market's aggregate sales of mutual funds in 2006 amounted to more than SKK 113.3 billion, of which Asset Management Slovenskej sporiteľne accounted for 26%. Slovenská sporiteľňa, together with its parent Erste Bank Group, offered an extensive range of funds aimed at meeting the specific client requirements. The leading mutual fund of Asset Management Slovenskej sporiteľne by net asset value continued to be SPORO Koruna Money Market Fund.

Net asset value of mutual funds (SKK bn)



Source: Slovenská asociácia správcovských spoločností

Insurance

The life insurance market maintained the growth trend in 2006 even though investment market developments were along with higher interest rates more in favour of short-term products. In the banking environment, bancassurance has had to defend its position against increasing competition from deposit products. Since it began its operation, the insurance company Poisťovňa Slovenskej sporiteľne has been among the most successful life insurers. In sales of single premium capital life insurance, it holds a stable position as the market leader. In terms of new life insurance production, Poisťovňa Slovenskej sporiteľne recorded almost SKK 1.1 billion in 2006, of which single premium capital life insurance accounted for 88%. Since its establishment, the company has concluded over 122,000 insurance policies representing written premiums worth SKK 1.2 billion.

Client care

Long-term and primary objective of Slovenská sporiteľňa is to satisfy its clients' requirements not only by means of products and services, but also by approach of its account managers. Since clients have different needs and expectations, they are divided into several segments according to different level of services and advisory provided. The specialization of account managers ranges from quick service connected to standard day-to-day activities, to comprehensive advisory services for clients who need housing loans or investment products, or who are conducting business. Slovenská sporiteľňa directly addresses all its target groups by means of personal letters, telephone calls and tailor-made product offers. Particular attention is paid to free professions and micro-entrepreneurs segments. A special range of products has been prepared for young people. These activities not only increase the loyalty of existing clients but also help attract new ones. The number of Slovenská sporiteľňa's clients rose by 0.8% to 2.54 million.

TRANSACTION BUSINESS

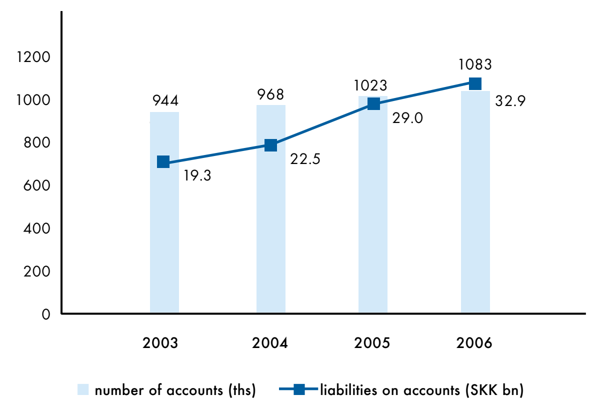
Transaction business has always belonged to the most successful areas in Slovenská sporiteľňa. Clients are increasingly performing non-cash transactions (95%), making use of the largest ATM network, and prefer card payments in shops. Clients understand the Bank's strategy of using the fee policy to favour non-cash transactions. These are included in the service packages introduced in 2005. Slovenská sporiteľňa is the market leader in non-cash payment channels in almost every category.

Current accounts

Household utilization of current accounts progressed very favourably in 2006. The number of such accounts rose by 5% year-on-year and the average current account deposit increased by 22%. The number of non-cash transactions on all current accounts recorded an increase of 5% in comparison with 2005. The majority of transactions were carried out electronically and only 10% at the Bank's points of sale.

Slovenská sporiteľňa has made successful progress particularly in utilization of electronic channels. A substantial year-on-year increase in the number of transactions was recorded in electronic banking (27%) and POS terminals (20%), and the amount of these transactions rose by 31% year-on-year. Such strong development was undoubtedly boosted by the product and service packages through which the Bank seeks to satisfy client needs, particularly in payments and account access without time restriction. Improved quality of services for corporate clients was reflected in a 37% rise in deposits.

Personal accounts (thousands)

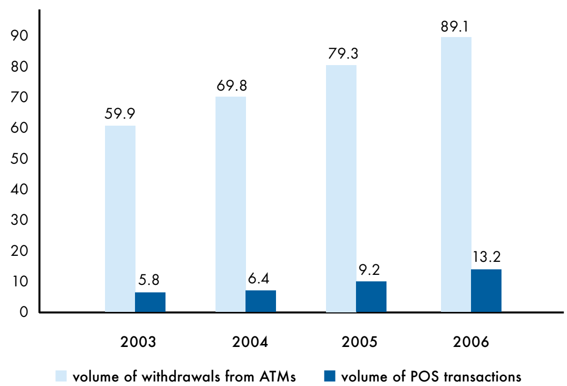


Note: Unconsolidated data from Slovenská sporiteľňa Datawarehouse

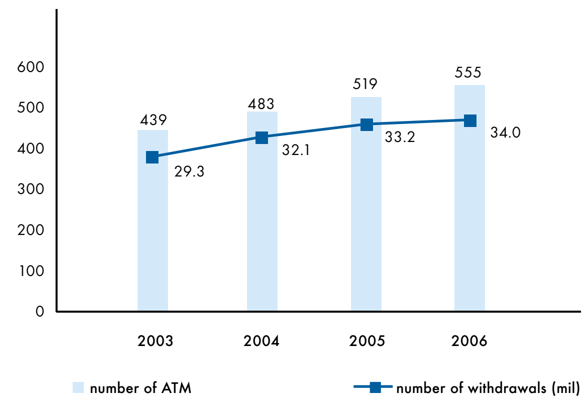
Card transactions

In 2006, Slovenská sporiteľňa maintained its dominant position in the Slovak card market. At the year-end, the overall number of payment cards issued stood at 1,138,000, representing an increase of almost 5% year-on-year. The Bank continued to be a market leader in debit cards, which rose in number by 6%. Slovenská sporiteľňa began issuing credit cards in mid-2006 and by the end of the year, it had issued almost 20,000 credit cards. The number of card transactions made by clients of Slovenská sporiteľňa during 2006 amounted to nearly 45 million, an increase of 15% compared to the previous year. The number of ATM transactions rose by 6% year-year. In the field of non-cash payments, Slovenská sporiteľňa recorded a substantial growth of 30%. For 2007, the Bank is preparing several products and projects, especially in relation to credit cards, so as to consolidate its dominance of the Slovak card market.

Transactions with cards issued by Slovenská sporiteľňa (SKK bn)



ATMs of Slovenská sporiteľňa



Payments

As for interbank payments, Slovenská sporiteľňa retained its 22% share in the number of payment items. In foreign payments, the number of processed items is continually increasing, and the growth rate in 2006 was 30%.

MULTIPLE SALES CHANNELS

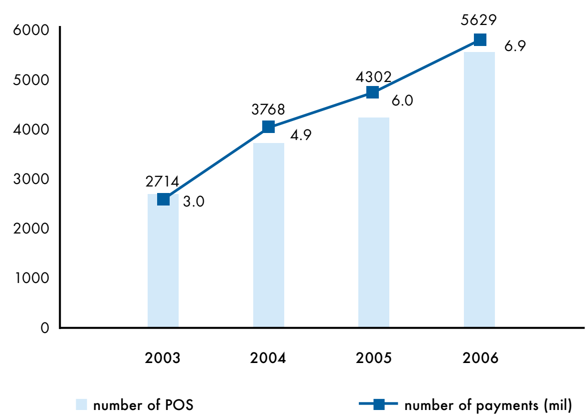
ATM network

In 2006, Slovenská sporiteľňa began installing a new software that fully supports chip-card transactions processing for all card companies. As well as being equipped with the new software, 122 ATMs had their hardware changed in order to unify the whole ATM network, reduce the break-down rate and extend their life cycle. As at the end of 2006, Slovenská sporiteľňa operated 555 ATMs, the largest ATM network in Slovakia. Compared to 2005, its market share remained unchanged at 28%. Cash withdrawals rose in number by 5% and amounted to more than SKK 94 billion, an increase of 11% compared to the previous year. A total of 60.7 million transactions were carried out, which is 7% more than in 2005.

POS terminals

By the end of 2006, Slovenská sporiteľňa had implemented chip applications in almost all of its POS terminals. The POS terminal network continued to expand to around 5,700 units at the year-end, an increase of 30% year-on-year. Almost seven million transactions were carried out through the Bank's POS terminals in 2006, representing an increase of 15% in comparison with 2005. These transactions amounted to SKK 8.7 billion, increasing by 15 %. In 2006, Slovenská sporiteľňa held its 25% share of the total POS terminals installed on the market.

POS terminals of Slovenská sporiteľňa



Electronic banking
Electronic banking transactions accounted for 66% of all transactions performed by Slovenská sporiteľňa clients in 2006. In comparison with 2005, the number of clients using Internet banking was higher by 28%, and the increasing popularity of this service is clearly confirmed by the 48% increase in the number of transactions realized through this distribution channel. In 2006, Internet banking became the most used electronic banking service in Slovenská sporiteľňa.

Data banking
Data banking automates data exchange between clients and the Bank, providing users with a simpler and faster data flow while maintaining a high level of transaction security.
As an add-on service for users of Internet banking, this service is aimed mainly at small and medium-sized enterprises, enabling electronic banking to be integrated into companies' accounting systems. Access is provided by a standardized interface, enabling a safe and automated data exchange. The risk of error in the manual export/import operations required for services such as Internet banking or home banking is reduced by automation. Moreover, the operating costs related to administration of these services are lower. Data banking supports most of the accounting software in general use, and so far is used by more than 100 clients of Slovenská sporiteľňa.

Multicash
In January 2006, our portfolio of electronic banking services was expanded to include the Multicash system. This service was introduced in order to fully cover the needs of mainly SMEs and large corporate clients, who for their communication with the Bank require a robust multibanking and multilingual system based on international standards.

Sporotel call centre
The Sporotel service has a special place among multiple sales channels, being an add-on provider of personal support for users of electronic banking services, POS terminals, ATMs and payment cards. The total number of received calls rose by more than 22% year-on-year. In 2006, a centralized support service for Multicash clients was launched at the call centre, which made Slovenská sporiteľňa more competitive in services for large clients. Notable activities of Sporotel in 2006 included introduction of central support for credit card users and central activation of debit cards.

SME SERVICES

In 2006, Slovenská sporiteľňa substantially improved its market position in providing services to small and medium-sized enterprises (SMEs). The strategy of directly providing customer services through ten Commercial Centres across each region of Slovakia proved effective and an increase in the volume of drawn loans (by 38%) and deposits (by almost 33%) was recorded. Two new external staff teams in Nové Zámky and Dunajská Streda are also providing complex and high-quality services to SMEs from the second half of 2006. The client portfolio expanded during the year to include notable companies from the fields of tourism, trade and engineering.

Slovenská sporiteľňa continues to provide services to new foreign investors in the SME segment who take advantage of the experience acquired by Erste Bank Group and the favourable business conditions in our country. International Desk, serving as contact point, provides the required multilingual support and is greatly contributing to quality improvement in the portfolio of foreign investors from the SME segment.

For SME clients, treasury services are becoming increasingly desirable. The amount of such transactions rose in 2006 by 27% year-on-year and income from these transactions rose by 28%. The interest in financial markets and new products was reflected also in the programme of educational activities for clients. Macroeconomic seminars entitled "Outlook for the Slovak Economy in 2007" were held in three regions – Bratislava, Banská Bystrica, and Košice. The Financial Academy – a meeting of clients and Slovenská sporiteľňa experts at which the Bank's more sophisticated products are presented – took place in Tále and in Trenčianske Teplice.

CORPORATE BANKING

Large corporate clients

Despite strong competition, Slovenská sporiteľňa has managed to improve its position in the large corporate clients market. The Bank has a competitive edge not only in lending, it also offers a package of other payment services as well as treasury and documentary transactions, cash processing in cooperation with the branch network, and high-quality electronic banking. Another major strength of Slovenská sporiteľňa is the quality of its supplementary services, in particular factoring and special financing.

Slovenská sporiteľňa increased its lending to large corporates to SKK 26.8 billion during 2006. This increasing trend reflects extensive acquisition activities and cooperation with the existing client base. Entry of new foreign investors into the Slovak market allowed the Bank to expand its client portfolio and to establish cooperation with key partners in telecommunications, automobile industry, stateinstitutions, and transport.

For large corporates, Slovenská sporiteľňa is successfully expanding account transactions. The number of clients that have accounts with the Bank increased by 23% in 2006, and the number of current accounts rose by 10%. By the end of the year, total liabilities in client accounts maintained by the Large Corporates Staff Unit increased to SKK 13.3 billion.

Specialised Finance

Slovenská sporiteľňa recorded steep growth in project financing and increased its assets to SKK 6.4 billion. Slovenská sporiteľňa became engaged in several large projects and syndications, such as gas-steam power plant or acquisition/merge financing. At the same time, Slovenská sporiteľňa financed to a large extent business and exporting activities – volume of bank guarantees reached SKK 2 billion, and volume of open letters of credit surpassed SKK 1.5 billion in 2006.

Volume of loan portfolio for real estate financing grew by 55% to total SKK 10.8 billion. Slovenská sporiteľňa belongs to the top 3 banks in this field in Slovakia. Real estate financing was mainly provided for apartment construction projects, among them also the largest Slovak residential project with 712 apartments. Overall in 2006, Slovenská sporiteľňa financed the construction of more than 2,000 apartments. Among other large projects was the refinancing of the largest shopping centre in Bratislava.

FINANCIAL MARKETS

Trading on financial markets

In 2006, share of Slovenská sporiteľňa on the money market by total turnover of interest rate instruments and their derivatives amounted to almost 16%, the second highest figure among banks in Slovakia (according to data provided by the NBS). Through transactions on the foreign exchange market, the Bank achieved a 21% share on the interbank market turnover, which again placed it second in the Slovak banking market.

Capital market trading

With a share of 44% in 2006, Slovenská sporiteľňa maintained its leading position in transactions turnover on the Bratislava Stock Exchange (BSSE). The total turnover of SKK 874 billion was overwhelmingly dominated by bond transactions, a field in which the Bank has a long-term leadership. As part of its investment services, Slovenská sporiteľňa continues to mediate securities transactions and to make mandatory takeover bids.

Primary issues of securities

In 2006, Slovenská sporiteľňa strengthened its significant market position in corporate bonds primary issues when it placed securities worth SKK 1.6 billion. Together with own mortgage bonds and structured bonds issues for retail clients, the Bank issued or arranged the issuing of bonds totalling more than SKK 2.5 billion. In terms of investment services, Slovenská sporiteľňa continued to mediate securities transactions and make mandatory takeover bids.

Financial products sales

Slovenská sporiteľňa expanded its portfolio of financial services in 2006. In selling new products, the Bank prepared new structured products for its broad retail client base. For the year as a whole, its sales of structured products in the retail segment amounted to more than SKK 5 billion. These products were tied to developments on the foreign-exchange, equity and commodity markets.
In the corporate segment (local financial institutions and other enterprises), Slovenská sporiteľňa saw sales of financial services increase by 35% over the year. The hike was recorded mainly for sales of financial derivatives and securities.

HUMAN RESOURCES

In 2006, Slovenská sporiteľňa succeeded in raising awareness of the Bank as an attractive employer that offers work in a stable international company, room for self-realization, as well as specialized and professional growth of employees. Seen as a new motivational tool, the process of seeking and developing talented employees was launched at the level of Erste Bank Group in 2006. The educational range was supplemented with personal development courses and language training support. Along traditional educational methods, new e-learning forms of education were introduced. The e-learning system Eduportal provides an opportunity for self-learning, as well as for testing and monitoring the results of self-study. Employees studied for 6.7 days in 2006 on average, which is an increase of 30% in comparison with 2005 (5.1 days).
The main objective of remuneration was to ensure workforce stability and effective management of staff performance. In 2006, targets were set for different groups of employees and criteria were laid down for their evaluation – the aim being to make them an active instrument in meeting the Bank's targets. The success of this approach is reflected in achieved sales results for 2006.
Benefits are another important aspect of remuneration since they make the employment in Slovenská sporiteľňa more attractive. Indeed, the level and range of benefits offered by the Bank makes it one of the best employers in Slovakia. They are focused mainly on health (preventive medical examination), pension saving and personal development. In 2006, as in previous years, the main benefit was the employer's contribution to voluntary pension saving schemes, which was taken up by 73% of employees.
Slovenská sporiteľňa had 4,710 employees at the end of 2006, which is 52 less compared with previous year. The voluntary staff turnover rate increased slightly to 7.2% year-on-year, reflecting the general situation on the human resources market. The share of employees with higher vocational or university education increased slightly. The average age of employees stood at 38.9 years, and the proportion of women employees remained unchanged at 81%.

Risk Management in 2006

Credit risk

Slovenská sporiteľňa worked intensively during 2006 to prepare for introduction of the new Basel II rules on capital adequacy of banks. As part of these preparations, it made several significant changes in the organization and methods of risk management. Far from treating the implementation of Basel II as a formality, Slovenská sporiteľňa is aiming to improve the overall system of risk management.

Because of the increasing importance of risk management, the central credit risk management organizational unit has been strengthened. In accordance with Basel II requirements, the organizational unit is independent from business activities and has responsibility for proposing, testing and monitoring of rating systems. A special group has been set up to communicate with clients and put forward solutions in the event that clients, for whatever reason, are in delay with loan repayments.

Rating instruments have been replaced with new and improved versions. The Bank has been cooperating at the group level on the development of a rating instrument for retail clients KRIMI-APS, with implementation and calibration ensured at local level. The end of the year saw testing of the rating instrument RDB which uses information about clients and their transactions to ensure an up-to-date rating in our systems.

The core part of the standard credit process in Slovenská sporiteľňa involves risk assessment by using new rating instruments and the assignment of rating. The final rating is a key factor in deciding on the loan provision, loan amount, and loan price. It is the Bank's aim to gain approval for the use of its internal rating methods in 2008.

Credit portfolio quality

Credit portfolio growth in 2006 was driven by sales of loans provided to natural persons with real estate collateral. The total coverage of the portfolio with collaterals and provisions increased by 2.5%, to the current level of 42.6%. The rising portfolio share of loans with real estate collateral caused increase in the portfolio covered by collaterals, which in turn reflected a slight decline in the portfolio covered by provisions.

Total portion of non-performing loans covered by provisions amounted to SKK 4.9 billion at the end of the year, which represents 4% of the total credit portfolio. The current development is in line with increase in the portfolio. Total provision coverage of the portfolio's non-performing loans is fluctuating at around 64%, and when considering collaterals value, the total coverage of the portfolio is above 90%.

Market risk

For the purposes of risk management, Slovenská sporiteľňa uses an internal model based on the value-at-risk (VAR) methodology. Calculated with a historical simulation method, the VAR is used to estimate the maximum possible loss on positions (in the 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.

Stress testing of all positions is carried out on a regular monthly basis. This involves several comprehensive stress-test scenarios, including correlations between market factors. These are further supplemented with standardized and historical stress-test scenarios. The statistical theory of extreme values is also used in order to estimate unexpected extreme losses up to a reliability level of 99.95%.

The VAR model is back-tested on a daily basis, and in addition to the basic back-testing required by the regulator, advanced techniques are also used (the Crnkovic-Drachman method and mixed Kupiec test).

Risk management is further supplemented with a sensitivity analysis, where an evaluation is made of how position values are affected by changes in market factors (interest rates, foreign currency exchange rates, and so on). All trading book positions are revalued in real time in the Kondor+ system using independent market prices. In order to restrict the maximum acceptable risk, a comprehensive system of limits has been adopted.

Slovenská sporiteľňa is the first bank in Slovakia to have had its internal model for capital adequacy calculation approved by the National Bank of Slovakia. Prior to the authorization, the Bank's entire market risk management system underwent an in-depth inspection by the NBS.

Interest rate risk

Interest rate risk in the Bank Book is quantified using a model that contains detailed information on all of the Bank's interest rate positions. Analysis results for the sensitivity of interest income and of the Bank's market value to interest rate changes, quantified by deterministic and stochastic models, are broken down by currency and submitted to the ALCO Committee on a monthly basis. The Bank's resulting risk positions are, on the basis of the ALCO Committee's decision, subsequently managed by means of bond investments and hedge transactions.

Liquidity risk

Liquidity risk with respect to structural liquidity is managed by the ALCO Committee. In 2006, the Operating Liquidity Committee was established with responsibility for the operational management and analysis of the Bank's liquidity situation. The day-to-day management of liquidity and the fulfilment of minimum reserve requirements are ensured by the Treasury Division. Liquidity risk is quantified in accordance with the NBS Decree on liquidity of banks. Meanwhile, the Bank's own system for measuring and predicting financing requirements provides quality information for liquidity management. The Bank's liquidity is secured by a high share of government securities in its balance sheet total. The ratio of the fixed and illiquid assets to own funds and provisions (in accordance with the regulator's requirements) moved between 0.63 and 0.76 in 2006. The Bank has an adequate level of liquidity.

Operational risk

As for the operational risk, the Bank is focusing on continuous preparation for and transition to the Advanced Measurement Approach (AMA) as required by Basel II. In 2006, the Bank therefore expanded its activities in this area in certain significant respects.

A comprehensive mapping of operational risks was conducted under the methodology of the Risk Management Association, and this will be repeated on a regular basis. The result is a map of risks, graded according to organizational units, processes, and risk types. This map will serve as a basis for establishing the Key Risk Indicator (KRI) system and also for the preparation of stress-test scenarios.

In 2006, Slovenská sporiteľňa commenced a process of quality improvement of continuity management in business activities. The initial phase has been completed, and involved defining a policy, methodology and implementation plan for the next three years.

As part of the group's activity, the Bank became connected to ORX, a database for the collection of external data. This gives the Bank access to data on events which have occurred in banks mainly in Western and Central Europe, and the Bank plans to use the data to create stress-test scenarios for operational risk.

In addition, the Bank has at its disposal a fully functional system for the collection of internal data on losses resulting from operational risk, which has been implemented in 2004. Slovenská sporiteľňa is also part of a group-wide insurance program that covers property damage and other losses resulting from operational risk. The Board of Directors is informed on a quarterly basis about developments in operational risk.

Money laundering risk

The monitoring system Alchemist, supplied by Norkom, was installed by the Bank in 2006 under a group project and represents another tool for reducing money laundering risk; it also serves the internal control of AML processes. The system is adjusted for the Bank's operational purposes so that it is as effective as possible in detecting unusual business transactions and it is fully suited to be a control resource for AML processes.

In accordance with statutory requirements, employees of Slovenská sporiteľňa and its financial group underwent retraining in 2006.

Objectives for 2007

Surpass market growth in lending
Exploit the potential for expanding the market share in retail and corporate segments. The lending market will continue to grow, although at a slower pace than in 2006. Having the largest client base, an extensive sales network and rich experience creates good preconditions for strengthening the position as a market leader.

Keep up successful sales of investment products
Increase the amount of assets under management, especially in structured products. Success in the field of deposits should be based on three pillars – a tradition as a leader in asset management, the successful development of innovative products, and experience gained from the Erste Bank Wealth Management Project.

Make progress in electronic banking services
Extend the call centre's functionalities and launch a new version of Internet banking. As the largest bank, Slovenská sporiteľňa aspires to bring its clients the latest technology, not only in terms of user comfort, but also security and reliability.

Expand credit card market share significantly
Sell credit cards using direct marketing activities and the call centre. The focus of consumer loan sales is gradually being shifted to credit cards. With the addition of embossed cards in 2007, the credit card portfolio will be complete.

Prepare the Bank and clients for the euro transition
Get information about euro adoption across to clients, optimize processes, and be ready for the installation of a new IT system. Slovenská sporiteľňa will be the first bank that is prepared in all respects for the euro. We want not only to explain this change to clients, but to facilitate it as much as possible.

Reduce the cost/income ratio below 54%
Keep cost growth under control even at times of sharply increasing income. Take advantage of group synergies arising from the centralization of IT operations and central purchase.

Achieve a return on equity of more than 20%
Make effective use of capital by increasing the share of loans on the balance sheet total. Confirm the promise made to the shareholders and investors. The maintenance of a stable return on equity attests to the Bank's good financial condition and its ability to bring shareholders a predictable appreciation of their investments.

Consolidated Financial Statements

prepared in Accordance with International Financial Reporting Standards for the Year Ended 31 December 2006 and Independent Auditors' Report

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

Deloitte.

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Slovenská republika

Obchodný register
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Slovenská sporiteľňa, a.s.

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying consolidated financial statements of Slovenská sporiteľňa, a.s. and its subsidiaries, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity, statement of recognized income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

4. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Slovenská sporiteľňa, a.s. and its subsidiaries as of 31 December 2006, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Bratislava 20 February 2007

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

Ing. Zuzana Letková
Responsible auditor
Licence SKAu No. 865

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Deloitte Touche Tohmatsu

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 SKK million	2005 SKK million
ASSETS			
Cash and balances at the central bank	7	13 046	4 066
Loans and advances to financial institutions	8	69 110	67 681
Loans and advances to customers	9	129 520	96 928
Provisions for losses on loans and advances	10	(4 275)	(3 624)
Financial assets at fair value through profit or loss	11	9 310	9 006
Securities available for sale	12	26 313	24 379
Securities held to maturity	13	44 699	51 594
Investments in associates and other investments	14	1 370	974
Intangible assets	15	2 035	1 265
Property and equipment	16	5 117	5 772
Investment property	16	149	156
Non-current assets held for sale	17	684	-
Current income tax asset	18	177	-
Deferred income tax asset	18	12	13
Other assets		641	782
Total assets		**297 908**	**258 992**
LIABILITIES AND EQUITY			
Amounts owed to financial institutions	19	44 426	45 485
Amounts owed to customers	20	210 029	177 550
Debt securities in issue	21	12 256	9 775
Provisions for liabilities and other provisions	22	884	999
Financial liabilities at fair value through profit or loss	36	3 950	1 883
Other liabilities	23	5 454	4 021
Current income tax liability	18	5	19
Deferred income tax liability	18	510	110
Total liabilities		**277 514**	**239 842**
Total equity, thereof	24	20 394	19 150
- Equity attributable to equity holders of the parent		20 318	19 137
- Minority interest		76	13
Total liabilities and equity		**297 908**	**258 992**

Notes on pages 38 to 99 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 20 February 2007.

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 Income Statement

For the Year Ended 31 December 2006

	Note	2006 SKK million	2005 SKK million
Interest income	25	14 429	11 854
Interest expense	25	(5 720)	(4 059)
Income from investments in associates	25	157	120
Net interest and investment income		**8 866**	**7 915**
Provisions for losses on loans, advances and off-balance sheet credit risks	27	(612)	(430)
Net interest and investment income after provisions		**8 254**	**7 485**
Fee and commission income	26	3 349	3 403
Fee and commission expense	26	(274)	(219)
Net fee and commission income		**3 075**	**3 184**
Net profit on financial operations	28	777	574
General administrative expenses	29	(6 890)	(6 487)
Other operating result	30	(273)	(510)
Profit for the year before income taxes		**4 943**	**4 246**
Income tax expense	31	(1 078)	(674)
Net profit for the year after income taxes		**3 865**	**3 572**
Net profit attributable to:			
Equity holders of the parent		3 860	3 569
Minority interest		5	3
Total		**3 865**	**3 572**
Basic and diluted earnings per share per SKK 1 000 share (SKK)	**32**	**606**	**560**
Basic and diluted earnings per share per SKK 100 million share (SKK)	**32**	**60 636 963**	**56 040 163**

Notes on pages 38 to 99 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2006

SKK million	Share capital	Legal reserve fund	Other Funds	Retained earnings	Hedging reserves	Revaluation reserves	Total	Minority interests	Total equity
	Attributable to equity holders of the parent								
As at 31 December 2004	**6 374**	**2 404**	**1 680**	**6 131**	**-**	**1 186**	**17 775**	**7**	**17 782**
Available for sale securities:									
Valuation gains taken to equity	-	-	-	-	-	(201)	(201)	-	(201)
Transferred to Income statement on sale	-	-	-	-	-	(143)	(143)	-	(143)
Cash flow hedges:									
Gains taken to equity	-	-	-	-	65	-	65	-	65
Transferred to Income statement for the period	-	-	-	-	(10)	-	(10)	-	(10)
Actuarial losses	-	-	-	(1)	-	-	(1)	-	(1)
Tax on items taken directly to or transferred from equity	-	-	-	-	(11)	40	29	-	29
Net income recognised directly in equity	-	-	-	(1)	44	(304)	(261)	-	(261)
Net profit for the year	-	-	-	3 569	-	-	3 569	3	3 572
Dividends paid	-	-	-	(1 946)	-	-	(1 946)	-	(1 946)
Other changes	-	-	(502)	502	-	-	-	3	3
As at 31 December 2005	**6 374**	**2 404**	**1 178**	**8 255**	**44**	**882**	**19 137**	**13**	**19 150**
Available for sale securities:									
Valuation gains taken to equity	-	-	-	-	-	(623)	(623)	-	(623)
Transferred to Income statement on sale	-	-	-	-	-	(33)	(33)	-	(33)
Cash flow hedges:									
Gains taken to equity	-	-	-	-	59	-	59	-	59
Transferred to Income statement for the period	-	-	-	-	(31)	-	(31)	-	(31)
Actuarial losses	-	-	-	(14)	-	-	(14)	-	(14)
Tax on items taken directly to or transferred from equity	-	-	-	-	(5)	120	115	-	115
Net income recognised directly in equity	-	-	-	(14)	23	(536)	(527)	-	(527)
Increase in Minority interests	-	-	-	(3)	-	-	(3)	58	55
Net profit for the year	-	-	-	3 860	-	-	3 860	5	3 865
Dividends paid	-	-	-	(2 145)	-	-	(2 145)	-	(2 145)
Other changes	-	-	(1)	(2)	-	(1)	(4)	-	(4)
As at 31 December 2006	**6 374**	**2 404**	**1 177**	**9 951**	**67**	**345**	**20 318**	**76**	**20 394**

Notes on pages 38 to 99 are an integral part of these financial statements.

Consolidated Statement of Recognised Income and Expense

For the Year Ended 31 December 2006

	Note	2006 SKK million	2005 SKK million
Available for sale securities:			
Valuation losses taken to equity		(623)	(201)
Transferred to income statement on sale		(33)	(143)
Cash flow hedges:			
Gains taken to equity		59	65
Transferred to income statement for the period		(31)	(10)
Actuarial gains / (losses) on post-employment defined benefit plans	22(e)	(14)	(1)
Tax on items taken directly to or transferred from equity	18	115	29
Net income/(expense) recognised directly in equity		**(527)**	**(261)**
Profit for the year		**3 865**	**3 572**
Total recognised income and expense for the year		**3 338**	**3 311**
Attributable to:			
Equity holders of the parent		3 333	3 308
Minority interest		5	3

Notes on pages 38 to 99 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2006

	Note	2006 SKK million	2005 SKK million
Cash flows from operating activities			
Profit before income taxes		4 943	4 246
Adjustments for:			
Provisions for losses on loans, advances, off-balance sheet and write-offs		762	402
Provisions for liabilities and other provisions		505	14
Depreciation, amortisation and impairment	29	1 098	1 102
Loss on disposal of fixed assets		26	155
Equity in earnings of associates		(151)	(134)
Unrealised (gains)/losses		(534)	371
Interest expense - accrued part		755	1 704
Transfer of interest income of HTM portfolio to investment activity		(1 771)	(2 577)
Cash flows from operations before changes in operating assets and liabilities		**5 633**	**5 283**
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the central bank	7	(7 763)	546
Placements with the central bank	8	1 280	620
Loans and advances to financial institutions	8	(3 937)	2 175
Loans and advances to customers		(31 075)	(36 700)
Financial assets at fair value through profit or loss and securities available for sale		(433)	6 625
Other assets		141	(43)
Increase in operating liabilities:			
Amounts owed to financial institutions		(3 717)	12 885
Amounts owed to customers		30 905	458
Other liabilities		878	478
Increase/(decrease) in derivative financial instruments		765	154
Net cash flows (used in) / provided by operating activities before income tax		(7 323)	(7 519)
Income taxes paid		(754)	(1 346)
Net cash flows (used in) / provided by operating activities		**(8 077)**	**(8 865)**
Cash flows from investing activities			
Net cash flow from securities held to maturity		8 666	10 647
Dividends received from associates		107	90
Net (increase) / decrease in investments in associates		(252)	46
Purchase of intangible assets, property and equipment		(2 006)	(1 781)
Proceeds from sale of property and equipment		158	1 271
Net cash flows provided by investing activities		**6 673**	**10 273**
Cash flows from financing activities			
Net issuance of bonds	21	2 037	3 200
Dividends paid		(2 146)	(1 946)
Loans to group companies from third parties		1 362	1 358
Net cash flows provided by financing activities		**1 253**	**2 612**
Effect of foreign exchange rate changes on cash and cash equivalents		(60)	7
Net decrease in cash and cash equivalents	**33**	**(211)**	**4 027**
Cash and cash equivalents at the beginning of the year	**33**	**64 087**	**60 060**
Cash and cash equivalents at the end of the year	**33**	**63 876**	**64 087**

Notes on pages 38 to 99 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, Slovak Republic. 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, and JUDr. Samuel Vlčan (replacing Ing. Oskar Soták from 13 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 2006 were as follows: Mag. Reinhard Ortner (Chairman), Mag. Andreas Treichl (Vice Chairman), Dr. Heinz Kessler, Mag. Peter Nemschak, Andreas Klingen, JUDr. Beatrica Melichárová, Ing. Ján Trgiňa, Herbert Juranek, and Mgr. Eva Striebliková. Former members Dr. Manfred Wimmer and Dr. Christian Coreth resigned and new members Mag. Peter Nemschak and Andreas Klingen were elected on 5 April 2006.

As at 31 December 2006 the only shareholder of the Bank was Erste Bank der österreichischen Sparkassen AG (hereafter 'Erste Bank').

On 10 January 2005, Erste Bank purchased shares from EBRD representing 19.99% shareholder rights and so increased its share from 80.01% to 100.00%.

2. Significant Events Affecting the 2006 and 2005 Results

In 2006 and 2005, the Bank, its subsidiaries and associates (the Group) 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 2006 and 2005. 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.
b) On 1 January 2005, the Group reallocated certain securities held in the held to maturity portfolio ('HTM portfolio') to the AFS portfolio 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 the profit and loss portfolio.

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 Group 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 Group assigned part of the impaired loss receivables from customers to the mandate partners. Related provisions were used (see Note 9).

In 2006 the Group changed its accounting policy regarding the recognition of actuarial gains and losses arising from post-employment defined benefit plans. Previously, the Group recognized actuarial gains and losses in the income statement to the extent that their net cumulative amount exceeded 10% of the greater of the present value of the obligation or of the fair value of plan assets at the end of the previous year.

In accordance with the new accounting policy, actuarial gains and losses are recognised in equity in the period when they occur. As a result of restating comparative financial information for the year ended 31 December 2005, "Employee benefit provisions" were increased by SKK 1 million and "Equity attributable to equity holders of the parent" decreased by the same amount. In accordance with IFRS requirements, the Group presents "Separate statement of recognised income and expense". Changes of individual equity items are included in Note 24.

In early 2006, the Group reconsidered its original plan to reclassify selected securities from 'Financial Assets at fair Value Through profit and loss' to the available for sale portfolio. These securities were not reclassified and are evaluated on a fair value basis, including their performance, in accordance with the documented investment strategy. Further information on the structure of fair value through profit and loss portfolio is presented under Note 11.

Pursuant to Article 17a of Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 banks are required to prepare their separate and consolidated financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS). As a result, separate financial statements prepared in accordance with IFRS have effectively replaced financial statements prepared under Slovak Accounting Standards.

3. Adoption of New and Revised Standards

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 (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning 1 January 2006. The adoption of these new and revised Standards and Interpretations in 2006 has not resulted in changes to the Group's accounting policies and the amounts reported for the current or prior years.

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)
- IFRS 8 Operating segments (effective 1 January 2009, cannot be adopted prior to endorsement, expected June 2007)
- IFRIC 7 Applying the restatement approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006)
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)
- IFRIC 10 Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006)
- IFRIC 11 interpretation of IFRS 2 - Group and treasury share transactions (effective 1 March 2007)
- IFRIC 12 Service concession arrangements (effective 1 January 2008, may not be adopted prior to endorsement for arrangements currently accounted for under IFRIC 4)

The management of the Bank anticipates that the adoption of these standards in future periods will have no material financial impact on the financial statements of the Group.

4. Significant Accounting Policies

(a) Statement of compliance

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 does not differ from IFRS, issued by the International Accounting Standards Board (IASB), excl. some demands on portfolio security according to IAS 39, which was not approved by the EU. The Group decided that even in case the parts of standard which were not adopted yet would have been approved by the time this statement will be published, would have no effect on this consolidated statement.

The Bank has prepared Separate Financial Statements for year ended 31 December 2006 on 20 February 2007.

(b) Basis of preparation

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.

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 and has a significant influence in associates, as described in Note 6. The subsidiaries are fully consolidated, associates are included using the equity method of accounting.

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.

(c) Basis of Consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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 or have other means of governing the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

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 does not have control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill 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 the income statement.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant 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.

(d) 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.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Associated Undertakings' above.

(e) 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.

(f) 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. The effective interest rate represents the rate that exactly discounts estimated future cash flows through the expected life of the financial asset to that asset's carrying amount. Origination fees and directly attributable costs related to 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 Income Statement for the estimated irrecoverable amounts of Loans and Advances when there is objective evidence that they are impaired. Provisions are created through the Income Statement – '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 Income Statement in 'Provisions for losses on loans, advances and off-balance sheet credit risk'.

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 30 million.

Loans and advances under retail asset class are considered by the Group as being 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 institutions, sovereign and corporate 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 a loan's gross carrying amount and the 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. Loans and advances with identified impairment are internally rated as defaulted.

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

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.

(g) 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 ('FVTPL')

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.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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 fair values of financial assets other than held for trading designated as at FVTPL are recognised in 'Other operating result'. Changes in the fair values of securities held for trading are recognised in the Income Statement 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 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 Income Statement.

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

(h) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

(i) 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.

(j) 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.

(k) Property and Equipment

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 2006 and 2005
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 contruction 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 Income Statement in the year of disposal. Low value fixed assets and enhancements 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 Income Statement when the expenditure is incurred.

(l) Investment Property

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 Note 16. Useful life of buildings under investment property is 30 years.

(m) 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 Income Statement 'Other operating result' in respect of assets under construction or those not used or rented to third parties. Repairs are charged to Income Statement line 'General administrative expenses' under – 'Other administrative expenses' in the year in which the expenditures are incurred.

(n) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management

must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.
Any gain or loss from sale and impairment losses and their reversals are included in other operating result.

(o) 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.
When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(p) Long-term Employee Benefit Provisions

The Group operates unfunded defined long-term benefit programs comprising lump-sum post-employment and jubilee benefits.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, 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.
Actuarial gains and losses from the jubilee benefit obligation are charged to the Income statement in the current year.
Actuarial gains and losses from post-employment defined benefit plans are recognised directly in equity in the period in which they occur.
The accounting policy for recognition of actuarial gains and losses from post-employment defined benefit plans was changed in 2006. See Note 22(e) for key assumptions used in actuarial valuations

(q) Accounting for Factoring Transactions

Receivables arising from recourse factoring transactions are carried at amortised cost, presented in 'Loans and advances to customers'. Receivables from non-recourse factoring transactions are carried at amortised cost, presented in 'Loans and advances to customers' (funded portion) and 'Other assets' (unfunded portion). Liabilities payable to client, arising from non-recourse factoring transactions are presented as 'Other liabilities'.

Fees charged to customers are recognised as 'Other operating revenues'. Interest income received from customers for factoring services are shown in the 'Net interest and investment income' calculated using the effective interest rate.

(r) Dividends to shareholder

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

(s) Taxation

Income tax on the Group's current year results consists of both current income tax and deferred income tax.

Income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income 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 or substantially enacted tax rates are used to determine deferred income tax. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred income 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. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is charged or credited to the Income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity. Deferred income 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 Bank intends to settle its current tax assets and liabilities on a net basis.

Dividends received by the Group are subject to income tax only if they were paid from profit generated prior to 1 January 2004.

(t) 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 Income Statement.

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 at the inception of the hedging relationship 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.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of a hedged item arising from the hedged risk is amortised to the income statement 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 the income statement (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 income statement 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.

(u) 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 respective securities' positions.

(v) 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 income statement in 'Net profit on financial operations'.

(w) Interest Income and Interest Expense

Interest income and expense are recognised in the income statement 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'.

(x) Fees and Commissions

Fees and commissions are recognised in the income statement on an accrual basis. Loan origination fees in excess of direct loan origination costs are deferred and recognised using the effective interest rate as "Interest income' in the income statement over the duration of the related loans.

(y) 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 income statement.

Rentals payable under operating leases are charged to the income statement 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.

(z) 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.

(aa) Assets under Administration

Assets under administration are not recognised as assets or liabilities on the balance 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.

(ab) 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, asset concentration, credit risk connected to clients of the Bank, liquidity, interest rate, and foreign currency position.

5. Significant Accounting Judgements

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 judgement include the following:

- From 1 January 2006 the legal statutory accounting changed for the Bank from Slovak accounting standards to IFRS. The tax treatment of certain transition changes recorded into the Bank's equity upon its transition to IFRS is unclear. Additionally, 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.
- Provisioning for incurred credit losses and identified contingencies involve many uncertainties about the outcome of those risks and require the management of the Bank 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.

6. Companies included in consolidation

The consolidated financial statements include the following subsidiaries and associates:

Name of the company	Registered office	Principal activity	Group interest 2006	Group voting rights 2006
Subsidiaries – fully consolidated				
Asset Management Slovenskej sporiteľne, správ. spol., a.s.	Záhradnícka 95 812 02 Bratislava Slovak Republic	Asset management	100.00%	100.00%
Realitná spoločnosť Slovenskej sporiteľne, a.s.	Nedbalova 17 811 01 Bratislava Slovak Republic	Estate agency	100.00%	100.00%
Leasing Slovenskej sporiteľne, a.s.	Priemyselná 1/a 821 09 Bratislava Slovak Republic	Leasing, real estate	96.66%	96.66%
Faktoring Slovenskej sporiteľne, a.s.	Priemyselná 1/a 821 09 Bratislava Slovak Republic	Factoring	90.00%	90.00%
Derop, B.V.	Naritaweg 165 1043 BW Amsterdam The Netherlands	Incorporate, manage and finance companies	85.00%	85.00%
Laned, a.s. (100% subsidiary of Derop, B.V.)	Suché mýto 4 816 07 Bratislava Slovak Republic	Rental, operation and management of real estate	85.00%	85.00%
Associates – consolidated at equity				
3on private equity, a.s.	Štefanovičova 12 811 04 Bratislava Slovak Republic	Investment advisory	35.29%	35.29%
Prvá stavebná sporiteľňa, a.s.	Bajkalská 30 829 48 Bratislava Slovak Republic	Banking	9.98%	35.00%
Poisťovňa Slovenskej sporiteľne, a.s.	Priemyselná 1/a 821 09 Bratislava Slovak Republic	Insurance	33.33%	33.33%
Slovak Banking Credit Bureau, s.r.o.	Na vŕšku 10 811 01 Bratislava Slovak Republic	Retail credit register	33.33%	33.33%
Erste Corporate Finance, a.s.	Na Perštýně 1 111 01 Praha Czech Republic	Financial and legal advisory	25.00%	25.00%
s IT Solutions SK, spol. s r.o.	Prievozská 14 821 09 Bratislava Slovak Republic	Software company	23.50%	23.50%
Czech and Slovak Property Fund, B.V.	Fred. Roeskestraat 123 Amsterdam The Netherlands	Real estate fund	10.00%	10.00%

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 of the 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 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. The share of the Bank of 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 of 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.

In May 2006, the Bank's subsidiary Factoring Slovenskej sporiteľne, a.s. acquired a 49.00% share of the ownership and voting rights of ERSTE Factoring Croatia d.o.o. – factoring company based in Croatia. In December 2006, Factoring Slovenskej sporiteľne, a.s. sold 46.50% share of ownership and voting rights of ERSTE Factoring Croatia d.o.o. Remaining 2.50% share of the company was reclassified to "Other investments".

In June 2006, the Bank acquired a 35.29% share on ownership and voting rights of 3on private equity, a.s. 3on private equity provides advisory services in the field of equity investments.

In October 2006, the Bank acquired a 6.67% share of the ownership and voting rights of Czech and Slovak Property Fund, B.V. The Czech and Slovak Property Fund is a fund that invests in real estate. However the Bank's share of the company and voting rights represents only 6.67%, based on the share of its profits of 33.33%, the Czech and Slovak Property Fund was classified as an associate.

In December 2006, the Bank acquired new issue of shares in the Czech and Slovak Property Fund, B.V. and so increased its share from 6.67% to 10.00%. The profit sharing ratio was not effected by this transaction.

In December 2006, the Bank established a 100% subsidiary, Realitná spoločnosť Slovenskej sporiteľne, a.s. The company is an estate agency.

In December 2006, SporDat, spol. s r.o. changed its name into "s IT Solutions SK, s r.o."

In December 2006, the share capital of Derop, B.V. was increased by the Bank and Immorent International Holding GmbH. As a result the share of the Group of the net assets of Derop, B.V. decreased from 100.00% into 85.00%. Consequently the group share of the net assets of LANED, a.s – subsidiary of Derop, B.V. decreased from 100.00% into 85.00%.

The financial statements of Derop, B.V. as at 31 December 2006 are based on an accounting period longer than one year. These financial statements were adjusted to correspond with the accounting period of the financial statements of the Group.

7. Cash and Balances at the Central Bank

	2006 SKK million	2005 SKK million
Cash balances	4 425	3 582
Nostro accounts with central banks	853	479
Minimum reserve deposit with NBS	7 768	5
Total	**13 046**	**4 066**

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 central banks 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 4.2 billion.

8. Loans and Advances to Financial Institutions

	2006 SKK million	2005 SKK million
Loans and advances on demand	784	288
Repo trades with central bank treasury bills	57 814	59 738
Placements with central bank	-	1 280
Placements with financial institutions	10 512	6 375
Total	**69 110**	**67 681**

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

9. Loans and Advances to Customers

	2006 SKK million	2005 SKK million
Commercial clients	70 591	53 080
Syndicated loans	7 880	9 934
Overdrafts	14 156	9 839
Direct provided loans	40 597	28 664
Finance leasing	4 159	2 091
Factoring	3 799	2 552
Retail clients	57 652	41 870
Mortgage loans	30 394	18 635
Consumer loans	20 790	17 274
Social loans	1 398	1 848
Overdrafts	4 955	4 013
Finance leasing	115	100
Public sector	1 277	1 978
Total	**129 520**	**96 928**

As at 31 December 2006, the 15 largest customers accounted for 15% of the gross loan portfolio in the amount of SKK 19 872 million (2005: 20%, SKK 19 852 million).

Industry sector analysis

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

	2006 SKK million	2005 SKK million
Financial institutions	9 901	9 370
Non-financial institutions	49 156	36 230
Public sector	1 275	1 978
Sole proprietors	3 549	2 792
Individuals	57 537	41 770
Subtotal - Bank only	121 418	92 140
Loans and advances of other Group companies	8 102	4 788
Total	**129 520**	**96 928**

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 2006.

As at 31 December 2006 SKK million	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions					
(Retail Asset Class)	**61 234**	**3 126**	**5.1%**	**31 724**	**56.9%**
Private persons	59 359	2 917	4.9%	31 043	57.2%
thereof defaults	2 914	1 898	65.1%	588	85.3%
Legal persons	1 875	209	11.1%	681	47.5%
thereof defaults	234	167	71.4%	40	88.5%
Individual credit risks					
(Corporate Asset Class)	68 286	1 149	1.7%	16 558	25.9%
Not impaired exposures	66 563	74	0.1%	16 005	24.2%
Impaired exposures *	223	35	15.7%	123	70.9%
Defaulted exposures **	1 500	1 040	69.3%	430	98.0%
Subtotal for balance sheet credit risks	**129 520**	**4 275**	**3.3%**	**48 282**	**40.6%**
Off-balance sheet Retail Asset Class	5 711	78	1.4%		
Off-balance sheet Corporate Asset Class	25 631	2	0.0%		
Subtotal for off-balance sheet credit risks	**31 342**	**80**	**0.3%**		
Total	**160 862**	**4 355**	**2.7%**		

As at 31 December 2005 SKK million	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%**		

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

Estimated value of collateral

Estimated value of collateral is subject to multiple uncertainties and risks. The amounts that may ultimately be realised on liquidation of collateral on defaulted loans could differ from estimated amounts and the difference could be material.

Loan impairment estimate methodology

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 the case of loan default. The availability and quality of this information was limited as at 1 January 2005. The Bank continues to rely on prudent assumptions based on general knowledge and experience about the portfolio of credit exposures and market environment in 2006.

During 2005 and 2006, component parameters of the model were calibrated to reflect the 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 2006 and 31 December 2005.

Collateral values are taken into consideration when calculating an 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 the related use of provisions in the amount of SKK 1.6 billion.

In 2006, the development of risk provisions corresponded with increasing volumes, and the character and structure of sold products. Risk parameters used in the underlying model were adjusted to reflect the current risk profile of the Bank's loan portfolio. The adjustment of parameters was based on the enhancement of credit risk data-pool indicating reduced risk of loss for performing loans and higher risk of loss for defaulted loans. Improved quality and availability of data enabled to reduce the level of uncertainty in parameters used for loan loss provisions recognition.
The decrease of risk provisions for off-balance sheet exposures resulted primarily from the reassessment of two large corporate clients with significant unused credit limits.

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 to 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 to SKK 870 million.

During 2006, the Bank continued the restructuring program. As at 31 December 2006 the remaining social loans to be resolved amounted to SKK 517 million. The provisions for social loans amounted to SKK 245 million and are considered to be an adequate estimate of incurred losses to be covered in the future as a result of the ongoing restructuring process.

Mandate loans

Following contracts entered into in prior periods, the Bank continued its cooperation with two external non-related parties under which the 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 amounted to SKK 1 513 million as at 31 December 2006 (2005: SKK 891 million).

Sale of receivables

In December 2005, the Bank assigned loans to the mandate partners that resulted in the derecognition 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.

During 2006, the Bank sold and consequently derecognised receivables in the gross amount of SKK 329 million. The consideration received amounted to SKK 221 million. The loss was fully compensated by the use of risk provisions.

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.

	2006 SKK million	2005 SKK million
Gross investment in finance leases	4 946	2 580
Thereof:		
- Less than 1 year	1 600	759
- From 1 year to 5 years	3 013	1 647
- Over 5 years	333	174
Unearned income	(672)	(389)
Subtotal	**4 274**	**2 191**
Provision	(45)	(13)
Net investment in finance leases	**4 229**	**2 178**
Thereof:		
- Less than 1 year	1 310	628
- From 1 year to 5 years	2 696	1 471
- Over 5 years	223	79

10. Provisions for Losses on Loans and Advances

	2006 SKK million	2005 SKK million
As at 1 January	3 624	4 938
Net allocation / (release) of provisions (Note 27)	782	530
Use of provisions due to sale and write-off of receivables and other adjustments	(131)	(1 844)
As at 31 December	**4 275**	**3 624**

11. Financial Assets at fair value through profit or loss

	2006 SKK million	2005 SKK million
Trading securities		
Debt securities and other fixed income securities - listed	451	1 107
Equity securities – shares – listed	2	-
Financial derivatives with positive fair value (Note 36)	3 447	1 345
Interest Rate Agreements	810	637
Exchange Rate Agreements	2 628	695
Other	9	13
	3 900	2 452
Assets at fair value		
Debt securities and other fixed income securities - listed	4 907	5 138
Equity securities (listed) and participation certificates	503	1 416
	5 410	6 554
Total	**9 310**	**9 006**

In early 2006, the Bank reconsidered its original plan to reclassify selected securities from ‘Financial Assets at Fair Value Through profit and loss’ to the available for sale portfolio and these securities are evaluated on fair value basis, including their performance, in accordance with documented investment strategy.

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

	2006 SKK million	2005 SKK million
State institutions in the Slovak Republic	94	627
Foreign state institutions	105	74
Financial institutions in the Slovak Republic	166	-
Foreign financial institutions	86	367
Other entities in the Slovak Republic	-	39
Total	**451**	**1 107**

In its portfolio the Bank has structured products in the amount of SKK 4 907 million as at 31 December 2006 (2005: SKK 5 138 million). These include collateralised debt obligations, residential mortgage backed securities, credit linked notes, 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 (2006: SKK 3 286 million, 2005: SKK 2 462 million), senior tranches and mezzanine tranches represent 32% and 68%, respectively (2005: 36% and 64%).

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.

Credit linked notes (CLNs) are securities issued by a special purpose company or trust, designed to offer investors par value at maturity unless a referenced credit defaults. In the case of default, the investors receive a recovery rate.

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

The composition of the structured products portfolio is as follows:

Type of instrument	Actual rating range	Carrying amount 2006 MSKK	Carrying amount 2005 MSKK	Notional amount 2006 MSKK	Notional amount 2005 MSKK
CDOs	AAA-BB	3 286	2 462	3 225	2 453
Managed Funds	A-B	1 093	2 598	1 079	2 593
CLNs	n/a	457	-	449	-
RMBS	AA	71	78	71	78
Total		**4 907**	**5 138**	**4 824**	**5 124**

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

	2006 SKK million	2005 SKK million
Financial institutions in the Slovak Republic	87	203
Foreign financial institutions	416	1 213
Other entities in the Slovak Republic	-	-
Total	**503**	**1 416**

12. Securities Available for Sale

	2006 SKK million	2005 SKK million
Debt securities and other fixed income securities	26 300	24 373
listed	26 300	24 373
unlisted	-	-
Equity securities – shares	13	6
listed	-	6
unlisted	13	-
Total	**26 313**	**24 379**

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

	2006 SKK million	2005 SKK million
State institutions in the Slovak Republic	20 358	19 264
Financial institutions in the Slovak Republic	2 518	2 542
Foreign state institutions	684	506
Foreign financial institutions	1 070	1 575
Other entities in the Slovak Republic	405	481
Other foreign entities	1 265	5
Total	**26 300**	**24 373**

During 2006, 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.

13. Securities Held to Maturity

	2006 SKK million	2005 SKK million
Debt securities and other fixed income securities		
listed	44 699	49 582
unlisted	-	2 012
Total	**44 699**	**51 594**

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

	2006 SKK million	2005 SKK million
State institutions in the Slovak Republic	40 172	44 871
Financial institutions in the Slovak Republic	3 235	3 498
Foreign financial institutions	379	2 012
Other entities in the Slovak Republic	913	912
Other foreign entities	0	301
Total	**44 699**	**51 594**

As at 31 December 2006, the securities included in held to maturity portfolio placed as collateral include state bonds amounting to SKK 36 108 million notional value (2005: SKK 19 922 million).

14. Investments in Associates and Other Investments

	2006 SKK million	2005 SKK million
Investment in associates	1 254	945
Other investments	116	29
Total	**1 370**	**974**

During 2006, the Group received dividends from participations in the amount of SKK 107 million (2005: SKK 92 million).

Investment in associates

2006 SKK million	Interest held (%)	Voting power held (%)	Net book value	Total assets	Total equity	Total Income	Total expense
3on private equity, a.s.	35.29	35.29	5	19	13	6	10
Prvá stavebná sporiteľňa, a.s.	9.98	35.00	796	50 277	7 980	4 354	3 128
Poisťovňa Slovenskej sporiteľne, a.s.	33.33	33.33	88	3 798	276	2 126	2 045
Slovak Banking Credit Bureau, s.r.o.	33.33	33.33	-	9	-	25	26
Erste Corporate Finance, a.s.	25.00	25.00	17	92	67	111	89
s IT Solutions SK, spol. s r.o.	23.50	23.50	88	361	56	826	782
Czech and Slovak Property Fund, B.V.	10.00	10.00	260	4 313	816	808	784
Total			**1 254**				

2005 SKK million	Interest held (%)	Voting power held (%)	Net book value	Total assets	Total equity	Total Income	Total expense
Prvá stavebná sporiteľňa, a.s.	9.98	35	755	45 355	7 647	3 620	3 173
s IT Solutions SK, spol. s r.o.	23.5	23.5	88	317	39	688	655
Poisťovňa Slovenskej sporiteľne, a.s.	33.33	33.33	82	2 804	246	1 536	1 508
Erste Corporate Finance, a.s.	25	25	18	124	87	139	102
Slovak Banking Credit Bureau, s.r.o.	33.33	33.33	2	11	4	17	14
Total			**945**				

In October 2006, the Bank acquired a 6.67% share of the ownership and voting rights of Czech and Slovak Property Fund, B.V. The Czech and Slovak Property Fund is a fund that invests in real estate. However the Bank's share of the company and voting rights represents only 6.67%, based on its share of the profits of 33.33%, the Czech and Slovak Property Fund was classified as an associate.

In December 2006, the Bank acquired a new issue of shares of the Czech and Slovak Property Fund, B.V. and so increased its share from 6.67% to 10.00%. The profit sharing ratio was not effected by this transaction.

In December SporDat, spol. s r.o. changed its name to "s IT Solutions SK, s r.o."

The Bank held a 9.98% shareholding in PSS at 31 December 2006 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 from 2004. The investment in PSS is therefore presented as associate, with the income from this investment reported under 'Income from investment in associates' in 2006 and 2005.

15. Intangible Assets

	Software SKK million	Other intangible assets SKK million	Assets not yet put into service SKK million	Total SKK million
Cost				
1 January 2006	**3 141**	**234**	**430**	**3 805**
Additions	-	-	1 147	1 147
Disposals	(224)	(4)	(13)	(241)
Transfers	730	14	(744)	-
31 December 2006	**3 647**	**244**	**820**	**4 711**
Accumulated amortisation				
1 January 2006	**(2 346)**	**(194)**	**-**	**(2 540)**
Amortisation	(344)	(19)	-	(363)
Disposals	224	3	-	227
Provisions for impairment	-	-	-	-
Transfers	-	-	-	-
31 December 2006	**(2 466)**	**(210)**	**-**	**(2 676)**
Net book value				
31 December 2005	**795**	**40**	**430**	**1 265**
31 December 2006	**1 181**	**34**	**820**	**2 035**

Original cost of fully amortised intangible assets that are still in use by the Bank amounts to SKK 2 billion (2005: SKK 2.1 billion).

Assets not yet put into service include the cost of bank system development project in the amount of SKK 153.3 million as at 31 December 2006. The total cost of the system is estimated at SKK 1 647 million and its putting into use in 2008.

16. Property, Equipment and Investment Property

	Land and buildings SKK million	Equipment fixtures and fittings SKK million	Motor vehicles SKK million	Asset not yet put info service SKK million	Total property and equipment SKK million	Investment property SKK million
Cost						
1 January 2006	**6 042**	**6 216**	**172**	**86**	**12 516**	**232**
Additions	-	-	-	821	821	78
Disposals	(92)	(521)	(24)	(1)	(638)	(14)
Transfers	-	327	27	(354)	-	-
Reclassification to/from non-current assets held for sale	(1 433)	-	-	(146)	(1 579)	(75)
31 December 2006	**4 517**	**6 022**	**175**	**406**	**11 120**	**221**
Accumulated depreciation						
1 January 2006	**(1 832)**	**(4 828)**	**(84)**	**-**	**(6 744)**	**(76)**
Depreciation	(180)	(503)	(36)	-	(719)	(16)
Disposals	46	513	19	-	578	1
Provisions for impairment	95	-	-	-	95	(5)
Transfers	-	-	-	-	-	-
Adjustment due to reclassification to/from non-current assets held for sale	787	-	-	-	787	24
31 December 2006	**(1 084)**	**(4 818)**	**(101)**	**-**	**(6 003)**	**(72)**
Net book value						
31 December 2005	**4 210**	**1 388**	**88**	**86**	**5 772**	**156**
31 December 2006	**3 433**	**1 204**	**74**	**406**	**5 117**	**149**

Original cost of property and equipment that is fully depreciated but still in use by the Bank amounts to SKK 3.7 billion (2005: SKK 3.2 billion).

The Bank has assessed the 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 2006 provisions for impairment of buildings amounted to SKK 338 million (2005: SKK 406 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 the planned relocation to a new head office building currently under construction. The proceedings from the sale amounted to SKK 1 061 million. The difference between the 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.

In 2006, the Bank started to construct a new head office. The value of the construction as at
31 December 2006 amounted to SKK 454 million. Expenditures recognised in the carrying amount of an item of property and equipment in the course of the construction amounted to SKK 4 million.

Sale and lease-back arrangements

The Bank is a lessee in an operating lease-back agreement, an operating lease, for a 3 year period, with an option to extend the lease for an additional 2 years.

Outstanding commitments under non-cancellable operating leases	2006 MSKK	2005 MSKK
Payable in period:		
- Less than 1 year	143	143
- From 1 year to 5 years	143	286
- Over 5 years	-	-
Operating leasing payments recognised as expense in the period	143	7

Investment property

The Group owns buildings rented to other parties in the total net book value of SKK 70 million (net of effect of impairment SKK 21 million) as at 31 December 2006 (2005: SKK 133 million), and equipment under operating leasing at net book value of SKK 79 million as at 31 December 2006 (2005: SKK 23 million). The total rental income earned by the Group amounted to SKK 43 million (2005: SKK 58 million) and is presented within 'Other interest income and similar income' or the 'Interest income' caption. The depreciation of investment property is presented within 'General administrative expenses' and amounted to SKK 16 million (2005: SKK 8 million).

Direct operating expenses (including repairs and maintenance) arising from Investment property that generated rental income during 2006 amounted to SKK 8 million (2005: SKK 14 million) and are presented within 'General administrative expenses'.

Fair value of investment property as at 31 December 2006 was SKK 149 million (2005: SKK 156 million). The Group uses its own model for determining fair value of Investment property, which is based on discounting of future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location and calculation of independent valuer when appropriate.

17. Non-current assets held for sale

	2006 SKK million	2005 SKK million
As at 1 January	**-**	**-**
Additions:		
Acquisitions	-	-
Reclassification from Property and Equipment	1 654	-
Revaluation	-	-
Total additions	**1 654**	**-**
Disposals:		
Sales	(137)	-
Reclassification to Property and Equipment	(811)	-
Revaluation	-	-
Provision for impairment	(22)	-
Total disposals	**(970)**	**-**
As at 31 December	**684**	**-**

Following decision in December 2006, the Group intends to dispose of selected items of Property within next 12 months. A search is under way for buyer(s).

18. Deferred income tax assets and liability

The structure of deferred tax position as at 31 December 2006 and 31 December 2005 was as follows:

	2006 SKK million	2005 SKK million
Deferred income tax assets	12	13
Current income tax assets	177	-
Total income tax assets	**189**	**13**
Deferred income tax liability	510	110
Current income tax liability	5	19
Total income tax liabilities	**515**	**129**

Deferred tax booked	directly to equity		to Income statement									
SKK million	Securities available for sale	Cash flow hedges	Loans and advances to customers	Provisions for losses on loans and advances	Securities	Intangible assets	Property and equipment	Provisions	Associates and other inv.	Tax loss carried forward	Other	Total
31 December 2004	**(247)**	**-**	**9**	**59**	**36**	**(13)**	**(33)**	**10**	**-**	**13**	**8**	**(158)**
Charge / (credit) to equity for the year	12	(12)	-	-	-	-	-	-	-	-	-	-
Charge / (credit) to Income statement for the year	-	-	49	(32)	(41)	(21)	29	8	26	10	4	32
Recycled from equity to Income statement	27	2	-	-	-	-	-	-	-	-	-	29
31 December 2005	**(208)**	**(10)**	**58**	**27**	**(5)**	**(34)**	**(4)**	**18**	**26**	**23**	**12**	**(97)**
Charge / (credit) to equity for the year	118	(9)	-	-	-	-	-	-	-	-	-	109
Charge / (credit) to Income statement for the year	-	-	(58)	(27)	(420)	35	(49)	2	-	8	(11)	(520)
Recycled from equity to Income statement	4	6	-	-	-	-	-	-	-	-	-	10
31 December 2006	**(86)**	**(13)**	**-**	**-**	**(425)**	**1**	**(53)**	**20**	**26**	**31**	**1**	**(498)**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2006 SKK million	2005 SKK million
Deferred income tax liabilities	(510)	(110)
Deferred income tax assets	12	13
Total deferred income tax liabilities	**(498)**	**(97)**

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

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 in 2005, the Bank calculated its deferred tax position in 2005 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 in the full extent. Potential additional deferred tax assets not recorded as at 31 December 2005 total SKK 285 million.

In 2006, the Bank started to calculate its current income taxes based on IFRS statutory accounting. This change also impacted the tax value of certain assets and liabilities as of 1 January 2006 which was reflected in calculation of deferred tax position as of 31 December 2005.

During 2006, legislation governing taxation of income was amended, resulting in additional tax liability arising from bond coupons, held by the Bank as of 31 December 2003 (both accrued and purchased). This additional income tax liability should have represented an item increasing the tax base of the Bank due to be fully settled by the end of 2008. Accordingly, the Bank recorded a corresponding deferred income tax liability of SKK 445 million in 2006.

Subsequent to 31 December 2006, new legislation was approved by parliament to revoke the additional income tax described above. As a result, as of the date of these financial statements, it is expected that the full amount of the deferred income tax liability of SKK 445 will be released and recorded as a reduction of income tax expense in 2007.

19. Amounts Owed to Financial Institutions

	2006 SKK million	2005 SKK million
Amounts owed on demand	342	354
Repo trades with debt securities	22 034	31 747
Term deposits and borrowings	22 050	13 384
Total	**44 426**	**45 485**

The liabilities at 31 December 2006 in the amount of SKK 22 034 million (2005: SKK 31 747 million) from repo trade are collateralised by state bonds and treasury bills.

20. Amounts Owed to Customers

	2006 SKK million	2005 SKK million
Amounts owed on demand	71 022	63 223
Savings deposits	14 921	16 621
Term deposits	124 086	97 706
Total	**210 029**	**177 550**

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

	2006 SKK million	2005 SKK million
Savings deposits	14 921	16 621
Term deposits and amounts owed on demand:		
Corporate clients	45 784	41 120
Retail clients	117 298	101 741
Public sector	29 545	15 373
Other	2 481	2 695
Total	**210 029**	**177 550**

The amount of savings deposits includes a balance of anonymous deposits of SKK 1 728 million as at 31 December 2005. In accordance with the valid legislation, all unclaimed anonymous deposits outstanding as at 31 December 2006 were forfeited to the state in the amount of SKK 1 114 million. The amount also includes accrued interest until the date of transfer.

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. Related income is presented in the income statement in 'Other operating result'.

As at 31 December 2006 and 31 December 2005 no amounts owed to clients were collateralised by securities.

As at 31 December 2006, amounts owed to customers include special guaranteed deposits in the amount of SKK 4 740 million. These contracts includes embedded currency and equity derivatives in the amount of SKK 411 million which were separated and disclosed under "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss".

21. Debt securities in Issue

	2006 SKK million	2005 SKK million
Bonds in issue	11 055	9 440
less bonds held by the Group	(70)	(10)
Total bonds	10 985	9 430
Bonds in issue - Guaranteed deposit	255	-
Short term debt securities	1 016	345
Total	**12 256**	**9 775**

Bonds in issue are presented in the following table:

	Date of issue	Maturity date	Actual interest rate	Nominal value 2006 MSKK	Nominal value 2005 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	lovember 2009	4.50%	1 100	1 100
Mortgage bonds	March 2005	March 2008	2.70%	400	400
Other bonds	May 2005	April 2009	4.63%*	2 000	2 000
Mortgage bonds	July 2005	July 2008	2.60%	800	800
Mortgage bonds	March 2006	March 2016	5.26%*	500	-
Other bonds	June 2006	June 2010	4.87%*	500	-
Other bonds	November 2006	lovember 2010	5.11%*	600	-
Total nominal value				**10 900**	**9 300**
Accrued interest				155	140
Net debt securities in issue				**11 055**	**9 440**
less bonds held by the Group				(70)	(10)
Total				**10 985**	**9 430**

* Floating rate

All of the bonds shown above are listed and traded on the Bratislava Stock Exchange ('BSE'). As at 31 December 2006, 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 3 636 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. The total amount of these short-term debt securities as at 31 December 2006 was SKK 1 016 million (2005: SKK 345 million).

As at 31 December 2006, Debt securities in issue includes embedded commodity derivatives in the amount of SKK 9 million which were separated and disclosed under "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss".

The group entered into an interest rate swap derivative contract to hedge interest rate risk of half its November 2006 bonds issue.

22. Provisions for Liabilities and Other Provisions

SKK million	2005	Additions	Use	Reversals	2006
Provision for off-balance sheet items	252	169	-	(341)	80
Interest bearing deposit products	70	26	(69)	-	27
Legal cases	369	380	(2)	(253)	494
Sponsoring	66	12	(53)	-	25
Employee benefit provisions	96	49	(11)	(2)	132
Other provisions	146	33	(22)	(31)	126
Total	**999**	**669**	**(157)**	**(627)**	**884**

(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.

(b) Provisions for interest-bearing products

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.

(c) Provision for legal cases

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2006. 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 Income statement.

(d) Sponsoring provision

The Bank 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.

During 2005, part of the sponsoring provision in the amount of SKK 57 million was used for the financing of various sponsoring activities. Sponsoring provision should have been used (according to the privatisation contract) until 2005, but following agreement with the MF SR this deadline was prolonged until the end of 2006.

During 2006, the Bank continued in sponsoring as defined in the privatisation contract and financed activities amounting SKK 41 million. Following the decision of the Ministry of Finance of the Slovak Republic, the period for the usage of the remaining funds designated for this special program in the amount of SKK 25 million was prolonged until year-end 2007.

(e) Long – term employee benefits provisions

During the year ending 31 December 2006, the actuarial calculation based on the projected unit credit method was performed resulting in the final employee benefit obligation in the amount of SKK 132 million (2005: SKK 96 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 2006 there were 4 774 employees at the Bank covered by this program (2005: 4 805 employees).

The amounts recognised in the balance sheet and income statement as at 31 December 2006 are as follows:

SKK million	Pension provisions	Jubilee provisions	Total long-term provisions
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)
Long-term employee provisions at 31 December 2005	**25**	**71**	**96**
New commitments from acquisitions of companies			
Service costs	4	9	13
Interest costs	1	3	4
Payments	(2)	(10)	(12)
Actuarial (gains) / losses	14	17	31
Long-term employee provisions at 31 December 2006	**42**	**90**	**132**

The present value of the defined benefit obligation for the current annual period and previous four annual periods is as follows:

SKK million	Pension provisions	Jubilee provisions	Total long-term provisions
31 December 2002	-	-	-
31 December 2003	-	-	-
31 December 2004	24	84	108
31 December 2005	25	71	96
31 December 2006	42	90	132

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.

	2006	2005
Real annual discount rate	4.37%	3.92%
Annual future real rate of salary increases	2.8%	2.5%
Annual employee turnover	4.41% – 24.59%	3.56% – 16.80%
Retirement age	based on valid law	60 years

(f) Other provisions

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

23. Other Liabilities

	2006 SKK million	2005 SKK million
Other short-term payables to customers related to money transfer	3 074	2 762
Accruals for general administrative expenses	1 270	887
Various creditors	1 193	427
Fair value of hedging instrument	(83)	(55)
Total	**5 454**	**4 021**

24. Equity

Share capital

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

Nominal value	Number of shares	2006 MSKK	Number of shares	2005 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 of the share capital of the Bank.

In 2005, Erste Bank purchased the shares from EBRD representing 19.99% of share capital. As a result, Erste Bank became the 100% shareholder of the Bank as at 10 January 2005.

The distribution of profit is shown in the following table:

	Attributable from the profit for the year	
Dividends per share	2006* MSKK	2005 MSKK
Dividends paid to shareholder from profit for the year (MSKK)	2 224	2 146
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)	**349**	**337**
Amount of dividends per SKK 100 million share (SKK)	**34 890 615**	**33 666 855**

*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 shareholders.

Other funds

Other funds as at 31 December 2006 included only the Statutory fund amounting to SKK 1 177 million (2005: 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.

Hedging reserves

Hedging reserves represent the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. Hedging reserves are disclosed net of deferred tax effect.

Revaluation reserves

Revaluation reserves represent the unrealised revaluation of Securities available for sale. Revaluation reserves are disclosed net of deferred tax effect.

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

25. Net Interest and Investment Income

	2006 SKK million	2005 SKK million
Interest income from:		
Loans and advances to financial institutions	3 178	2 734
Loans and advances to customers	7 939	4 700
Debt securities and other fixed income securities	3 248	4 360
Other interest income and similar income	64	60
Total interest and similar income	**14 429**	**11 854**
Interest expense for:		
Amounts owed to financial institutions	(2 194)	(1 339)
Amounts owed to customers	(3 082)	(2 358)
Debts evidenced by certificates	(444)	(362)
Total interest and similar expenses	**(5 720)**	**(4 059)**
Net interest income	**8 709**	**7 795**
Income from investments in associates	157	120
Net interest and investment income	**8 866**	**7 915**

Income from investments in associates

Company	2006 MSKK	2005 MSKK
Prvá stavebná sporiteľňa, a.s. (PSS)	130	106
Poisťovňa Slovenskej sporiteľne, a.s.	13	9
Erste Corporate Finance, a.s.	9	6
IT Solutions SK, spol. s r.o	6	-
Other	(1)	(1)
Total	**157**	**120**

26. Net fee and commission income

	2006 SKK million	2005 SKK million
Fee and commission income from:		
Payment transfers	2 107	2 066
Lending business	562	605
Securities	526	552
Other fees	154	180
Total fee and commission income	**3 349**	**3 403**
Fee and commission expense for:		
Payment transfers	(197)	(168)
Lending business	(21)	(14)
Securities	(38)	(33)
Other fees	(18)	(4)
Total fee and commission expense	**(274)**	**(219)**
Net fee and commission income	**3 075**	**3 184**

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

	2006 SKK million	2005 SKK million
Provisioning charges	(2 723)	(4 366)
Release of provisions	1 941	3 836
Net provisions for losses on loans and advances (Note 10)	**(782)**	**(530)**
Recoveries of loans written off / other	(2)	(27)
Net provisions released for off-balance risks	172	127
Net provisions	**(612)**	**(430)**

28. Net profit on Financial Operations

	2006 SKK million	2005 SKK million
Foreign exchange gains and currency derivatives	748	625
Interest derivatives	59	5
Trading securities	(35)	(42)
Other	5	(14)
Total	777	574

29. General Administrative Expenses

	2006 SKK million	2005 SKK million
Personnel expenses		
Wages and salaries	2 372	2 304
Social security expenses	638	573
Long term employee benefits	21	(13)
Other personnel expenses	112	165
Total personnel expenses	**3 143**	**3 029**
Other administrative expenses		
Data processing expenses	939	814
Building maintenance and rent	540	411
Costs of bank operations	503	464
Advertising and marketing	337	278
Legal fees and consultation	117	126
Other administrative expenses	213	263
Total other administrative expenses	**2 649**	**2 356**
Depreciation		
Amortisation of intangible assets	363	310
Depreciation	735	792
Total depreciation, amortisation	**1 098**	**1 102**
Total	**6 890**	**6 487**

The average number of employees in the Group was 4 870 and 4 901 in 2006 and 2005, respectively.

30. Other Operating Results

	2006 SKK million	2005 SKK million
Revaluation of securities at fair value, net	112	56
Profit on sale of securities available-for-sale	29	167
Other operating income	180	776
Total other operating income	**321**	**999**
Contribution to deposit protection fund	(267)	(985)
Other operating expense	(327)	(524)
Total other operating expense	**(594)**	**(1 509)**
Total other operating results	**(273)**	**(510)**

Major components of ‘Other operating income’ in 2005 include a 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 the amount of SKK 239 million (see Note 16).

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

31. Income Tax Expense

	2006 SKK million	2005 SKK million
Current tax expense	558	706
Deferred tax expense/ (income) (Note 18)	520	(32)
Total	**1 078**	**674**

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:

	2006		2005	
	SKK million	%	SKK million	%
Profit before tax	**4 943**		**4 246**	
Theoretical tax at income tax rate of 19%	**939**	**19.0**	**807**	**19.0**
Tax effect of expenses that are not deductible in determining taxable profit:				
- Allocation of provisions and reserves	161	3.3	697	16.4
- Other	75	1.5	4	0.1
Total tax effect of expenses that are not deductibl in determining taxable profit	**236**	**4.8**	**701**	**16.5**
Tax effect of revenues that are deductible in determining taxable profit:				
- Release of provisions and reserves	(410)	(8.3)	(740)	(17.4)
- Income from securities	(30)	(0.6)	(48)	(1.1)
- Other	(102)	(1.6)	(46)	(1.1)
Tax effect of revenues that are deductible in determining taxable profit	**(542)**	**(10.5)**	**(834)**	**(19.6)**
Additional tax expense from coupon of bonds	445	9.0	-	-
Tax expense and effective tax rate for the year	**1 078**	**22.3**	**674**	**15.9**

As further described in Note 18, the income tax position of the Bank was significantly affected by changes in Income Tax legislation introduced in 2006. In response to those changes the Bank has recognized deferred income tax liability of SKK 445 million.

32. Earnings Per Share

	2006 SKK million	2005 SKK million
Net profit applicable to ordinary shares (MSKK)	3 865	3 572
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)	**606**	**560**
Basic and diluted profit per SKK 100 million share (SKK)	**60 636 963**	**56 040 163**

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:

	2006 SKK million	2005 SKK million
Cash on hand (Note 7)	4 425	3 582
Nostro accounts with the NBS (Note 7)	853	479
Accounts with other financial institutions repayable on demand (Note 8)	784	288
Repo trades with the central bank treasury bills (Note 8)	57 814	59 738
Total cash and cash equivalents	**63 876**	**64 087**

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 2006 and 2005 are shown in Note 37.

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 2006 and 2005.

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 2006 and 2005.

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 risks, the implementation of insurance strategy, the 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 losses of the Group related to legal cases. Provisions for legal cases are described in Note 22 (c).

36. Off-balance Sheet Items and Derivative Financial Instruments

In the normal course of business, the Group is 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 shipment 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 9) and also treasury commitments:

	2006 SKK million	2005 SKK million
Guarantees provided	3 985	4 600
Guarantees from letters of credit	252	73
Loan commitments and undrawn loans	29 595	26 348
Total	**33 832**	**31 021**

In 2003, the Bank provided a guarantee in the amount of EUR 17 million to Erste Bank for 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 2006.

(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-a-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 counter-parties. 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 two interest rate swaps 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. These 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

	2006			
	Receivables		Liabilities	
	Notional value SKK million	Fair value SKK million	Notional value SKK million	Fair value SKK million
Hedging	**2 766**	**-**	**2 766**	**82**
Total hedging instruments	**2 766**	**-**	**2 766**	**82**
Trading derivatives				
Forward rate agreements (FRA)	19 000	10	19 000	11
Foreign currency forwards	23 727	609	24 100	956
Option contracts	28 271	517	28 372	674
Interest rate swaps (IRS)	50 492	799	50 492	793
Currency interest rate swaps (CIRS)	863	-	1 122	190
Currency swaps	58 077	1 512	57 792	1 244
Total trading derivatives	**180 430**	**3 447**	**180 878**	**3 868**
Total	**183 196**	**3 447**	**183 644**	**3 950**

Negative value of derivatives of SKK 3 950 are presented as ‘Financial liabilities at fair value through profit and loss’.

	2005			
	Receivables		Liabilities	
	Notional value SKK million	Fair value SKK million	Notional value SKK million	Fair value SKK million
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	-
Total trading derivatives	**190 467**	**1 345**	**190 872**	**1 807**
Total	**191 602**	**1 345**	**192 007**	**1 883**

2. Derivatives based on the trading place

	2006			
	Receivables		Liabilities	
	Notional value SKK million	Fair value SKK million	Notional value SKK million	Fair value SKK million
Hedging				
OTC	**2 766**	**-**	**2 766**	**82**
Total hedging instruments	**2 766**	**-**	**2 766**	**82**
Trading derivatives				
Forward rate agreements (FRA)	19 000	10	19 000	11
Quoted	-	-	-	-
OTC	19 000	10	19 000	11
Foreign currency forwards	23 727	609	24 100	956
Quoted	-	-	-	-
OTC	23 727	609	24 100	956
Option contracts	28 271	517	28 372	674
Quoted	-	-	-	-
OTC	28 271	517	28 372	674
Interest rate swaps	50 492	799	50 492	793
Quoted	-	-	-	-
OTC	50 492	799	50 492	793
Currency interest rate swaps (CIRS)	863	-	1 122	190
Quoted	-	-	-	-
OTC	863	-	1 122	190
Currency swaps	58 077	1 512	57 792	1 244
Quoted	-	-	-	-
OTC	58 077	1 512	57 792	1 244
Total trading derivatives	**180 430**	**3 447**	**180 878**	**3 868**
Total	**183 196**	**3 447**	**183 644**	**3 950**

	2005			
	Receivables		Liabilities	
	Notional value SKK million	Fair value SKK million	Notional value SKK million	Fair value SKK million
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
Foreign currency forwards	26 196	294	26 241	330
Quoted	-	-	-	-
OTC	26 196	294	26 241	330
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
Currency interest rate swaps (CIRS)	1 386	5	1 661	213
Quoted	-	-	-	-
OTC	1 386	5	1 661	213
Currency swaps	88 890	318	88 963	402
Quoted	-	-	-	-
OTC	88 890	318	88 963	402
Credit derivatives	852	13	852	-
Quoted	-	-	-	-
OTC	852	13	852	-
Total trading derivatives	**190 467**	**1 345**	**190 870**	**1 807**
Total	**191 602**	**1 345**	**192 005**	**1 883**

3. Maturity analysis

SKK million	2006 Receivables	2006 Liabilities	2005 Receivables	2005 Liabilities
Hedging				
Up to 1 month	-	-	-	-
From 1 to 3 months	-	-	-	-
From 3 to 12 months	-	-	-	-
From 1 to 5 years	1 037	1 037	-	-
Over 5 years	1 729	1 729	1 135	1 135
Hedging – total	**2 766**	**2 766**	**1 135**	**1 135**
Trading derivatives				
Forward rate agreements (FRA)	19 000	19 000	29 702	29 702
Up to 1 month	8 000	8 000	5 502	5 502
From 1 to 3 months	5 500	5 500	5 300	5 300
From 3 to 12 months	5 500	5 500	18 900	18 900
From 1 to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Foreign currency forwards	23 727	24 100	26 196	26 240
Up to 1 month	4 194	4 265	3 438	3 459
From 1 to 3 months	5 262	5 206	3 667	3 696
From 3 to 12 months	11 845	11 981	16 303	16 405
From 1 to 5 years	2 426	2 648	2 788	2 680
Over 5 years	-	-	-	-
Futures - -	-	-		
Option contracts	28 271	28 372	15 291	15 303
Up to 1 month	2 214	2 232	3 220	3 225
From 1 to 3 months	4 401	4 334	4 200	4 193
From 3 to 12 months	13 095	13 379	4 659	4 635
From 1 to 5 years	8 561	8 427	3 212	3 250
Over 5 years	-	-	-	-
Interest rate swaps (IRS)	50 492	50 492	28 150	28 150
Up to 1 month	1 146	1 146	1 714	1 714
From 1 to 3 months	837	837	878	878
From 3 to 12 months	8 025	8 025	3 164	3 164
From 1 to 5 years	27 179	27 179	17 256	17 256
Over 5 years	13 305	13 305	5 138	5 138
Currency interest rate swaps (CIRS)	863	1 122	1 386	1 661
Up to 1 month	-	-	-	-
From 1 to 3 months	262	475	-	-
From 3 to 12 months	170	271	438	500
From 1 to 5 years	431	376	948	1 161
Over 5 years	-	-	-	-

Currency swaps	58 077	57 792	88 890	88 962
Up to 1 month	36 029	35 840	68 925	69 065
From 1 to 3 months	4 776	4 918	9 120	9 125
From 3 to 12 months	15 966	15 827	9 800	9 754
From 1 to 5 years	1 306	1 207	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	**180 430**	**180 878**	**190 467**	**190 870**
Total	**183 196**	**183 644**	**191 602**	**192 005**

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'.

SKK million	EURO	US Dollar	Czech Crown	Other	Slovak Crowns	Total
Cash and balances at the central bank	421	99	120	135	12 271	13 046
Loans and advances to financial institutions	2 120	1 877	145	169	64 799	69 110
Loans and advances to customers	20 770	583	1 804	307	106 056	129 520
Provisions for losses on loans and advances	(265)	(2)	(28)	(1)	(3 979)	(4 275)
Financial assets at fair value through profit or loss	3 301	1 044	2	-	4 963	9 310
Securities available for sale	5 470	-	193	-	20 650	26 313
Securities held to maturity	142	-	-	-	44 557	44 699
Investments in associates and other investments	266	48	17	-	1 039	1 370
Intangible assets	-	-	-	-	2 035	2 035
Property and equipment	-	-	-	-	5 117	5 117
Investment property	-	-	-	-	149	149
Non-current assets held for sale	-	-	-	-	684	684
Current income tax asset	-	-	-	-	177	177
Deferred income tax asset	-	-	-	-	12	12
Other assets	124	19	1	16	481	641
Total assets	**32 349**	**3 668**	**2 254**	**626**	**259 011**	**297 908**
Amounts owed to financial institutions	10 273	2 465	534	284	30 870	44 426
Amounts owed to customers	22 696	2 529	657	907	183 240	210 029
Debt securities in issue	52	27	-	-	12 177	12 256

Provisions for liabilities and other provisions	-	-	-	-	884	884
Financial liabilities at fair value through profit or loss	-	-	-	-	3 950	3 950
Other liabilities	697	96	21	29	4 611	5 454
Current income tax liability	-	-	-	-	5	5
Deferred income tax liability	-	-	-	-	510	510
Equity	97	48	1	-	20 248	20 394
Total liabilities and equity	**33 815**	**5 165**	**1 213**	**1 220**	**256 495**	**297 908**
Net FX position at 31 December 2006	(1 466)	(1 497)	1 041	(594)	2 516	0
Off-balance sheet assets	25 031	22 970	783	6 173	65 713	120 670
Off-balance sheet liabilities	24 885	21 051	1 729	5 829	67 523	121 017
Net off-balance sheet FX position	146	1 919	(946)	344	(1 810)	(347)
Total net FX position at 31 December 2006	**(1 320)**	**422**	**95**	**(250)**	**706**	**(347)**
Total assets at 31 December 2005	26 602	3 037	1 099	426	227 828	258 992
Total liabilities at 31 December 2005	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	-
Net off-balance sheet FX position	400	(20)	626	564	(2 100)	(530)
Total net FX position at31 December 2005	**(4 662)**	**(591)**	**347**	**95**	**4 281**	**(530)**

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 2006 SKK million	Demand and less than 1 month	1 to 3 months	3 months to to 1 year	1 to 5 years	Over 5 years	Unde-fined	Total
Cash and balances at the central bank	13 046	-	-	-	-	-	13 046
Loans and advances to financial institutions	65 876	705	2 363	1	-	165	69 110
Loans and advances to customers	28 580	23 486	23 603	44 424	3 723	5 704	129 520
Provisions for losses on loans and advances	-	-	-	-	-	(4 275)	(4 275)
Financial assets at fair value through profit or loss	1 257	2 356	3 372	936	883	506	9 310
Securities available for sale	5 917	1 340	2 335	11 222	5 486	13	26 313
Securities held to maturity	26 532	29	3 354	4 128	10 656	0	44 699
Investments in associates and other investments	-	-	-	-	-	1 370	1 370
Intangible assets	-	-	-	-	-	2 035	2 035
Property and equipment	-	-	-	-	-	5 117	5 117
Investment property	-	-	-	-	-	149	149
Non-current assets held for sale	-	-	-	-	-	684	684
Current income tax asset	-	-	177	-	-	-	177
Deferred income tax asset	-	-	-	-	-	12	12
Other assets	88	-	240	-	-	313	641
Total assets	**141 296**	**27 916**	**35 444**	**60 711**	**20 748**	**11 793**	**297 908**
Amounts owed to financial institutions	31 856	9 271	1 750	1 534	15	-	44 426
Amounts owed to customers	72 479	29 089	49 461	56 959	-	2 041	210 029
Debt securities in issue	2 357	1 375	1 973	6 551	-	-	12 256
Provisions for liabilities and other provisions	-	-	-	-	-	884	884

Financial liabilities at fair value through profit or loss	652	545	1 312	943	498	-	3 950
Other liabilities	3 014	-	1 945	-	-	495	5 454
Current income tax liability	-	5	-	-	-	-	5
Deferred income tax liability	-	-	-	-	-	510	510
Total liabilities	**110 358**	**40 285**	**56 441**	**65 987**	**513**	**3 930**	**277 514**
Current gap	**30 938**	**(12 369)**	**(20 997)**	**(5 276)**	**20 235**	**7 863**	**20 394**
Cumulative gap	**30 938**	**18 569**	**(2 428)**	**(7 704)**	**12 531**	**20 394**	**-**

As at 31 December 2005 SKK million	Demand and less than 1 month	1 to 3 months	3 months to to 1 year	1 to 5 years	Over 5 years	Unde-fined	Total
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	46 225	10 724	20 037	13 356	1 174	5 412	96 928
Provisions for losses on loans and advances	-	-	-	-	-	(3 624)	(3 624)
Financial assets at fair value through profit or loss	817	974	4 800	542	455	1 418	9 006
Securities available for sale	184	353	586	18 133	5 117	6	24 379
Securities held to maturity	38 428	0	3 307	3 352	6 507	-	51 594
Investments in associates and other investments	-	-	-	-	-	974	974
Intangible assets	-	-	-	-	-	1 265	1 265
Property and equipment	-	-	-	-	-	5 772	5 772
Investment property	-	-	-	-	-	156	156
Non-current assets held for sale	-	-	-	-	-	-	-
Current income tax asset	-	-	-	-	-	-	-
Deferred income tax asset	-	-	-	-	-	13	13
Other assets	15	-	-	-	50	717	782
Total assets	**153 977**	**13 765**	**30 040**	**35 607**	**13 303**	**12 300**	**258 992**
Amounts owed to financial institutions	38 923	3 073	1 413	2 041	26	9	45 485
Amounts owed to customers	90 277	22 196	28 720	35 622	-	735	177 550
Debt securities in issue	2 237	66	172	7 300	-	-	9 775
Provisions for liabilities and other provisions	-	-	-	-	-	999	999
Financial liabilities at fair value through profit or loss	295	183	416	544	445	-	1 883
Other liabilities	2 201	-	1 382	-	-	438	4 021
Current income tax liability	-	-	19	-	-	-	19
Deferred income tax liability	-	-	-	-	-	110	110
Total liabilities	**133 933**	**25 518**	**32 122**	**45 507**	**471**	**2 291**	**239 842**
Current gap	**20 044**	**(11 753)**	**(2 082)**	**(9 900)**	**12 832**	**10 009**	**19 150**
Cumulative gap	**20 044**	**8 291**	**6 209**	**(3 691)**	**9 141**	**19 150**	**-**

(b) Effective yield information

The effective yields of significant financial assets and liabilities by major currencies as at 31 December 2006 and 2005 are as follows:

%	31 December 2006 Average effective interst rate SKK	Average effective interest rate Other	31 December 2005 Average effective interest rate SKK	Average effective interest rate Other
Assets				
Cash and balances at the central bank	1.50%		1.50%	-
Loans and advances to financial institutions	4.05%	2.93%	2.94%	2.07%
Loans and advances to customers	7.39%	4.26%	6.81%	3.66%
Treasury bills and bonds	4.72%	4.79%	4.99%	4.75%
Liabilities				
Amounts owed to financial institutions	4.23%	2.66%	2.66%	2.06%
Amounts owed to customers	1.67%	1.48%	1.31%	0.94%

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 the 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:

	2006 Amount SKK million	Portion of total assets %	2005 Amount SKK million	Portion of total assets %
Cash and balances at the central bank	8 561	2.87%	1 764	0.69%
Repo trades with NBS treasury bills	57 814	19.41%	59 738	23.44%
Loans and advances to customers	2 630	0.88%	4 090	1.61%
Securities portfolios	61 456	20.63%	66 957	26.28%
Total	**130 461**	**43.79%**	**132 549**	**52.02%**

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:

	2006 SKK million	2005 SKK million
Financial assets at fair value through profit or loss	**94**	**627**
Treasury bills	-	493
State bonds denominated in SKK	94	134
Securities available for sale	**20 478**	**20 748**
Treasury bills	-	-
State bonds denominated in SKK	16 640	16 930
Slovak government Eurobonds	3 741	2 334
Companies controlled by the Slovak government	97	1 484
Securities held to maturity	**40 884**	**45 582**
State bonds denominated in SKK	40 172	44 871
Companies controlled by the Slovak government	712	711
Total	**61 456**	**66 957**

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 2006 SKK million	Demand and less than 1 month	1 to 3 months	3 months to to 1 year	1 to 5 years	Over 5 years	Unde-fined	Total
Cash and balances at the central bank	13 046	-	-	-	-	-	**13 046**
Loans and advances to financial institutions	65 745	652	2 275	273	-	165	**69 110**
Loans and advances to customers	10 865	7 624	25 328	39 343	40 607	5 753	**129 520**
Provisions for losses on loans and advances	-	-	-	-	-	(4 275)	**(4 275)**
Financial assets at fair value through profit or loss	787	423	1 148	3 521	2 926	505	**9 310**
Securities available for sale	5 930	1 171	1 422	11 803	5 987	-	**26 313**
Securities held to maturity	832	29	391	32 081	11 366	-	**44 699**
Investments in associates and other investments	-	-	-	-	-	1 370	**1 370**
Intangible assets	-	-	-	-	-	2 035	**2 035**
Property and equipment	-	-	-	-	-	5 117	**5 117**
Investment property	-	-	-	-	-	149	**149**
Non-current assets held for sale	-	-	-	-	-	684	**684**
Current income tax asset	-	-	177	-	-	-	**177**
Deferred income tax asset	-	-	-	-	-	12	**12**
Other assets	88	-	-	-	-	553	**641**
Total assets	**97 293**	**9 899**	**30 741**	**87 021**	**60 886**	**12 068**	**297 908**
Amounts owed to financial institutions	30 928	2 324	2 164	8 995	15	-	**44 426**
Amounts owed to customers	140 526	23 087	32 414	11 961	-	2 041	**210 029**
Debt securities in issue	357	377	1 436	9 586	500	-	**12 256**
Provisions for liabilities and other provisions	-	-	-	-	-	884	**884**
Financial liabilities at fair value through profit or loss	652	545	1 312	943	498	-	**3 950**
Other liabilities	3 014	-	1 945	-	-	495	**5 454**
Current income tax liability	-	5	-	-	-	-	**5**
Deferred income tax liability	-	-	-	-	-	510	**510**
Total liabilities	**175 477**	**26 338**	**39 271**	**31 485**	**1 013**	**3 930**	**277 514**
Current gap	**(78 184)**	**(16 439)**	**(8 530)**	**55 536**	**59 873**	**8 138**	**20 394**
Cumulative gap	**(78 184)**	**(94 623)**	**(103 153)**	**(47 617)**	**12 256**	**20 394**	**-**

As at 31 December 2005 SKK million	Demand and less than 1 month	1 to 3 months	3 months to to 1 year	1 to 5 years	Over 5 years	Unde-fined	Total
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	4 924	**96 928**
Provisions for losses on loans and advances	-	-	-	-	-	(3 624)	**(3 624)**
Financial assets at fair value through profit or loss	241	236	804	4 250	2 057	1 418	**9 006**
Securities available for sale	184	353	434	18 133	5 269	6	**24 379**
Securities held to maturity	10 725	-	2 379	21 356	17 134	-	**51 594**
Investments in associates and other investments	-	-	-	-	-	974	**974**
Intangible assets	-	-	-	-	-	1 265	**1 265**
Property and equipment	-	-	-	-	-	5 772	**5 772**
Investment property	-	-	-	-	-	156	**156**
Non-current assets held for sale	-	-	-	-	-	-	**-**
Current income tax asset	-	-	-	-	-	-	**-**
Deferred income tax asset	-	-	-	-	-	13	**13**
Other assets	30	-	-	-	50	702	**782**
Total assets	**87 531**	**6 933**	**19 615**	**70 115**	**63 001**	**11 797**	**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**
Provisions for liabilities and other provisions	-	-	-	-	-	999	**999**
Financial liabilities at fair value through profit or loss	296	183	415	544	445	-	**1 883**
Other liabilities	2 120	156	1 149	-	-	596	**4 021**
Current income tax liability	-	19	-	-	-	-	**19**
Deferred income tax liability	-	-	-	-	-	110	**110**
Total liabilities	**171 727**	**22 064**	**19 276**	**23 858**	**471**	**2 446**	**239 842**
Current gap	**(84 196)**	**(15 131)**	**339**	**46 257**	**62 530**	**9 351**	**19 150**
Cumulative gap	**(84 196)**	**(99 327)**	**(98 988)**	**(52 731)**	**9 799**	**19 150**	**-**

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 discounted cash flows method.

SKK million	Carrying value 2006	Estimated fair value 2006	Carrying value 2005	Estimated fair value 2005
Financial assets				
Loans and advances to financial institutions	69 110	69 173	67 681	67 554
Loans and advances to customers	125 245	126 538	93 304	94 367
Held to maturity securities	44 699	45 009	51 594	52 216
Financial liabilities				
Amounts owed to financial institutions	44 426	44 512	45 485	45 497
Amounts owed to customers and debt securities in issue	222 285	220 881	187 325	186 865

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(g).

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 25 425 million and SKK 42 791 million of assets as at 31 December 2006 and 2005, respectively, representing securities from customers in its custody for administration including assets managed by Asset Management Slovenskej sporiteľne, a wholly owned subsidiary of the Bank.

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) Transactions with Erste Bank group

Assets and liabilities include accounting balances with the parent bank and companies under its direct control, as follows:

	2006		2005	
SKK million	Erste Bank	Company under control of Erste Bank	Erste Bank	Company under control of Erste Bank
Assets				
Loans and advances to financial institutions	1 613	229	8	10
Loans and advances to customers	-	2 334	-	1 945
Securities held to maturity	-	-	2 012	-
Other assets	8	41	6	24
Total	**1 621**	**2 604**	**2 026**	**1 979**
Liabilities				
Amounts owed to financial institutions	8 718	329	18 029	1 744
Amounts owed to customers	-	408	-	374
Debt securities in issue	-	6	-	-
Other liabilities	8	297	90	118
Total	**8 726**	**1 040**	**18 119**	**2 236**

The Group received a guarantee issued by its parent bank with a maximum value of SKK 4.8 billion (2005: SKK 5.3 billion) covering all the Group'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 (2005: EUR 140 million).

The Group purchased software from Erste Bank in amount of SKK 4 million (2005: SKK 9 million) and from companies under control of Erste Bank in amount of SKK 610 million (2005: SKK 338 million).

On December 21st 2006 the Bank entered into loan contract with its parent company Erste Bank. Based on the contract the Bank can draw EUR 100 million subordinated loan till February 21st 2007 with repayment date on December 21st 2016.

Income and expenses from the parent bank and its subsidiaries include the following:

SKK million	2006 Erste Bank	2006 Company under control of Erste Bank	2005 Erste Bank	2005 Company under control of Erste Bank
Interest income	135	107	73	37
Interest expense	(500)	(55)	(455)	(121)
Net fees and commissions	8	26	7	66
General administrative expenses	(14)	(268)	(34)	(209)
Other operating result	(1)	(6)	(14)	(36)
Total	**(372)**	**(196)**	**(423)**	**(263)**

The Group received dividends from its associates that are under the control of Erste Bank group in the amount of SKK 16 million in 2006 (2005: SKK 0 million).

(c) Transactions with associates of the Bank

Assets and liabilities include accounting balances with the associates, as follows:

	2006 SKK million	2005 SKK million
Assets		
Loans and advances to financial institutions	6	-
Loans and advances to customers	-	-
Total	**6**	**-**
Liabilities		
Amounts owed to financial institutions	11	195
Amounts owed to customers	12	-
Total	**23**	**195**

Income and expenses from the associates include the following:

	2006 SKK million	2005 SKK million
Interest expense	(5)	(14)
Total	**(5)**	**(14)**

The Group received dividends from its associates in the amount of SKK 91 million in 2006 (2005: SKK 90 million).

(d) Transactions with key management personnel

Loans and advances granted to the members of the Board of Directors and Supervisory Board represent SKK 962 thousand and SKK 706 thousand, and liabilities SKK 52.7 million and SKK 3.8 million as at 31 December 2006 and 2005, respectively.

Remuneration of members of the Board of directors and Supervisory board paid out during 2006 amounts to SKK 60.6 million (2005: SKK 58.3 million) which represents short-term employee benefits.

45. Post-balance Sheet Events

Change in income tax legislation

During 2006, legislation governing taxation of income has been amended, resulting in additional tax liability arising from coupon of bonds held by the Group as of 31 December 2003 (both accrued and purchased). This additional income tax liability should have represented an item increasing the tax base of the Group due to be fully settled by the end of 2008. Accordingly, the Group recorded corresponding deferred tax liability of SKK 445 million in 2006.

Subsequently to 31 December 2006, legislation introducing additional tax liability has been revoked by parliament but not yet effective as of the date of these financial statements. It is expected that the full amount of this deferred tax liability of SKK 445 will be released into income in 2007.

Subordinated loan

On December 21st 2006 the Bank entered into a loan contract with its parent company Erste Bank. Based on the contract, the Bank drew EUR 100 million of subordinated loan on February 19th 2007 with repayment date of December 21st 2016.