SLOVENSKÁ SPORITEĽŇA

Member of Erste Group

Annual report 2007

SLOVENSKÁ SPORITEĽŇA

Contents

The company at a glance

Registered office: Suché mýto 4	
816 07 Bratislava	
Slovak Republic	
Identification number (IČO): 00151653	
Legal form: joint stock company	
Line of business: universal bank	
Shareholders as at 31 December 2007:	Erste Bank 100%
Significant participations:	
Asset Management Slovenskej sporiteľne, správ. spol., a.s.	100.00%
Realitná spoločnosť Slovenskej sporiteľne, a.s.	100.00%
Leasing Slovenskej sporiteľne, a.s.	96.70%
Factoring Slovenskej sporiteľne, a.s.	90.00%
Derop B.V.	85.00%
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.	23.50%
Prvá stavebná sporiteľňa, a.s.	9.98%
Contact: Sporotel: 0850 111 888	
www.slsp.sk	
info@slsp.sk	

Ratings of Slovenská sporiteľňa as at 31 December 2007

Fitch Ratings	
Long-liabilities	A
Short-liabilities	F1
Individual rating	C/D
Outlook:	positive
Moody's Investors Service	
Long-term liabilities	A1
Short-term liabilities	P-1
Financial strength	C-
Outlook:	stable

This Annual Report was prepared in accordance with Act on Accounting No. 431/2002 Coll., as amended.

Financial highlights

According to IFRS Prepared in accordance with the International Financial Reporting Standards	as of 31 Dec 2004 (MSKK)	as of 31 Dec 2005 (MSKK)	as of 31 Dec 2006 (MSKK)	as of 31 Dec 2007 (MSKK)
Balance sheet total	238 243	258 992	297 908	303 913
Receivables from banks	63 805	67 681	69 110	34 111
Receivables from clients	62 609	96 928	129 520	156 776
Securities and participations	100 906	84 066	81 692	95 302
Liabilities towards clients	175 094	177 550	210 029	229 996
Shareholders' equity	17 782	19 150	20 394	22 067
After tax profit	3 126	3 569	3 860	4 167

Selected ratios				
ROE	19,7%	19.3%	20.3%	19,82%
ROA	1,4%	1,3%	1,4%	1,45%
Cost income ratio	56,6%	55,5%	54,1%	51,82%
Non-interest income to Operating income	29,8%	32,2%	30,3%	27%
Net interest margin	3,9%	3,2%	3,5%	4,04%
Loans to Deposits ratio	35,8%	54,6%	61,7%	68,16%
Capital adequacy (%)	16,8%	11,4%	9,1%	10,26%

Other figures				
Number of employees	5 040	4 762	4 710	4728
No. of branches	336	302	271	273
No of ATMs	483	519	555	587
No of Payment cards	1 058 565	1 086 318	1 138 466	1 264 215
Year-end SKK/EUR exchange rate	38,8	37,8	34,6	33,6

Results achieved in selected indicators listed in page 6 to 36 comply with Consolidated Financial Statements prepared according to IFRS if not determined otherwise

The Slovak economy in 2007

Record economic growth

The economy grew at a record pace in 2007, with the gross domestic product increasing by 10.4% in real terms. The fast economic growth was related to new production at foreign direct investment enterprises, notably in the automobile and electronic industries. Alongside that was the continuing sharp rise in domestic demand, specifically household consumption and investments. The economic growth was also reflected in the labour market, as the unemployment rate dropped from 13.3% in 2006 to 11.0% in 2007.

Global rise in food prices pushed up inflation

Inflation followed a downward course during the first half of the year, from 3.0% at the outset to an all-time low of 2.3% during the summer months. This favourable development was reversed in the second half, however, as inflation in food prices climbed to 3.4% by the year-end. These changes were global in nature, caused by drought and by higher demand for certain commodities used in the production of biofuels. But despite that, the average 12-month rate of inflation slowed to 2.8% (compared with 4.5% in 2006), owing to a lower rise in energy prices. As regards convergence to the euro area, Slovakia was beginning to meet the inflation criterion in August 2007. The next evaluation of Slovakia's preparedness for euro adoption is due in spring 2008.

Public finances developing in line with the euro adoption plan

Although the general government deficit for 2007 was still not known in January, the Finance Ministry has estimated, on the basis of the available data that it will be below 2.5% of GDP. The gap could be wider if Eurostat requires that the public finances include the debt of the National Highway Company (the estimated impact being 0.2 of a percentage point). Even if that were to happen, the year-end fiscal deficit should come in below the projected budget deficit (2.9 % of GDP), as well as below the threshold required for euro adoption (3% of GDP). The deficit was lower than projected because of the fast-growing economy and higher tax revenues. The budget approved by Parliament for 2008 includes a fiscal deficit of 2.3% of GDP.

Koruna exchange rate stronger again

The koruna attracted substantial investor interest from mid-2006 to April 2007, stemming from a sharp rise in productivity and the increasing probability of euro adoption in 2009. The NBS, however, deemed that the koruna was under excessive pressure to strengthen both at the beginning of the year and after March's adjustment of the ERM II central parity (from 38.4550 SKK/EUR to 35.4424 SKK/EUR). As a result, the central bank made direct interventions in the foreign exchange market, declined to meet demand in two-week repo tenders, and, eventually, cut interest rates. That the koruna later corrected in May and June was also caused by the payment of dividends abroad as well as a deterioration of sentiment in the region. Autumn saw an improvement in sentiment and the koruna began to appreciate again. The second anniversary of the koruna's entry into ERM II came in November, and with it Slovakia met another of the conditions required for joining the euro area. Providing that Slovakia fulfils the requirements for adopting the euro in 2009, the conversion rate should be known by around the middle of 2008.

Koruna strengthening led the NBS to loosen monetary conditions

Because of rapid strengthening of the koruna at the beginning of 2007, bolstered still further by the adjustment of the ERM II central parity, the central bank cut interest rates in the spring. The key two-week repo rate was reduced by a cumulative 50 basis points, to 4.25%, and there were asymmetric cuts in the one-day rates (the sterilization rate was reduced by 100 basis points, to 2.25%, and the refinancing rate by 50 basis points, to 5.75%). Weakening of the koruna in the summer eased the pressure on the central bank. The focus of NBS monetary policy continues to be on meeting the inflation target (year-end harmonized rate of below 2%), as well as the Maastricht inflation criterion.

Top management
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, Ms Ovesny-Straka was appointed Chairperson of the Board of Directors of Slovenská sporiteľňa, a. s., Bratislava, on 4 April 2001. Her responsibilities include retail banking, marketing, communications 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 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 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 Finance Ministry. As financial director of Slovenská sporiteľňa, his responsibilities include controlling and subsidiaries. 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 the flotation of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka, a.s., Bratislava, as a dealer in 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 stayed until 1998, eventually becoming a member of the Board of Directors. In 1998, Mr Krutil moved to the Slovak Economy Ministry, and in December of the same year he was appointed a member of the Board of Directors and Deputy Vice President of Slovenská sporiteľňa, a. s. His responsibilities include financial markets. 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 Comenius University, and went on to study 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 oversees the management of services for small and medium-sized enterprises, large corporate clients, specialized finance, 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.

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 in that year to join the Board of Directors of Erste Bank Hungary. In April 2001, he was appointed a member of the Board of Directors of Slovenská sporiteľňa, a. s. His responsibilities cover payment systems, organization and information technologies.

FRANK-MICHAEL BEITZ

Member of the Board of Directors and Deputy General Manager (since 1 July 2007)

Frank-Michael Beitz is an Austrian citizen and graduate of the Vienna University of Economics and Business Administration. He has worked for Erste Bank since 1984. From 1988 to 1995, he was a chief credit officer at the Erste Bank branch in London. Between 1995 and 1997, he led the International Finance Department in Vienna. From 1997 to 2000, he was head of International Credit Risk Management in Erste Bank, and went from there to Česká spořitelna, where he was a member of the senior management and head of the Credit Risk Management Department. In June 2007, he was appointed to the Board of Directors of Slovenská sporiteľňa. His responsibilities include risk management and the Bank's preparations for the new Basel II capital adequacy regulations. He has for a long time been specializing in the analysis and management of credit risk.

Supervisory board

FRANZ HOCHSTRASSER
Chairman of the Supervisory Board (since 3 May 2007)

PÉTER KISBENEDEK
Deputy Chairman of the Supervisory Board (since 3 May 2007)

BEATRICA MELICHÁROVÁ
Member of the Supervisory Board

EVA STRIEBLIKOVÁ
Member of the Supervisory Board

HERBERT JURANEK
Member of the Supervisory Board

BERNHARD SPALT
Member of the Supervisory Board (since 3 May 2007)

REINHARD ORTNER
Chairman of the Supervisory Board (until 3 May 2007)

ANDREAS TREICHL
Deputy Chairman of the Supervisory Board (until 3 May 2007)

JÁN TRGIŇA
Member of the Supervisory Board (until 3 May 2007)

PETER NEMSCHAK
Member of the Supervisory Board (until 3 May 2007)

ANDREAS KLINGEN
Member of the Supervisory Board (until 3 May 2007)

HEINZ KESSLER
Member of the Supervisory Board (until 3 May 2007)

Statement

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

Dear shareholders, dear clients,

For Slovenská sporiteľňa, the past year was another period of successful growth and development. We achieved a record profit, and the Bank's balance sheet total exceeded SKK 300 billion for the first time ever. There was substantial improvement across a majority of the key financial indicators, with several of them recording double-digit growth. Our preparations for the introduction of the euro remained intensive throughout the year. It gives me particular pleasure that we managed to firmly assert ourselves in the corporate market, taking opportunities to finance prospective business projects.

With two and a half million clients, we are the largest commercial bank in Slovakia, and our leading position has for several years extended to total assets, loans, client deposits, and numbers of points of sale and ATMs. Two figures say it all – net profit was almost SKK 4.2 billion and return on equity represented 19%. Not only did 2007 see a continuing credit boom (the amount of lending rose by 29% year-on-year), it was also a period of increasing liabilities (up to SKK 282 billion). Our clients were offered a new programme called ‚Asset Generation', which is focused on how to save and increase assets and includes a full range of investment options for savings – including life insurance, advantageous savings book products, home savings, and mutual funds. A notable feature of last year was the great demand for structured products through which clients can contribute to the development of selected commodity prices, stock exchanges or exchange rates. It should be noted that we are one of the first banks in Slovakia to have implemented the requirements of the EU's Markets in Financial Instruments Directive (MiFID), as transposed into Slovak law by an amendment to the Securities Act. Slovenská sporiteľňa has once again confirmed that it truly is an expert in savings and the market leader in this area.

Electronic banking for everyday operations is being used by ever more people (485 000 users), as are ATMs and payment cards for shop purchases. As many as 72% of all the transactions recorded in 2007 were made electronically, and the number of payment cards surpassed 1.26 million. Our range of card products was expanded at the end of the year with clients given the option to customize their payment card designs.

Our family of successful subsidiaries gained a new member – Realitná spoločnosť Slovenskej sporiteľne. This company not only carries out conventional real estate activities, but is also engaged in property development activities. It is now selling upmarket flats in Bratislava as a result of its first major project.

Preparations for joining the euro area were a feature of Slovakia in 2007, and they were a special focus of our attention as we strive to ensure that the euro changeover is as seamless as possible for our clients. We focused last year on consistently improving public awareness in this area. Press conferences and seminars on euro preparations were held for our clients, including small and medium-sized enterprises, in each region of Slovakia. These events were very positively received. In the process of adapting for the new currency, it is our bank information system that is experiencing the greatest changes. Our new version of electronic banking was made available as early as April – it shows information on account balances and movements in both koruny and euros (according to the updated exchange rate) and is letting clients get used to the display of figures in the new currency. By signing up to the Banks' Code of Ethics for Consumer Protection, we have undertaken to comply with rules prohibiting unwarranted price increases in relation to the introduction of the euro.

The results of our work and the quality of the services provided by Slovenská sporiteľňa have time and again been praised by reputable publications and institutions. In 2007, we were named „Best Bank in Slovakia“ by Global Finance, „Best Managed Bank in Central and Eastern Europe“ by Euromoney, and as the second most successful bank in Slovakia by the Slovak weekly Trend. For the sixth year in a row, we were the only bank in Slovakia to be commended by Deutsche Bank for the quality of international payments in US dollars. Our overall rating continues to improve and the future outlook is favourable.

For a full picture of our bank, however, it is not enough to look at the financial performance alone. The Slovak public can see for itself our genuine efforts to provide support wherever it is needed. Last year, we were involved mainly in areas of education, charity, sport, regional community development, and culture. It is natural for us to demonstrate the social responsibility of a successful business, and we will not neglect to do so in the future, either.

We are proud that the whole Erste Group has been doing as well as us. It currently employs more than 50 000 employees and provides services to 16 million clients through over 2 700 branches in eight countries, making it the leading financial group in Central and Eastern Europe. The Erste Group brand is a guarantee of the good reputation, high quality and reliability of each of its members.

I cannot forget how sincerely moved I was to be voted manager of the year by the readers of Trend. It confirms my belief that we have come a long way with Slovenská sporiteľňa and that our work and successes have made an impression on clients. None of this would have been achievable without our employees and their efforts to keep on improving. The work of our Bank is highly demanding and I would therefore like to thank our staff for their endeavours in meeting the tasks required of them. I also wish to thank you – our clients and shareholders – for the support and trust that you place in our bank. Although I know that an exceptionally difficult period lies ahead, I am convinced that we will, as we have always done, cope and that next year you will again be satisfied with the results of our efforts. It is a privilege for us to work for you.

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

Report of the Supervisory Board

In 2007, the Supervisory Board of Slovenská sporiteľňa complied with statutory provisions and carried out its tasks arising under the Bank's Articles of Association, the Statute of the Supervisory Board, and the law of the Slovak Republic. For the purpose of streamlining activities and in line with the aims of the newly installed holding management of Erste Group, the Supervisory Board was restructured in the second half of 2007 and its number of members was reduced from nine to six. Its membership was also changed, as stated elsewhere in this report.

The Board of Directors kept the Supervisory Board regularly informed on the Bank's business activities and the fulfilment of its business plan, and it regularly submitted the financial results, reports on the Bank's assets and information about performance of the Bank during the year. The Supervisory Board convened four times in 2007. The topics of its meetings included the consolidated financial statements as at 31 December 2006, the proposal for the distribution of profits, the business plan for 2007, and the report on the Bank's participations. It was kept informed about risk management in the bank and the activities of the Internal Audit Staff Unit, and it approved the plan of IA activities in 2007. The Supervisory Board took decisions on matters falling within its competence in accordance with the Competence Rules of SLSP, and it regularly monitored the Bank's preparations for the euro changeover in the Slovak Republic.

The consolidated balance sheet of Slovenská sporiteľňa as at 31 December 2007 and accompanying consolidated income statements were audited by Deloitte Audit, s.r.o. in accordance with International Financial Reporting 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 as at 31 December 2007.

Considering these facts, the Supervisory Board recommended the General Assembly to approve the Bank's financial statements for 2007 and the distribution of the Bank's profits.

Corporate Governance

The management of Slovenská sporiteľňa, a. s. acknowledges the importance of the Code of Corporate Governance, applies legally binding standards, and adopts appropriate measures in accordance with the OECD's Principles of Corporate Governance.

A key element of the corporate culture in the parent company Erste Bank is the Austrian Code of Corporate Governance. Erste Group takes measures aimed at implementing the code's principles in full and ensuring transparency for all shareholder groups.

The Bank adheres to the Corporate Governance Code of Erste Bank which is its only shareholder, this code is can be found at www.erstebank.at (hereinafter referred to as Corporate Governance Code). Bank governance methods are similar to those of Erste Bank, they can be found at the webpage www.erstebank.at. In 2007, there were no deviations from the Corporate Governance Codex in the bank.

The Erste Group corporate culture includes allowing employees to share in the bank's profits. The opportunity to purchase Erste Bank shares under advantageous conditions has proved very popular.

As for communicating the Bank's results and near-term objectives, employees are kept informed at 'road shows' with top managers, and regular thematic conferences are held for managers. 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 'ideas manager', who collects all suggestions for improvement and is also responsible for their implementation. Employees are also involved in corporate governance through regular independent surveys of the corporate culture and the reflection of their results in the decisions of the Bank's management. In 2007, this survey was for the first time carried out using a consistent methodology throughout Erste Group.

INTERNAL CONTROL AND RISK MANAGEMENT

The Bank has defined principles of internal control system of the bank. Effective internal controls are the foundation of sound risk management, they safeguard bank's assets, help to reduce the chance of significant errors or operational risk events and assist in their detection when they occur. Internal control system is defined as the system, policies, procedures and processes effected by the board of directors or management to safeguard bank's assets, limit or control risks, and achieve bank's objectives. It is closely related to operational risk management, in particular in both risk identification and risk control phases.

Internal Control System has following objectives:

_prevent and detect error, inefficient or wasteful utilization of resources, including their identification
_prevent and detect abuse and fraud, including their identification
_improve efficiency and effectiveness of banking operations
_improve integrity, accuracy, timeliness and reliability of information
_enhance quality of record keeping
_comply with laws, regulations and internal policies

The Board of Directors is responsible for establishing and periodic monitoring and evaluation of ICS. It has to ensure that adequate and effective set of internal controls is in place and well maintained.

Managers on all management levels are fully responsible for the actual implementation of ICS within their organizational units. Managers are accountable for internal controls at the level of execution and may not delegate their responsibilities for internal controls.

Employees are accountable for their work and must adhere to the ICS environment. They perform their work duly in compliance with internal guidelines and applicable law. They contribute to the system by strictly observing the principles of segregation of duties and approval and authorization competences. Employees are required to acknowledge that internal controls are part of their work and responsibility.

Internal audit staff unit represents an integral part of ICS, which is directly reporting to the Supervisory Board of the bank. Internal audit provides for an objective, independent review of bank activities, internal controls, and management information systems to help the board and management monitor and evaluate internal control adequacy and effectiveness. When conducting business activities the bank is exposed to several risks. Among the most significant risks identified are credit risk, market risk, liquidity risk and operational risk. All risks are duly monitored by the bank. Specific risks are described in a separate chapter hereof.

ORGANIZATION OF THE COMPANY

GENERAL ASSEMBLY

As the bank's supreme body, the General Assembly has competence to amend the Articles of Association, to decide primarily 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 appointed by the bank's employees), to approve the ordinary and extraordinary individual financial statements, to decide on the distribution of profits (or settlement of losses) and bonuses, to decide on the winding up of the bank or a change in its legal form, to have the bank's shares removed from trading on the stock exchange, and to decide that the bank will cease to be a public joint stock company.

The Bank complies with statutory provisions concerning the protection of shareholder rights, particularly as regards timely provision of all relevant information on the bank and the convening and holding of its General Assembly.

The Articles of Association include the full description of activities covered by the General Assembly, its authorities and shareholder rights, including the manner that these rights are exercised. Full wording of the Articles in writing is available in registered office of the Bank.

SUPERVISORY BOARD

As the bank's supreme supervisory body, the Supervisory Board oversees how the Board of Directors exercises its powers and how the bank carries on its business activities. The Supervisory Board was restructured in 2007 with its number of members reduced from nine to six. Two thirds of the Supervisory Board's members are appointed by the General Assembly, and one third by employees. The term of office of a Supervisory Board member is five years. Membership of the Supervisory Board may not be substituted. The Supervisory Board held four meetings in 2007. The scope of competences of Supervisory Board mainly include the checks of bank's adherence to generally binding regulations, including compliance with these Articles or with resolutions of the General Assembly, examination of regular financial statements, proposal of profit distribution or loss settlement, Supervisory Board further examines regular status reports on bank's business activities and its assets, submits to the General Assembly and the Board of Directors its opinions, recommendations and submissions for decision, evaluates information submitted by the Board of Directors related to principal business goals of the Bank for the future period. The Supervisory Board of Directors approves in advance selection of external auditor, establishment of any legal entities by the Bank or the appointments for the head of Internal Audit Staff Unit, etc.

The Supervisory Board may establish committees and set the scope of their activities. 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 Competence Rulebook, 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.

Personnel Committee of the Supervisory Board

The Personnel Committee deals with personnel issues relating to members of the Board of Directors, other than their appointment or recall. Its decision-making is governed by principles laid down by the Supervisory Board and the bank'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 IT security and compliance with statutory requirements), and the effectiveness of risk management and internal audit. It also analyses recommendations made by external and internal auditors. In accordance with the applicable law, the composition of the committee was expanded by the addition of an independent member with professional experience in accounting and audit. The Audit Committee convenes on a quarterly basis.

BOARD OF DIRECTORS

As the statutory body, the Board of Directors manages the bank's activities and acts on its behalf. The Board of Directors decides on all matters which are not subordinated to the General Assembly or Supervisory Board by generally binding legal provisions or the Articles of Association. Since 1 July 2007, the Board of Directors has had six members. In order to underline the importance of risk management and to strengthen it, a sixth member was added with responsibility for this area. The bank's risk management model was also changed accordingly. Last year, the Board of Directors held 54 regular meetings. Under the Articles of Association, the Chairperson of the Board of Directors also serves as the General Manager, the Deputy Chairperson of the Board of Directors as First Deputy General Manager, and each member of the Board of Directors is a Deputy General Manager. Members of the Board of Directors are elected by Supervisory Board from among which the Chairman of the Board of Directors is elected by Supervisory Board. The term of office of a member of the Board of Directors is five years.

Members of the Board of Directors are:

Regina Ovesny – Straka, Chairperson of the Board of Directors and General Manager – responsible for retail banking, marketing, communications and human resources.

Štefan Máj, Deputy Chairman of the Board of Directors and First Deputy General Manager – responsible for accounting, controlling, property management and subsidiaries.

Frank - Michael Beitz, Member of the Board of Directors and Deputy General Manager - responsible for risk management and the Bank's preparations for the new Basel II capital adequacy regulations.

Peter Krutil, Member of the Board of Directors and Deputy General Manager – responsible for capital market

Samuel Vlčan, Member of the Board of Directors and Deputy General Manager - responsible for corporate clients and legal services.

Michael Vogt, Member of the Board of Directors and Deputy General Manager - responsible for payment and settlement systems, organization and information technologies.

The Board of Directors may establish advisory committees with delegated tasks and competences; their members are appointed from the members of the Board of Directors and from among the Bank's managers.

ALCO - Assets and Liabilities Committee

The ALCO Committee evaluates and approves the management and control process for financial flows 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.

Members of committee: All Board of Directors members, Head of the Treasury Division, Head of the Retail Acounting and Controlling Division, Head of the Strategic Risk Management Staff Unit, Head of Balance Sheet management Staff unit.

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.

Members of the committee: Chairman of the Board of Directors, Members of the Board of Directors responsible for Capital Markets, Member of the Board of Directors responsible for Corporate Banking, Member of the Board of Directors responsible for risk management, Head of the Credit Risk Management Corporate Division.

Product Pricing Committee (PPC)

The PPC Committee is responsible for the prices at which the Bank and its subsidiaries sell products to clients. Approves the product-pricing strategy of the Bank (interest and fees), receives information on overall development of the structure of bank products, subsidiaries products, and on market position.

Members of the committee: Chairman of the Board of Directors, Deputy Chairman of the Board of Directors, Members of the Board of Directors responsible for Capital Markets, Member of the Board of Directors responsible for Corporate Banking, Member of the Board of Directors responsible for risk management, Head of the Product Management Division, Head of the Treasury Division, Head of the Retail Management Division, Head of the Retail Acounting and Controlling Division, Head of Balance Sheet management Staff unit, Head of Commercial Centre Division, Head of specialized finance, Head of corporate clients department.

IT Committee

The IT Committee coordinates spending on the further development of the Bank's information system and the management of changes in the IS.

Members of the committee: Head of Organization Division, Head of Project and Process Management Dpt., Head of IS Change Management Dpt., Head of Product Management Division, Head of the Retail Management Division , Head of Payments and Settlement Division, Head of Credit Risk Management Division Corporate, Head of Credit Risk Management Division Retail, Director of Accounting and Controlling Division.

Business Committee

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

Members of the committee: All Board of Directors members, Head of the Treasury Division, Head of the Retail Management Division, Head of the Product Management Division, Head of the Retail Acounting and Controlling Division, Head of Commercial Centre Division, Head of Corporate clients Division, Chief Economist of the Company.

Cost Committee

The Cost Committee is responsible for the division of expenditure, mainly on projects, operational costs, and provisions. It oversees the cost-saving strategy, the responsibility of supervisors for budget allocation on a department by department basis, and the keeping of expenditure at or below the level stipulated in the business plan.

Members of the committee: Chairman of the Board of Directors, Deputy Chairman of the Board of Directors, Member of the Board of Directors responsible for Banking Operations, Head of the Retail Acounting and Controlling Division, Head of the Organization Division, head of Property Management Division, Head of Human Resources Division

Security and Operational Risk Committee (SORC)

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

Members of the committee: Member of the Board of Directors responsible for Banking Operations; member of the Board of Directors responsible for Risk management, member of the Board of Directors responsible for Controlling and property management, member of the Board of Directors responsible for Corporate Banking, Head of Organization Division, Head of Retail Management Division, Head of Strategic Risk management Division, Director of Market and Operational Risk Dept., Group Director of IS safety dept.

REGISTERED CAPITAL

Registered capital of the Bank is divided to 2 074 207 pieces of shares by name with par value of SKK 1 000, 42 pieces of shares by name with par value of SKK 100 000 000, and 100 000 pieces of shares by name with par value of SKK 1 000.

Transferability of securities issued by the Bank is not otherwise limited. Qualified share on the registered capital is the exclusive ownership of the Erste Bank company as a 100% shareholder of the Bank. No employee shares were issued by the Bank as of the date on which this Annual Report was compiled. Any decisions that might be taken on bank's registered capital increase or decrease are deemed the exclusive competence of the General Assembly of the Bank. The Bank has not gained any knowledge as to whatever agreements in which the Bank is represented as a party to such agreement, and which come to effect, are changed or validity of which terminates by reason of the change in the control over the Bank that might have arisen from whatever offer submitted with the aim to take over the Bank.

Bank has internal rules based on Labour Code to pay out premium. These are to be paid out in cases of:
-premature termination of function period in Board of Directors and termination of working position by conventions or cancellation submitted by employee (manager) in accordance with Labour Code.

DISCLOSURE AND TRANSPARENCY

The bank strictly observes and complies with legal regulations and corporate governance principles, and regularly provides the parentbank's shareholders and investors with all relevant information on its business activities, financial and operational results, and other material events. For the general public and clients, information on the bank's financial results and strategic progress is disclosed on a regular basis through press conferences and press releases.

All information is prepared and disclosed in accordance with standards of accounting and disclosure of financial and non-financial information.

The bank takes measures to prevent persons in a special relationship to the Bank from misusing internal information in order to secure an unjust profit.

The bank places emphasis on anti-money laundering measures. For that reason, the Compliance unit was promoted to the level of a department that reports directly to a member of the Board of Directors. In addition to the duties already mentioned, the main tasks of the department include overseeing the Bank's internal regulations for compliance with legal regulations of regulatory bodies, and identifying and dealing with fraudulent acts.

The Bank has adopted the Global Compliance Code, which governs 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 into line with the internal standards of Erste Group. The code also reflects the requirement for a 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 a source of information for employees. It is also a practical guide to the application of statutory provisions concerning day-to-day contact with information that could alter the behaviour of market entities. It is, moreover, a point of reference for preventing or solving conflicts of interest between the Bank, employees, management and clients.

Measures arising from the EU's Markets in Financial Instrument's Directive (MiFID) were adopted by the Bank as of 1 November 2007 – as soon as Slovak law allowed. The objective of these changes is to increase the protection of consumers when using investment products and service and to improve the professional care of clients in the field of investment.

RESPONSIBILITY TO CLIENTS AND SOCIETY

Like other members of Erste Group, Slovenská sporiteľňa has for many years been successfully applying the concept of social responsibility. In 2007, the Bank continued to deliver on this strategy through its own sponsorship projects and projects of the SLSP Foundation, as well as by focusing on the quality.
Last year, the Bank focused on community development in the areas of culture, education, sport and charity. Most partnership activities have already become fixtures and are well-received by the Slovak public.
As regards culture, the Bank provides support through cooperation with significant cultural institutions. In 2007, it continued its backing of theatrical productions at the Aréna Theatre and Radošina Naive Theatre, as well as cooperation with several regional playhouses – the Andrej Bagar Theatre in Nitra, the Jonáš Záborský Theatre in Prešov, and the Slovak Chamber Theatre in Martin. Slovenská sporiteľňa also contributes to a deeper appreciation of classical music in Slovakia through its support of the Slovak Philharmonic, the Žilina State Chamber Orchestra, and the Slovak State Philharmonic (Košice). For prospective young classical musicians, Golden Note SLSP is now an established annual award. The Bank is also a long-standing backer of other musical genres – for the past five years it has been a general partner of Bratislava Jazz Days, an annual international festival. The contemporary scene is supported through the now well-established Tranzit project, which has been behind summer artistic workshops, a series of workshops and exhibitions by young artists, and an internship programme for young Slovak artists in Vienna.

In education, the Bank has continued to support the CISCO Networking Academy Programme. Last year, in cooperation with the Slovak Education Ministry, the Bank focused on preparations for a new e-learning project centred on the 'year of the euro'.

As for sport, the Bank continues to be a long-standing sponsor of the Slovak Association of White Water Canoeing and Slovan Tennis Club. Last year, it again supported the oldest mass sporting event in Slovakia – the Devín–Bratislava run. The Bank's selection of projects reflects its awareness of the importance of support for regional communities; over the course of last year, the Bank was involved in several interesting regional sporting events, including the Husky Racing Championship of Central Europe, held at Donovaly, and the Kysucký marathon.

Slovenská sporiteľňa's long-term strategic interest in the development of Slovak society is also being realized through the Slovenská sporiteľňa Foundation, established in 2004. Last year, it provided funding for 155 different activities and initiatives for the public benefit. Secondary school students were offered a grant programme for the development of their education. The main purpose of the grant was to motivate students to take a more active stance towards education and their own school. The results of this activity can now be seen across Slovakia in modern computer-equipped classrooms and revitalized school libraries. The purpose of the Sheltered Housing Grant was, through housing and employment initiatives, to support disabled people in their efforts to live independent and self-reliant lives. An important part of the foundation's activities concern grant programmes for the Bank's employees.

The full support of the Bank's management for all the sponsorship and foundation projects is apparent from their personal involvement in them. For example, managers gave their free time to help refurbish the inside and outside of the Children's Integration Centre in Banská Bystrica. The centre develops activities to support the social integration of children who have physical and mental disabilities and provides professional care for them.

Quality management and the management of client complaints through the ombudsman service represent a significant part of the Bank's responsibility towards clients. Clients address the ombudsman with various submissions, mostly relating to the Bank's business conditions, how information is provided, payment cards, ATMs or the convenience of branch services. In 2007, the ombudsman's staff handled 2,629 complaints, of which 115 were made anonymously. A further 2,794 submissions by SLSP clients comprised payment-related complaints, mostly concerning the return of domestic or foreign payments, the return of fees, the clarification of information on foreign payments, reviews of a payment's processing, the identification of payments, or card operations.

Last year, service quality was again examined using quality measurement and management tools, 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 measuring the satisfaction of internal clients. For 2007, the satisfaction of external clients from the retail segment was recorded at 94.7, and from the SME segment, at 95.1%. Both these indices of external client satisfaction have fluctuated at around 95 for a long time. The service quality index for 2007, measured on the basis of 'mystery shopping', showed a rating of 92.4 for city branches and 91.0 for headquarters. The satisfaction of internal clients is an important precondition for providing a high quality of services to external clients. The quality improvement in internal services was reflected in the rise of the respective index, from 92.4% in 2006 to 92.7% in 2007.

This explanatory report was prepared pursuant to the Article 20 (8) of the Accounting Act.

Hereby, the members of the Board of Directors of Slovenská sporiteľňa, a. s. confirm that the Statement on Corporate Governance of Slovenská sporiteľňa, a. s. (hereinafter referred to only the „Statement“) was prepared with due professional care, and it is based on the best experience and knowledge gained by members of the Board of Directors of Slovenská sporiteľňa, a. s. Information included in this Statement is deemed actual, complete and true as of the date on which this Statement was prepared, and they further declare that any data, neither information is missing in this Statement that could otherwise effect the interpretation hereof.

In the course of 2007, no event was identified that could give rise to whatever event of breach of the Code of Governance of the parent company Erste Bank.

Management report on activities in 2007

REVIEW OF FINANCIAL RESULTS FOR 2007

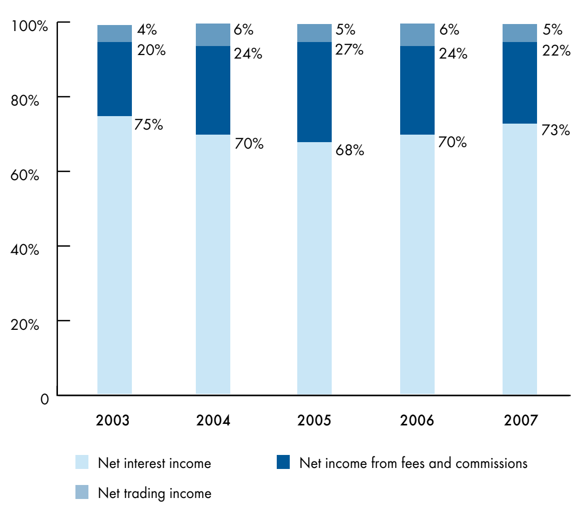
Balance sheet changes

The balance sheet total of Slovenská sporiteľňa surpassed SKK 300 billion for the first time ever; it rose by SKK 6 billion in comparison with the year before, to stand at SKK 304 billion (or 18% of the Slovak banking market). Loans to clients reported the most substantial growth, increasing by as much as SKK 27 billion (21%) to account for more than 52% of the balance sheet total. There were also rises in total deposits, equity and the value of ownership interests in subsidiaries, while securities declined in line with expectations.

Net interest income

The net interest income of Slovenská sporiteľňa rose by SKK 1.8 billion, or almost 21%, year-on-year. 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 61.7% in 2006 to 68.2% in 2007, providing Slovenská sporiteľňa with a good basis for stable growth in interest income. The most substantial increase in this respect was recorded by interest income from clients, which climbed by 20% year-on-year to reach SKK 10.6 billion by the end of 2007.

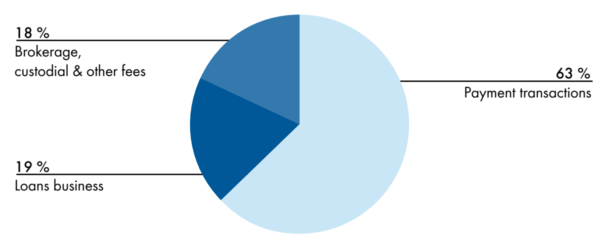
Income structure



Net income from fees and commissions

Net income from fees and commission amounted to SKK 3.2 billion for 2007, representing an increase of 5% year-on-year. Sales of subsidiaries' products were a major source of revenue. Owing to the sharp rise in interest income, net income from fees and commissions accounted for a lower share of the Bank's total income.

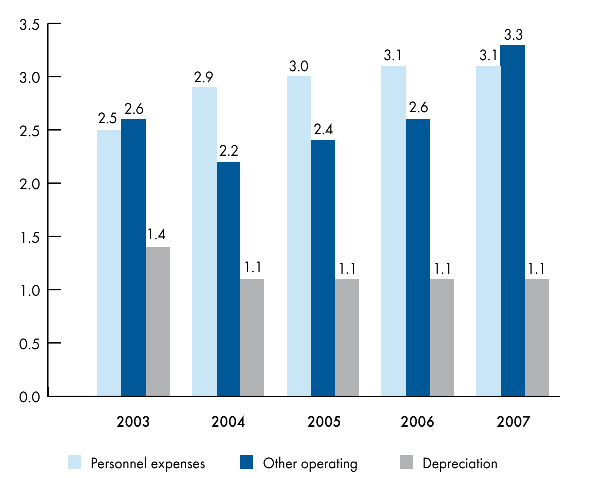
Structure of net income from fees and commissions



General operating expenses

In 2007, general operating expenses of Slovenská sporiteľňa rose by 11% year-on-year. The bank managed to keep the key efficiency indicator – the cost-to-income ratio – down to 51.8% (compared to 54.1% at the end of 2006).

Structure of general operating expenses (SKK bn)



Net profit
Slovenská sporiteľňa made a consolidated net profit of almost SKK 4.2 billion for 2007, representing an increase of SKK 302 million (8%) in comparison with 2006. Higher still (by almost 20%) was the year-on-year rise in operating profit, which exceeded SKK 7 billion.

RETAIL SERVICES

Slovenská sporiteľňa is the clear leader in the Slovak banking market. It has more than 2.4 million private clients, and its services are used by nearly every other person in Slovakia aged over 15. According to market research, it is perceived as the strongest brand in the banking market. Not only does Slovenská sporiteľňa head the traditional market of deposits (whether retail or total), it has for three years held first place in the lending market, even increasing its market share and widening the gap on its rivals.

Development of the branch network
With 273 branches and 587 ATMs, Slovenská sporiteľňa has the most extensive network of branches and ATMs in Slovakia. In 2007, the Bank strengthened this network with the addition of five new branches, located mainly in attractive and easily accessible shopping and commercial centres. A further 16 branches were either completely modernized or transferred to new premises. A new client service model designed to ensure a fast and high-quality service was introduced at the largest branches. Since 2007, the Bank's branches have also been offering clients an intermediation service for securities investments on domestic and foreign stock exchanges.

The SLSP branch network also includes SPOROhousing centres, which specialize mainly in housing loans, financing of property developments, and cooperation with external partners. Clients therefore get a one-stop shop for advice and services. The number of these centres rose to nine in 2007 and there is one in the main city of each region.

The Bank's retail lending increased by one quarter, from SKK 58 billion at the end of 2006 to more than SKK 70 billion at the end of last year. Housing loans are traditionally the most popular, and last year they surpassed SKK 42.4 billion and represented more than 60% of the total amount of loans. The amount of consumer loans rose by 8% year-on-year, to total almost SKK 22,5 billion. In 2007, Slovenská sporiteľňa provided almost 75,000 consumer loans, over 12,000 thousand housing loans, and almost 61,000 authorized overdrafts. The total amount of private loans newly provided in 2007 was SKK 25 billion.

Slovenská sporiteľňa saw private deposits rise sharply in 2007. Clients saved a total of SKK 149,4 billion with our Bank, representing an increase of 13 % on the previous year.

PRIVATE LOANS

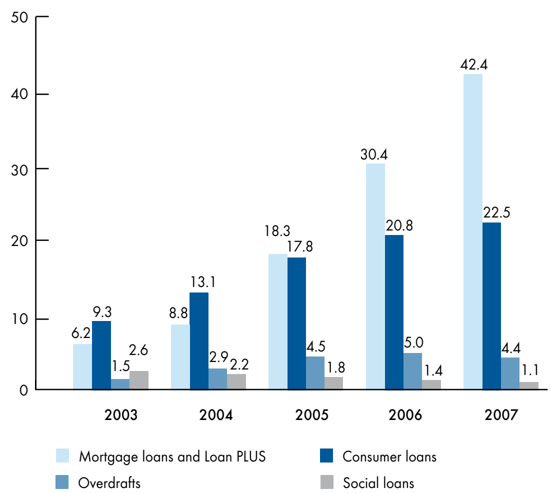
Housing loans
In 2007, new housing loans granted by SLSP amounted to SKK 13 billion, representing an increase of 17% year-on-year. The higher interest in house financing was supported by the preferential mortgage rate for young people, which applied to 6.1% (SKK 800 million) of the total amount of housing loans. The average housing loan increased by SKK 200 000 to SKK 1.1 million.

Also last year, Slovenská sporiteľňa continued the successful expansion of its activities in private financing and property development projects. In this area, it granted private loans amounting to SKK 700 million, or 17% more than the year before. SLSP's share of the housing loan market is now more than 30%.

Consumer loans and credit cards
As regards consumer loans, including the American Mortgage and any purpose consumer loans, Slovenská sporiteľňa has a market share of 35%. Last year, it granted new consumer loans worth SKK 10 billion. Since May 2007, the American Mortgage and CreditPLUS for housing have also been offered in euros. These loans, however, account for less than 1% of loans secured by real estate. Credit card loans numbered almost 51 000 and amounted to SKK 1.1 billion in 2007, which represents 3.5 times as many and 2.5 times as much as in 2006.

Revolving products
Almost 61 000 authorized overdrafts were granted in 2007, amounting to SKK 1 billion in total. A new product was the so-called "starting facility – authorized overdraft", available to clients who credit at least SKK 5,000 per month to their account.

Retail lending (SKK bn)



DEPOSIT PRODUCTS

Private deposits

Slovenská sporiteľňa regularly introduces new products for discriminating clients. It is therefore managing an increasing amount of funds from private clients. Last year confirmed the Bank's correct course in the modernization and diversification of the deposits portfolio, which is reflected in the creation of new products and the updating of existing products. The Bank also uses the products of Asset Management and Poisťovňa Slovenskej sporiteľne, in order to provide a comprehensive answer to clients' requirements.

For clients interested in products with a guaranteed principal and guaranteed income, the Bank offered seven issues of guaranteed products, including one bond and others in deposit form. For 2007, the total amount invested in these products was almost SKK 5.5 billion.

Retail deposits totalled SKK 149.4 billion and accounted for 64.9% of all the deposits held with the Bank. The amount of retail deposits rose by SKK 17.2 billion, year-on-year, or almost 13%. The main factor behind this growth was the higher interest rates on all the Bank's products and the shifting of investments from higher-risk to more conservative products (time deposits and savings books).

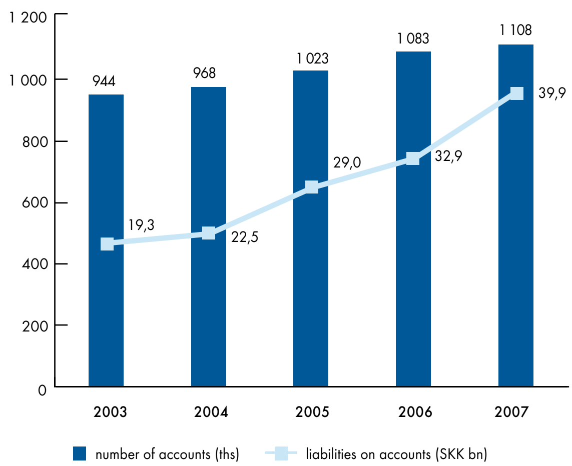
Current accounts

Both the number of current accounts and the amount of funds held in them rose in 2007. As at the year-end, the Bank reported retail account holdings of SKK 39 billion, an increase of 21% year-on-year.

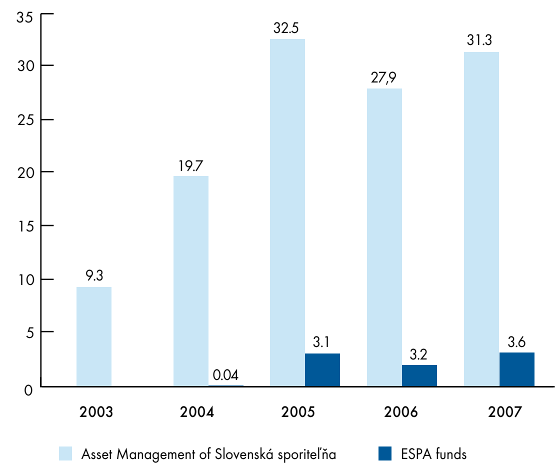
Slovenská sporiteľňa offers clients a full range of accounts. Apart from the standard SPOROgiro account, there are various packages of products and services tailored to specific groups of clients and separate types of accounts for young clients (up to 26 years), undergraduates and seniors. A feature of 2007 was the increasing uptake of product packages, the number of which rose by 86%. On average, clients made twice as many transactions through product packages as they did through standard accounts.

Clients are making increasing use of accounts for non-cash transactions most suited to their needs. This can be seen in the fact that 97% of current account holders use a payment card and 40% of clients use electronic banking services. This favourable development in product packages includes the utilization of authorized overdraft facilities, which are now activated for 35% of all accounts. That upward trend is undoubtedly supported by the competitive range of products and services; these are designed to meet client requirements, especially by not restricting clients in the number of transactions included in the package price and by allowing them unrestricted access to their accounts.

Personal accounts (thous.)



Net asset value of mutual funds (SKK bn)



Mutual funds

At the beginning of the year, developments in world capital markets reflected a positive mood, but then the public gradually became aware of turbulence in the US mortgage market. Given the global character of financial markets, developments in the US financial market gradually had repercussions in other regions, too. Among SPORO funds, the most affected by the situation in global capital markets were the Global Equity Fund of Funds and mixed funds. Through an active approach to the managed portfolios, these effects were successfully eliminated. The performance improvement of the SPORO Koruna Money Market Fund and the SPORO Koruna Bond Fund was supported by the consolidated situation in the domestic money and bond market.

New investment opportunities were presented to our clients in 2007. For investors inclined towards the real estate segment there was SPORO realty fund and for those attracted to equity investments but reluctant to undertake a higher investment risk, there was SPORO guaranteed income fund. In 2007, our range of products was expanded to include SPORO plan, a unique product in the Slovak market which is designed to maximize profits by long-term regular saving.

Insurance

Poisťovňa Slovenskej sporiteľne has been operating in the life insurance market for five years. Several of its original strategic objectives have already been fulfilled. Its success in becoming a trusted and highly professional financial institution is confirmed by more than 140 000 clients. The financial results are another achievement, with the bank reporting profits since 2005 and a profit of SKK 97 million for 2007.

Last year, after several years of success in single-payment products, Poisťovňa Slovenskej sporiteľne began devoting more attention to regular-payment products, which are important from the view of long-term stability. In comparison with the previous year, the amount of new regular-payment products increased by 76%. The total amount of new products stood at SKK 674 million, of which 56% was accounted for by investment life insurance products newly included in the product portfolio. Premiums written came to SKK 838 million.

Client care

As for ensuring high-quality client care, Slovenská sporiteľňa strictly applies a concept of differentiated care for the particular needs of clients from different segments. This is reflected in the preparation and training of employees, so as to ensure that they can meet clients' needs and expectations quickly, competently and in such a way as to strengthen the relationship between the client and the Bank.

To reinforce the Bank's active approach to client care, proactive communication with clients has been stepped up though targeted offers of products and services tailored to client needs. With Asset Generation – a new programme focused on long-term saving and investment – the Bank is offering clients informed advice that respects their stance towards risk. The implementation of technological solutions has improved the quality of the Bank's approach to client information, resulting in services which are faster and are based on a comprehensive knowledge of client needs and possibilities.

Central Claims and Investigations Management Group

The client care provided by Slovenská sporiteľňa also includes the handling of complaints. Last year, SLSP accepted and dealt with 3,562 submissions, of which 2,794 were made by clients of Slovenská sporiteľňa. These mostly concerned the return of domestic or foreign payments, the return of fees, the clarification of information on foreign payments, review's of a payment's processing, the identification of payments, or card operations.

TRANSACTION BUSINESS

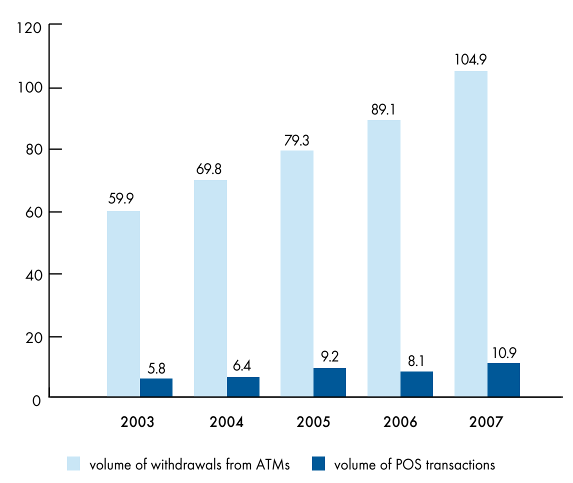
Transactions and sales channels

Transaction business is one of the Bank's most prospective activities. Non-cash transactions are becoming increasingly popular among clients, because of their simplicity and convenience (as well as the fee advantage).

By the end of 2007, 485,000 clients were using at least one electronic banking service, which represents an increase of 28% on the previous year. Furthermore, electronic banking services were being used more intensively, as shown by the rising number of electronic banking transactions (up by 27% year-on-year), payments through POS terminals (27%) and ATM payments (7%). The most used of SLSP's electronic banking services is Internetbanking, which recorded an increase of 33% year-on-year. There was a substantial rise in both number and amount of transactions.

Although Slovenská sporiteľňa does not issue the most payment cards, the cards it issues are the most frequently used (its cards were used to make almost 49 million transactions in 2007, representing a rise of 13.5% compared to the year before) and these transactions are also the market leader in terms of their amount. Electronic banking is therefore spreading in regard to both domestic and foreign payments. The proportion of domestic payments carried out this way increased from 64% in 2006 to 71% last year, and the share of foreign payments, from 66% to 73%. As regards, 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 rate of growth last year was 30%.

Transaction cards of Slovenská sporiteľňa (SKK bn)



SMS key

At the end of 2007, Slovenská sporiteľňa launched the SMS key, a security device for authorizing electronic banking transactions (Internetbanking, Databanking, Sporotel). The SMS key offers clients a greater degree of security, convenience and simplicity, not to mention higher limits, when making transactions through electronic banking.

Payments and settlement

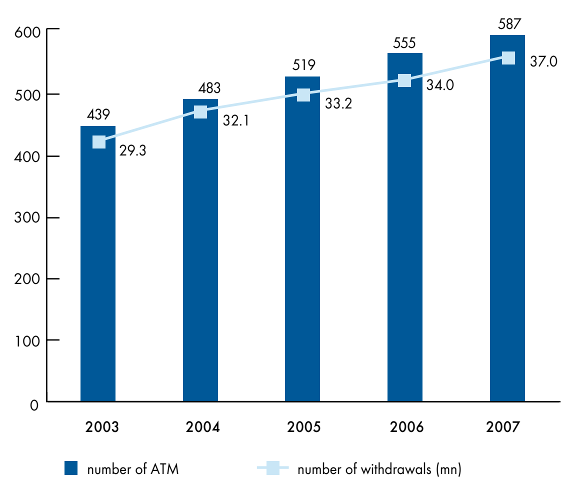
As regards securities, Slovenská sporiteľňa mediates securities investments in both domestic and foreign stock exchanges through the branch network.

MULTIPLE SALES CHANNELS

ATM network

In 2007, Slovenská sporiteľňa analysed ways to refine the operation of ATMs and successfully implemented a specific software modification aimed at improving the accessibility of ATM services for clients. By the end of last year, it was operating 587 ATMs, an increase of 5.7% year-on-year. SLSP therefore continues to have the largest ATM network in Slovakia, and its share of all ATMs stands at 27%. The amount of cash withdrawals rose by 17,7% to more than SKK 104,9 billion. The average withdrawal was more than SKK 2,800 per transaction. A total 61.3 million ATM transactions were carried out, and the number of cash withdrawals increased by nearly 9%.

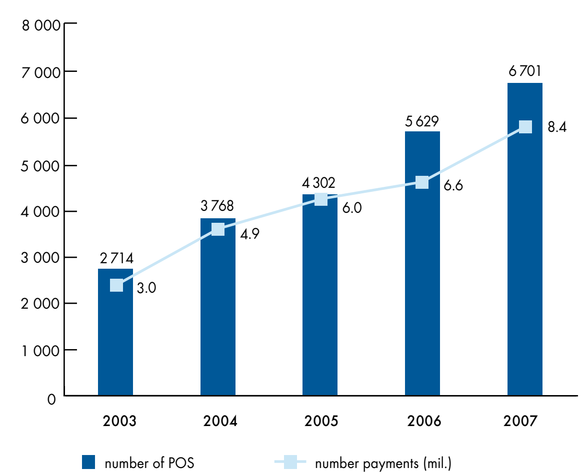
ATMs of Slovenská sporiteľňa



POS terminals

In 2007, Slovenská sporiteľňa finished implementing smart applications in all of its POS terminals. The POS terminal network continued to expand, with the number of terminals increasing by 19% year-on-year and comprising 6,701 units by the year-end. Almost 8.5 million transactions were carried out through the Bank's POS terminals in 2007, representing an increase of more than 27% in comparison with 2006. By the year-end, the amount of these transactions had exceeded SKK 10.8 billion, representing an increase of 34% year-on-year. In 2007, Slovenská sporiteľňa held its 25% share of the total POS terminals installed on the market.

POS terminals of Slovenská sporiteľňa



Card transactions

In 2007, Slovenská sporiteľňa maintained its dominant position in the Slovak card market. At the year-end, the overall number of payment cards issued stood at 1,264,215, representing an increase of almost 11% compared to 2006. The Bank continued to be the market leader in debit cards, the number of which rose by 9%. Towards the end of year, SLSP introduced the Own Card service for its debit cards, thus enabling clients to create their own designs and place them on the debit card. The portfolio of revolving cards was expanded to include VISA cards. In 2008, Slovenská sporiteľňa is preparing for the migration of the whole of its card portfolio to smart cards, as well as working on several products and projects to consolidate its dominance of the Slovak card market.

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 increased by more than 22% year-on-year, and the number of e-mails processed rose by 89%. Last year saw the call centre launch centralized processing of client requests made through electronic channels. This is another step towards the centralization of Sporotel's back-office operations for electronic channels. A significant part of Sporotel's activities in 2007 comprised support for credit card sales of Slovenská sporiteľňa.

SME SERVICES

Among banks serving the segment of small and medium-sized enterprises (SMEs), Slovenská sporiteľňa continued to improve its market position in 2007. Its lending to this segment increased by 25% year-on-year, to SKK 32.4 billion, while the amount of SME deposits held with the Bank rose by 15%.

The sectoral structure of clients is undergoing an interesting development. Where SLSP maintains a very strong position is in the financing of companies in the industries of mechanical engineering, tourism, and agriculture and in financing of real estate projects. A substantial increase was recorded in the number of clients using deposits and payments, especially in the segments of retail and local authorities, as well as specific client groups such as housing associations and apartment construction cooperatives.

SMEs are served by Slovenská sporiteľňa through nine Commercial Centres and five other points of sale. The business network was expanded last year with the addition of a new point of sale in Senica. The contact point for foreign clients is the International Desk, a multilingual service which provides all necessary information on SLSP's services, as well as services of other banks in the Erste Group.

CORPORATE BANKING

Large corporate clients

In a strongly competitive environment, Slovenská sporiteľňa managed to maintain in 2007 the leading position that it acquired in 2006. Apart from financing, SLSP's biggest strengths last year were services related to trade financing, treasury, payments, and high-quality electronic banking. Other services were also more prominent than in previous years, especially specialized finance services, demand for which reflects the increasing amount of investment projects in the Slovak market.

Slovenská sporiteľňa managed to increase its lending to large corporates to SKK 31.8 billion (a rise of 19% on 2006), and the monthly average amount of lending also rose, to SKK 28.5 billion. This positive trend reflects cooperation with the existing client base in the context of a growing economy – clients made greater use of existing credit limits, came up with new investment projects, and, last but not least, took advantage of synergetic effects within Erste Group. While retaining key partners in the telecommunications and automobile industries, among state institutions, and in transportation, the Bank also gained other significant clients from the steelmaking, engineering and wood-processing industries.

As for liability transactions, the average monthly balance increased to SKK 15.4 billion, with a year-end figure of SKK 12.1 billion. There was again an increase in new current accounts, mainly foreign currency accounts, which indicated the globalization of trade activities of our export-oriented clients as well as clients' preparations for Slovakia's expected entry into the euro area in 2009.

Specialized finance and project financing

In 2007, Slovenská sporiteľňa increased its assets under project financing to SKK 9.5 billion. It was involved in major acquisitions (mergers), management-buy-outs, greenfield projects and syndicates, which were in the industries of energy, engineering and leisure (aqua parks). SLSP also made a large contribution to trade and export financing – guarantees issued by the Bank in 2007 amounted to SKK 2 billion, and the amount of open documentary credits came to SKK 1.5 billion.

In terms of real estate financing, Slovenská sporiteľňa increased its credit portfolio by 29%, to SKK 13.9 billion, and is now one of the top two banks in Slovakia in this area. The portfolio in 2007 was dominated by apartment construction projects in Bratislava, as well as, for example, in Žilina and Trnava. The Bank's focus was on shopping centres in larger urban centres, including Bratislava, where it financed the enlargement of the biggest shopping centre in Slovakia.

FINANCIAL MARKETS

Trading in financial markets
Slovenská sporiteľňa had a 13% share of the money market for 2007, measured by total turnover of interest rate instruments and their derivatives. In this respect, it maintained second position among banks in Slovakia (according to data provided by the NBS).

Capital market trading
The market capitalization of the Bratislava Stock Exchange (BSSE) increased by 4.7% in 2007, to SKK 609 billion, while total turnover on the bourse represented SKK 706 billion. The bond market accounts for the largest share of the BSSE's market capitalization. In terms of transaction turnover on the BSSE, Slovenská sporiteľňa ranked second in 2007 with turnover of SKK 177 billion and a market share of 25%. The majority of the transactions were in bonds.

Primary issues of securities
As regards the primary market for domestic corporate bonds, Slovenská sporiteľňa had a share of almost 44% in that market after placing securities worth SKK 2.5 billion. Together with its own issues of mortgage bonds, an issue of structured bonds for retail clients and issues of bank bonds intended mainly for institutional investors, the Bank issued (or arranged the issue for institutional investors) of securities worth around SKK 7.3 billion. In terms of investment services, the Bank continued to mediate securities transactions and make mandatory takeover bids for its clients.

Financial product sales
In seeking to meet client requirements, Slovenská sporiteľňa continued to expand its portfolio of investment products and financial services for all client segments in 2007. The range of hedged products that include a principal guarantee and are placed through the branch network exceeded SKK 5 billion. Slovenská sporiteľňa also made it possible, in accordance with the MiFID Directive, for all clients to invest in world stock markets from any point in the branch network. In the segment of financial institutions and other enterprises, Slovenská sporiteľňa saw sales of financial services rise by 22% year-on-year. For selected clients, the services were expanded to include hedge products for commodity and greenhouse gas prices.

HUMAN RESOURCES

Several changes were initiated in human resources in 2007, mainly regarding the strategy for remuneration, performance management, development programmes, and the induction of new employees.

The Bank devoted particular attention to the efficiency of employee recruitment in the branch network as regards the induction process for new staff. The main objective was to speed up and standardize the recruitment of branch employees by decentralizing selection processes for selected groups of front-office staff. The harmonization of the induction process included steps aimed at streamlining the induction of new employees and their training in banking products and systems, as well as at sustaining their motivation.

Throughout 2007, Slovenská sporiteľňa was actively preparing employees for the euro changeover; much attention was paid to setting up the training that will be required in 2008 when the euro preparations reach their climax. The Bank also continued with standard training programmes. Last year, employees underwent an average of 6.4 days of training, which was about the same as in the previous year.

As for international cooperation, there continued to be intensive cooperation with Erste Group in the identification and development of talent and in regard to employee mobility within Erste Group. As a result, several specialists are working on international projects across Central Europe and another group of specialists have taken up positions at the incipient Erste Holding in Vienna.
Slovenská sporiteľňa made improvements in performance management systems, focusing on groups of employees who support or provide front-office services. At the same time, the performed evaluation system for front-office staff in the retail network was revised. Both system changes were put into operation in 2008.

In terms of providing employee benefits, Slovenská sporiteľňa has long been among the best rated employers. Among the most valuable benefits is the programme offering employees favourably priced shares in Erste Bank and programmes designed to provide support for retirement or for employees in difficult circumstances.

Slovenská sporiteľňa had 4,728 employees at the end of 2007, being 18 more compared with the previous year. The share of employees with higher vocational or university education increased slightly in 2007. The average age of employees stood at 38.88 years, and the proportion of female employees remained unchanged at 81%.

The voluntary staff turnover rate increased slightly (from 7.2% in 2006 to 9.4%), which reflected the general situation in the labour market. The number of applications for employment at Slovenská sporiteľňa rose by 20% in comparison with the previous year. The number of visitors to the careers page of the SLSP website was higher than that recorded by any other bank.

Risk management in 2007

The Bank's business activities bring exposure to several risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. The Bank is paying due attention to them and has produced a risk management strategy approved by the Board of Directors.

Organization of risk management

With effect from 1 November 2007, risk management is organized through the following units:
_the Strategic Risk Management Staff Unit,
_the Retail Credit Risk Management Division,
_the Corporate Credit Risk Management Division, and
_the Financial Crime and Compliance Department.

The Bank has established several committees that fulfil an important role in relation to risk management:
_the Credit Committee,
_the Assets and Liabilities Committee (ALCO),
_the Operating Liquidity Committee (OLC), and
_the Security and Operational Risk Committee (SORC).

Credit risk

In 2007, Slovenská sporiteľňa continued its intensive preparations for the introduction of the new Basel II rules on the capital adequacy of banks. These efforts were brought to a culmination at the end of the year by submitting the application for approval of the IRB approach as a tool of credit risk management.

The Bank has improved its rating system for private and corporate clients. The introduction of a behavioural rating for private clients represents a major new step, as does the use of statistical methods to upgrade models for corporate clients. The cornerstone of the lending process in Slovenská sporiteľňa is the risk assessment (using rating tools) and the rating assignment. The final rating has a major influence on the lending decision and on the amount and price of the loan.

When granting a loan, the Bank proceeds in accordance with the lending policy approved by the Board of Directors. This sets out the procedures, principles and hierarchy of competences in relation to lending activities. The detailed procedures and allocation of responsibilities are defined in the Bank's internal regulations. Since 2005, the Bank has been using a methodology for the creation of provisions which complies with International Financial Reporting Standards.

The credit portfolio increased by 21% in 2007, from SKK 130 billion to SKK 157 billion. That growth was driven mainly by sales of loans secured by real estate collateral. Their share of the total portfolio came to 27.5%.

Market risk

For the purposes of risk management, Slovenská sporiteľňa uses an internal model based on a value-at-risk methodology. Estimated by a historical simulation method, the VAR expresses the maximum loss over a position-holding period of one day that would be incurred on the portfolio in 99% of cases. The VAR is computed on a daily basis for each traded instrument at the trading desk level, as well as 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 scenarios are designed in cooperation with the Market Research Section so as to reflect the current market situation. They 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, moreover, back-tested on a daily basis using not only the basic regulatory back testing, but also advanced techniques (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 banking 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. Responsibility for the operational management and analysis of the Bank's liquidity situation lies with the Operating Liquidity Committee. Day-to-day liquidity management and compliance with minimum reserve requirements are ensured by the Treasury Division. Liquidity risk is quantified in accordance with the NBS Decree on the 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. As at the end of 2007, the ratio of the fixed and illiquid assets to the Bank´s own funds and reserves, in accordance with regulatory requirements, was approximately 0.75. The Bank has an adequate level of liquidity.

Operational risk

In 2007, the Bank continued to prepare for the transition to the Advanced Measurement Approach (AMA) in accordance with Basel II. As a result, certain aspects of operational risk management were expanded.

The analysis of scenarios represents a significant way in which the Bank supplements the measurement of operational risk. For designing scenarios, the Bank uses an external database of losses arising from operational risk (ORX). These external data are compared with an internal database and estimates made by experts during risk mapping. In this way, the Bank has defined several scenarios with which to complete its risk profile. The scenarios are quantifiable and are entered directly into calculations of the capital charge for operational risk.

As regards continuity management in business activities, the Bank has been proceeding in accordance with the policy and implementation plan approved in 2006. Last year, the Bank's key and priority activities were identified through an analysis of how the Bank's business activities are affected and by a risk analysis. Solution architecture was subsequently adopted in order to define renewal strategies for particular priority activities. Specific renewal plans for these activities started to be formulated toward the end of the year. The plan formulation phase for particular activities will be implemented on a regular basis in the years ahead.

In addition, the Bank has a fully functional system for collecting internal data on operational risk losses, which has been in place since 2004. Slovenská sporiteľňa is also part of a group-wide insurance programme that covers property damage and other losses arising from operational risk. The Board of Directors is kept informed about operational risk developments on a quarterly basis.

Money laundering risk

Among the activities aimed at mitigating the Bank's exposure to money laundering and reputational risk, the most important last year included monitoring of the operations whereby unusual business transactions are reported through the "ALCHEMIST" application. These were then analysed and evaluated, and the relevant measures were adopted.

As part of prevention activities in 2007, all city branches were subjected to control measures focused on compliance with obligations arising from the Anti-Money Laundering Act and with AML processes.

As scheduled, employees underwent professional training according to target groups. At the end of the year, all employees were tested for their knowledge in the given matter. The relevant methodological aid and professional training were also provided to subsidiaries.

Objectives for 2008

Make investment products a pillar of further development

Having a strong position in deposit products is a precondition for stability, especially at times of turbulence in financial markets. Slovenská sporiteľňa has many years of experience and unsurpassed know-how in asset management, and it will therefore do everything it can – including using the Asset Generation programme – to utilize this strength.

Use the good times to invest in the future

Slovakia is now going through good times according to all economic measures, and this is reflected in the banking sector and in the results of Slovenská sporiteľňa. Our aim is to take advantage of this situation so that we are well prepared for the future – whether in the form of the euro changeover, the relocation of the headquarters to a new building, or a new information system.

Become a bank where the euro is at home

The Bank should cope in advance with the demanding preparations for the euro, while at the same time helping clients in their preparations. We want to be a source of information about the euro and about everything related to the changeover to the new currency – to make it as simple and straightforward as possible for clients.

Achieve a return on equity of more than 20%

Capital is to be used effectively by increasing the share of loans in the balance sheet total and thereby keeping the promise made to shareholders and investors. Maintaining a stable return on equity attests to the Bank's good financial condition and its ability to provide shareholders with a predictable return on their investments.

Surpass market growth in lending

The scope for expanding market share in the retail and corporate segments is to be exploited. The lending market will continue to grow, and we see the mortgage segment as particularly promising. Having the largest client base, an extensive sales network and a wealth of experience creates good preconditions for stabilizing our position as market leader.

Consolidated Financial Statements

prepared in Accordance with International Financial Reporting Standards for the Year Ended 31 December 2007

and Independent Auditors' Report

Independent Auditors' Report

Deloitte.

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Slovenská sporiteľňa, a.s.

INDEPENDENT AUDITORS' REPORT

To the Shareholder 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 2007, 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 2007, 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 14 February 2008

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

Mgr. Renáta Ihringová, FCCA
Responsible auditor
Licence SKAu No. 881

Audit. Tax. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Consolidated Income Statement
For the Year Ended 31 December 2007

SKK million	Note	2007	2006
Interest income	6	16 726	14 429
Interest expense	6	(6 186)	(5 720)
Income from investments in associates	6	146	157
Net interest and investment income		**10 686**	**8 866**
Provisions for losses on loans, advances and off-balance sheet credit risks	8	(1 421)	(612)
Net interest and investment income after provisions		**9 265**	**8 254**
Fee and commission income	7	3 592	3 349
Fee and commission expense	7	(353)	(274)
Net fee and commission income		**3 239**	**3 075**
Net profit on financial operations	9	708	777
General administrative expenses	10	(7 628)	(6 890)
Other operating result	11	(942)	(273)
Profit for the year before income taxes		**4 642**	**4 943**
Income tax expense	12	(475)	(1 078)
Net profit for the year after income taxes		**4 167**	**3 865**
Net profit attributable to:			
Equity holders of the parent		4 167	3 860
Minority interest		-	5
Total		**4 167**	**3 865**
Basic and diluted earnings per share per SKK 1 000 share (SKK)	**32**	**654**	**606**
Basic and diluted earnings per share per SKK 100 million share (SKK)	**32**	**65 374 961**	**60 636 963**

The notes on pages 46 to 121 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 14 February 2008.

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 Balance Sheet
As at 31 December 2007

SKK million	Note	2007	2006
ASSETS			
Cash and balances at the central bank	13	12 502	13 046
Loans and advances to financial institutions	14	34 111	69 110
Loans and advances to customers	15	156 776	129 520
Provisions for losses on loans and advances	16	(5 410)	(4 275)
Financial assets at fair value through profit or loss	17	18 164	9 310
Securities available for sale	18	22 963	26 429
Securities held to maturity	19	52 584	44 699
Investments in associates	20	1 591	1 254
Intangible assets	21	2 359	2 035
Property and equipment	22	6 319	5 117
Investment property	22	344	149
Non-current assets held for sale	23	130	684
Current income tax asset	24	12	177
Deferred income tax asset	24	14	12
Other assets		1 454	641
Total assets		**303 913**	**297 908**
LIABILITIES AND EQUITY			
Amounts owed to financial institutions	25	24 604	44 426
Amounts owed to customers	26	229 996	210 029
Debt securities in issue	27	15 494	12 256
Provisions for liabilities and other provisions	28	655	884
Financial liabilities at fair value through profit or loss	44	2 387	3 950
Other liabilities	29	4 968	5 454
Current income tax liability	24	338	5
Deferred income tax liability	24	36	510
Subordinated debt	30	3 368	-
Total liabilities		**281 846**	**277 514**
Total equity, thereof		22 067	20 394
- Equity attributable to equity holders of the parent		21 991	20 318
- Minority interest		76	76
Total liabilities and equity		**303 913**	**297 908**

The notes on pages 46 to 121 are an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2007

SKK million	Share capital	Legal reserve fund	Other Funds	Retained earnings	Hedging reserves	Revaluation reserves	Total	Minority interest	Total
	Attributable to equity holders of the parent								
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 losses 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
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**
Available for sale securities:									
Valuation gains taken to equity	-	-	-	-	-	(287)	(287)		(287)
Transferred to Income Statement on sale	-	-	-	-	-	(2)	(2)		(2)
Cash flow hedges:									
Gains taken to equity	-	-	-	-	19		19		19
Transferred to Income Statement for the period	-	-	-	-	(65)		(65)		(65)
Actuarial gains	-	-	-	13			13		13
Tax on items taken directly to or transferred from equity	-	-	-	-	9	59	68		68
Increase in Minority interests	-	-	-						
Net profit for the year	-	-	-	4 167			4 167		4 167
Dividends paid	-	-	-	(2 224)			(2 224)		(2 224)
Other changes	-	-	1	(14)		(3)	(16)		(16)
As at 31 December 2007	**6 374**	**2 404**	**1 178**	**11 893**	**30**	**112**	**21 991**	**76**	**22 067**

The notes on pages 46 to 121 are an integral part of these financial statements

Consolidated Statement of Recognised Income and Expense
For the Year Ended 31 December 2007

SKK million	Note	2007	2006
Available for sale securities:			
Valuation losses taken to equity		(287)	(623)
Transferred to Income Statement on sale		(2)	(33)
Cash flow hedges:			
Gains taken to equity		19	59
Transferred to Income Statement for the period		(65)	(31)
Actuarial gains/(losses) on post-employment defined benefit plans	28(e)	13	(14)
Tax on items taken directly to or transferred from equity	24	68	115
Net income/(expense) recognised directly in equity		**(254)**	**(527)**
Profit for the year		**4 167**	**3 865**
Total recognised income and expense for the year		**3 913**	**3 338**
Attributable to:			
Equity holders of the parent		3 913	3 333
Minority interest		-	5

The notes on pages 46 to 121 are an integral part of these financial statements

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2007

SKK million	Note	2007	2006
Cash flows from operating activities			
Profit before income taxes		4 642	4 943
Adjustments for:			
Provisions for losses on loans, advances, off-balance sheet and write-offs		1 421	612
Provisions for liabilities and other provisions		(174)	214
Depreciation, amortisation and impairment	10	1 229	1 098
Loss on disposal of fixed assets		(56)	26
Impairment of tangible and intangible assets		290	68
Accruals for liabilities		295	383
Equity in earnings of associates		(123)	(151)
Other adjustment		616	211
Transfer of interest income of HTM portfolio to investment activity		(2 247)	(1 771)
Cash flows from operations before changes in operating assets and liabilities		**5 893**	**5 633**
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the central bank	13	1 279	(7 763)
Placements with the central bank	14	(1 100)	1 280
Loans and advances to financial institutions	14	(1 157)	(3 937)
Loans and advances to customers		(26 444)	(31 075)
Financial assets at fair value through profit or loss and securities available for sale		2 527	(433)
Other assets		(827)	141
Increase/(decrease) in operating liabilities:			
Amounts owed to financial institutions		(19 702)	(3 717)
Amounts owed to customers		19 239	30 905
Other liabilities		(893)	878
Increase in derivative financial instruments		403	765
Net cash flows used in operating activities before income tax		**(20 782)**	**(7 323)**
Income taxes paid		(355)	(754)
Net cash flows used in operating activities		**(21 137)**	**(8 077)**
Cash flows from investing activities			
Net cash flow from securities held to maturity		(5 638)	8 666
Dividends received from associates		103	107
Net (increase)/decrease in investments in associates		(326)	(252)
Purchase of intangible assets, property and equipment		(2 937)	(2 006)
Proceeds from sale of property and equipment		307	158
Net cash flows provided by investing activities		**(8 491)**	**6 673**

SKK million	Note	2007	2006
Cash flows from financing activities			
Subordinated debt		3 223	-
Net cash flows from issued bonds	27	2 678	2 037
Dividends paid		(2 224)	(2 146)
Loans to group companies from third parties		(947)	1 362
Net cash flows provided by financing activities		**2 730**	**1 253**
Effect of foreign exchange rate changes on cash and cash equivalents		(16)	(60)
Net decrease in cash and cash equivalents	**33**	**(26 914)**	**(211)**
Cash and cash equivalents at the beginning of the year	**33**	**63 876**	**64 087**
Cash and cash equivalents at the end of the year	**33**	**36 962**	**63 876**

The notes on pages 46 to 121 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 at Suché mýto 4, Bratislava, the Slovak Republic. The Bank was established on 15 March 1994 and incorporated in the Commercial Registry on 1 April 1994. The identification number of the Bank is 00 151 653, its tax identification number is 2020411536. The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial, and private customers, principally 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, JUDr. Samuel Vlčan and Mag. Beitz Frank–Michael (from 1 June 2007) as members. The Chairwoman of the Board of Directors is simultaneously also the Company Managing Director. The Vice Chairman of the Board of Directors is simultaneously also the 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 2007 were as follows: Dr. Franz Hochstrasser (Chairman), Péter Kibenedek (Vice Chairman), Mag. Bernhard Spalt, Herbert Juranek, JUDr. Beatrica Melichárová, and Mgr. Eva Striebliková. Former members Mag. Reinhard Ortner, Mag. Andreas Treichl, Dr. Heinz Kessler, Mag. Peter Nemschak, Andreas Klingen and Ing. Ján Trgiňa, resigned and new members Dr. Franz Hochstrasser, Péter Kisbenedek and Mag. Bernhard Spalt were elected on 5 May 2007.

As at 31 December 2007, the only shareholder of the Bank was Erste Bank der Österreichischen Sparkassen AG (hereafter 'Erste Bank'), with registered office Graben 21, 1010 Vienna, Austria. The consolidated financial statements of Erste Bank Group will be available after their completion at Firmenbuchgericht Wien, Marxergasse 1a, 1030 Vienna, Austria court.

2. ADOPTION OF NEW AND REVISED STANDARDS

The Group applied all 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 the Group's operations.

a) Standards and interpretations effective in the current period

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see notes 34-42).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

b) Standards and interpretations in issue not yet adopted

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

- _IFRS 8 Operating segments (effective from 1 January 2009)
- _IFRIC 11 interpretation of IFRS 2 - Group and treasury share transactions (effective from 1 March 2007)
- _Amendments to IAS 1 'Presentation of Financial Statements: A Revised Presentation' (effective 1 January 2009)

The following standards and interpretations were in issue but not yet endorsed by the European Union:

- _IFRIC 12 Service concession arrangements (effective from 1 January 2008)

- _IFRIC 13 Customer loyalty programmes (effective from 1 July 2008)
- _IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, (effective from 1 January 2008)
- _Amendment to IFRS 2 "Share-based Payment: Vesting Conditions and Cancellations" (effective from 1 January 2009)
- _Revised IFRS 3 "Business Combinations" (effective from 1 July 2009)
- _IAS 23 Revised Borrowing costs (effective from 1 January 2009)
- _Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective from 1 July 2009)

The management of the Bank anticipates that the adoption of these standards in future periods should have no material impact on the financial position of the operational results of the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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.

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 as adopted by the European Union (the "EU"). Except for certain standards issued but not yet effective (see note 2b) and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU , IFRS as adopted by the EU does not currently differ from IFRS and its effective standards and interpretations as issued by the International Accounting Standards Board (IASB). The Group has determined that the standards not endorsed by the EU would not impact the consolidated financial statements had such standards been endorsed by the EU at the balance sheet date.

The Bank has prepared Separate Financial Statements for year ended 31 December 2007 on 14 February 2008.

The financial statements of the Group for the previous period (31 December 2006) were signed and authorised for issue 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 20. 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 interest 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

An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50% of such subsidiary's share capital or in which the Bank can exercise more than 50% of the voting rights, or where the Bank can appoint or dismiss the 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 such 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, without having 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 Equity Investments

Other equity investments represent investments with a share of less than 20% of the share capital and voting rights. They are valued at fair value valid for available-for-sale securities. Those investments which do not have quoted market price in an active market and whose fair value cannot be reliably measured, are accounted using the cost method.

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, 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 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 in 'Provisions for losses on loans, advances and off-balance sheet credit risk'. 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 created into income. Recoveries of loans and advances previously written-off are reflected into income.

The Bank analyses impairment of exposures in four asset classes – retail, corporate, institutions, and sovereigns. This analysis is performed for individually significant exposures (generally clients with exposures exceeding SKK 40 million or turnover of more than SKK 30 million, and leasing and factoring exposures), as well as on the portfolio level for small and medium size entrepreneurs ("SMEs") and for all other exposures.

Portfolio assessment of impairment

Loans and advances that are considered by the Bank as being individually non-significant are treated on a portfolio basis. These exposures are divided by product and internal rating into portfolios with homogenous risk characteristics. The Bank also applies portfolio assessments for loans to SME exposures which are considered as having homogenous risk characteristics within corporate asset class.

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. The Bank estimates these provisions on the basis of Basel II methodology, using the historical experience of loan defaults (probability of default), expected loan exposure of defaulted loan (EAD) and the amount of the loss which is likely to arise (LGD).

The estimates of expected losses from the portfolio of loans are then conformed to 'incurred loss' concept of IAS 39 (revised) though adjustments. These reflect the Bank's estimate of the period of time occurring between a loss event and its actual identification by the Bank.

Individual assessment of impairment

Loans and advances to institutions, sovereign and corporate classes are generally considered by the Bank as being individually significant and are analysed on an individual basis. Loans to SMEs are analyzed individually, however those where no individual impairment is identified are grouped and analyzed at portfolio level (see Portfolio assessment of impairment above).

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. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments, as well as proceeds from collateral. Impairment amount is determined by the difference between the 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.

Both portfolio and specific provision estimates are based on many subjective judgments 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 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 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 the 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 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 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 Bank'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 and recognised in the 'Net interest and investment income'. Changes in the fair values of securities held for trading are recognised in the Income Statement as 'Net profit on financial operations'. Changes in the fair values of other financial assets designated as at FVTPL are recognised in 'Other operating result'.

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 Bank 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 market values are transferred to the 'Other operating result'.

The investments can be sold without restrictions. Floating rate instruments are preferred due to lower price volatility. Rarely, non-investment grade rated instruments are possible.

Investments in equity instruments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are accounted for using cost method.

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 45.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

_the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
_the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
_the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

h) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at 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.

i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset (financial liability) and of allocating interest income (interest expense) over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset (financial liability), or, where appropriate, a shorter period.

j) Recognition and derecognition of financial assets and financial liabilities

Unconditional receivables are recognized as an asset when the Group becomes party to the contract and, as a consequence, has the legal right to receive cash. Issued debt is recognized as liability when the entity becomes party to the contractual terms of the debt and therefore has a legal obligation to pay cash to the debt holder. A derivative is recognized as an asset or a liability on the commitment date.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

k) 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 assets and the consideration received is recorded in 'Amounts owed to financial institutions' or 'Amounts owed to customers'. Debt or equity securities purchased under a commitment to resell at a predetermined price are recorded in 'Loans and advances to financial institutions' or 'Loans and advances to customers'. Interest is accrued using the effective interest rate.

l) Intangible Assets

Intangible assets are reported at costs associated with acquiring the software less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over estimated useful life years through 'General administrative expenses'. The estimated useful lives and amortization method are reviewed at the end of each reporting period, with the effect of any changes in the estimate accounted for on a prospective basis. Impairment losses are recorded in 'Other operating result' in the Income statement.

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

m) 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 2007 a 2006
Buildings and structures	30 years
Electronic machines and equipment	4 – 6 years
Hardware	4 years
Vehicles	4 years
Fixture and fittings	6 - 12 years
Leasehold improvements	Shorter of lease period or life of asset

Land and assets under construction are not depreciated.

Gains and losses on the disposal of property and equipment are determined by reference to their carrying amount and are recognised in the 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 assets, are charged to the Income Statement when the expenditure is incurred.

n) Investment Property

Investment property is property, i.e. land or building, held to earn rental revenue. 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 22. The useful life of buildings under investment property is 30 years.

o) 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'. Repairs are charged to the Income Statement in 'General administrative expenses' under 'Other administrative expenses' in the year in which the expenditures are incurred.

p) Non-current assets held for sale

Non-current assets 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 is available for immediate sale in its present condition. The Bank's 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 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'.

q) Provisions for liabilities

Provisions for liabilities 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 for liability 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 for liability 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 for liability are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that a reimbursement will be received and the amount of the receivable can be measured reliably.

r) Long-term Employee Benefit Provisions

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

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 the 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.

See Note 28 (e) for key assumptions used in actuarial valuations.

s) Accounting for Factoring Transactions

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

Interest income received from customers for factoring services is under 'Net interest and investment income' calculated using the effective interest rate.

t) Dividends to shareholder

Dividends to shareholders are deducted from equity in the period in which they are declared by the General Assembly.

u) Taxation

Income tax on the Group's current year results consists of both current income tax and deferred 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, or realization of the tax benefit is otherwise impaired.

Deferred income tax is charged or credited to the Income Statement, except when such deferred income tax 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 such dividends were paid from profit generated prior to 1 January 2004.

v) 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 'Financial liabilities at fair value through profit or loss' 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 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 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.
See also Note 42.

w) 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.

x) Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in local currency at official exchange rates as announced by the NBS on the date of transaction. Financial 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'.

y) 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 expense representing funding costs of trading securities and derivatives is included in 'Net profit on financial operations'.

z) 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.

aa) 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.

bb) 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.

cc) 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 of ownership associated with such items. See also Note 47.

dd) 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.

4. SIGNIFICANT ACCOUNTING JUDGMENTS

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 and/or 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:

_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 and other impairment involve many uncertainties about the outcome of those risks and require the management of the Bank to make many subjective judgments in estimating the loss amounts.

_As of 31 December 2007 the Bank accounts for credit investments in total carrying amount of SKK 6 117 million. A total of SKK 4 755 million is under Financial assets at fair value through profit and loss (including SKK 4 003 million of structured credit assets), and SKK 1 362 million under Securities available for sale. As of the date of the financial statements, the market was affected by decreased liquidity resulting from increased risk aversion and the widening of credit spreads in the financial market resulting in volatility in market pricing of securities in recent months. The Bank believes that the recorded amounts of credit investments used as of 31 December 2007 represent prudent and best possible estimate of fair value of these financial instruments. See note 17 and 18.

_The amounts recognized as provisions for liabilities are based on the management's judgments and represent the best estimate of expenditures required to settle a liability of uncertain timing or amount resulting from an obligation. See Note 28 for more detailed disclosures of provisions for liabilities.

5. COMPANIES INCLUDED IN CONSOLIDATION

The consolidated financial statements include the following subsidiaries and associates:

Name of the company	Registered office	Principal activity	Group interest 2007	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	Real estate agency	100.00%	100.00%
Leasing Slovenskej sporiteľne, a. s.	Priemyselná 1/a 821 09 Bratislava Slovak Republic	Financial and operational leasing	96.66%	96.66%
Factoring 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	Incorporation, nanagement and financing of companies	85,00 %	85,00 %
Laned, a. s. (100% dcérska spoločnosť Derop, B.V.)	Suché mýto 4 816 07 Bratislava Slovak Republic	Real estate agency	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 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. – a factoring company based in Croatia. In December 2006, Factoring Slovenskej sporiteľne, a. s. sold a 46.50% share of the ownership and voting rights of ERSTE Factoring Croatia d.o.o. The remaining 2.50% share of the company was reclassified to 'Securities available for sale'.

In June 2006, the Bank acquired a 35.29% share of the 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 the 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 a 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 to 's IT Solutions SK, s.r.o.'

In December 2006, the share capital of Derop, B.V. was increased by both 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% to 85.00%. Consequently, the group share of the net assets of LANED, a. s – subsidiary of Derop, B.V. decreased from 100.00% to 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.

In January 2007 the Bank increased the registered capital of Realitná spoločnosť Slovenskej sporiteľne, a. s.

During 2007 the share premium (agio) of the Czech and Slovak Property Fund, B.V. increased. Neither the share of the ownership and voting rights nor the share of profit was affected by this transaction.

In February 2007, shareholders of Poisťovňa Slovenskej sporiteľne, a. s. increased the company's share capital. The share of the Bank was not affected.

6. NET INTEREST AND INVESTMENT INCOME

SKK million	2007	2006
Interest income from:		
Loans and advances to financial institutions	2 074	3 178
Loans and advances to customers	10 800	7 939
Financial assets at fair value through profit and loss	310	175
Securities available for sale	1 186	1 322
Held to maturity securities	2 247	1 771
Other interest income and similar income	109	44
Total interest and similar income	**16 726**	**14 429**
Interest expense for:		
Amounts owed to financial institutions	(1 672)	(2 194)
Amounts owed to customers	(3 809)	(3 082)
Debts evidenced by certificates	(560)	(444)
Subordinated capital	(145)	-
Total interest and similar expenses	**(6 186)**	**(5 720)**
Net interest income	**10 540**	**8 709**
Income from investments in associates	**146**	**157**
Net interest and investment income	**10 686**	**8 866**

In 2007, interest income includes a total of SKK 154 million (2006: SKK 159 million) relating to impaired financial assets.

Income from investments in associates

Company	2007 MSKK	2006 MSKK
Prvá stavebná sporiteľňa, a. s. (PSS)	84	130
Poisťovňa Slovenskej sporiteľne, a. s.	32	13
Erste Corporate Finance, a. s.	(1)	9
IT Solutions SK, spol. s r. o.	10	6
Other	21	(1)
Total	**146**	**157**

7. NET FEE AND COMMISSION INCOME

SKK million	2007	2006
Fee and commission income from:		
Payment transfers	2 281	2 107
Lending business	663	562
Securities	461	526
Other fees	187	154
Total fee and commission income	**3 592**	**3 349**
Fee and commission expense for:		
Payment transfers	(259)	(197)
Lending business	(41)	(21)
Securities	(49)	(38)
Other fees	(4)	(18)
Total fee and commission expense	**(353)**	**(274)**
Net fee and commission income	**3 239**	**3 075**

Security fees relate to fees earned or paid by the Bank on trust and fiduciary activities.

8. PROVISIONS FOR LOSSES ON LOANS, ADVANCES AND OFF BALANCE SHEET

SKK million	2007	2006
Provisioning charges for:		
Specific risk provisions	(842)	(1 525)
Portfolio risk provisions	(1 100)	(1 198)
Total provisioning charges	(1 942)	(2 723)
Release of provisions	-	
Specific risk provisions	371	1 658
Portfolio risk provisions	263	283
Total release of provisions	634	1 941
Net provisions for losses on loans and advances (Note 16)	**(1 308)**	**(782)**
Recoveries of loans written off/other	(93)	(2)
Net (creation)/released of provisions for off-balance risks	(20)	172
Net provisions	**(1 421)**	**(612)**

9. NET PROFIT ON FINANCIAL OPERATIONS

SKK million	2007	2006
Foreign exchange gains and currency derivatives	673	748
Interest derivatives	46	59
Trading securities gains/(losses)	42	(35)
Other (losses)/gains	(53)	5
Total	**708**	**777**

10. GENERAL ADMINISTRATIVE EXPENSES

SKK million	2007	2006
Personnel expenses		
Wages and salaries	2 399	2 372
Social security expenses	702	638
Long term employee benefits	(32)	21
Other personnel expenses	46	112
Total personnel expenses	**3 115**	**3 143**
Other administrative expenses		
Data processing expenses	1 429	939
Building maintenance and rent	558	540
Costs of bank operations	575	503
Advertising and marketing	335	337
Legal fees and consultation	147	117
Other administrative expenses	243	213
Total other administrative expenses	**3 287**	**2 649**
Depreciation		
Amortisation of intangible assets	573	363
Depreciation	653	735
Total depreciation, amortisation	**1 226**	**1 098**
Total	**7 628**	**6 890**

The average number of employees in the Group was 4 812 and 4 870, thereof members of the Board of Directors 6 and 5, in 2007 and 2006 respectively.

11. OTHER OPERATING RESULT

SKK million	2007	2006
Revaluation of securities at fair value, net	(472)	112
Profit on sale of securities available-for-sale	21	29
Other operating income	524	180
Total other operating income	**72**	**321**
Contribution to deposit protection fund	(299)	(267)
Other operating expense	(716)	(327)
Total other operating expense	**(1 015)**	**(594)**
Total other operating result	**(942)**	**(273)**

Major components of ‘Other operating result’ in 2007 include selling gains from property and movables amounting to SKK 94 million, net reversal of impairment for buildings amounting to SKK 40 million, net release of provision for legal cases in the amount of SKK 213 million and allocation of provisions relating to other contractual commitments where the Bank expects settlement to be probable in the amount of SKK 72 million (see note 28f).

‘Other operating expense’ includes the impairment of software which was recognized in 2007 in the amount of SKK 368 million (see Note 21).

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

12. INCOME TAX EXPENSE

SKK million	2007	2006
Current tax expense	891	558
Deferred tax expense/(income) (Note 24)	(416)	520
Total	**475**	**1 078**

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

	2007		2006	
	(SKK million)	%	(SKK million)	%
Profit before tax	**4 642**		**4 943**	
Theoretical tax at income tax rate of 19%	**882**	**19,0**	**939**	**19,0**
Tax effect of expenses that are not deductible in determining taxable profit:				
- Allocation of provisions and reserves	275	5,9	161	3,3
- Other	80	1,7	75	1,5
Total tax effect of expenses that are not deductible in determining taxable profit	**355**	**7,6**	**236**	**4,8**
Tax effect of revenues that are deductible in determining taxable profit:				
- Release of provisions and reserves	(98)	(2,1)	(410)	(8,3)
- Income from dividends	(31)	(0,7)	(30)	(0,6)
- Other	(188)	(4,0)	(102)	(1,6)
Tax effect of revenues that are deductible in determining taxable profit	**(317)**	**(6,8)**	**(542)**	**(10,5)**
Additional tax (income)/expense on interest income from securities	(445)	(9,6)	445	9,0
Tax expense and effective tax rate for the year	**475**	**10,2**	**1 078**	**22,3**

As further described in Note 24, 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 in 2006 recognized deferred income tax liability of SKK 445 million relating to taxation of certain interest income from securities.

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

13. CASH AND BALANCES AT THE CENTRAL BANK

SKK million	2007	2006
Cash balances	5 149	4 425
Nostro accounts with central banks	864	853
Minimum reserve deposit with NBS	6 489	7 768
Total	**12 502**	**13 046**

The 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 bank related to settlement activities and is 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 4.3 billion (in 2006 SKK 4.2 billion).

14. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

SKK million	2007	2006
Loans and advances on demand (nostro accounts)	171	784
Repo trades with central bank treasury bills	20 846	57 814
Placements with central bank	1 100	-
Placements with financial institutions	11 994	10 512
Total	**34 111**	**69 110**

Repurchase agreements with the central bank are collateralised by the bills issued by the National Bank of Slovakia in an amount equal to the loan.

The recorded amounts represent the maximum exposure to credit risk.

15. LOANS AND ADVANCES TO CUSTOMERS

SKK million	2007	2006
Corporate clients	84 370	70 591
Syndicated loans	9 854	7 880
Overdrafts	15 834	14 156
Direct provided loans	49 566	40 597
Finance leasing	5 717	4 159
Factoring	3 399	3 799
Retail clients	71 081	57 652
Mortgage loans	42 278	30 302
Consumer loans	22 245	20 877
Social loans	1 056	1 398
Overdrafts	5 327	4 960
Finance leasing	175	115
Public sector	1 325	1 277
Total	**156 776**	**129 520**

As at 31 December 2007, the 15 largest customers accounted for 13.7% of the gross loan portfolio in the amount of SKK 21 527 million (2006: 15.0%, SKK 19 872 million).

Risk categorisation of loans and advances to customers

The tables below details the breakdown of loans and advances to customers by the type of the exposure and level of credit risk identified within the portfolio of loans and advances of the Group as at 31 December 2007.

As at 31 December 2007 SKK million	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions	**99 820**	**3 905**	**3.9%**	**52 625**	**56.6%**
Private persons	74 781	3 511	4.7%	42 855	62.0%
thereof defaults	4 594	3 124	68.0%	958	88.9%
Legal persons	25 039	394	1.6%	9 770	40.6%
thereof defaults	343	246	71.7%	39	83.1%
Individual credit risks	**56 956**	**1 505**	**2.6%**	**15 093**	**29.1%**
Not impaired exposures	54 085	-	-	14 665	27.1%
Impaired exposures	2 871	1 505	52.4%	428	67.3%
Subtotal for balance sheet credit risks	**156 776**	**5 410**	**3.5%**	**67 718**	**46.6%**
Off-balance sheet Retail Asset Class	15 942	97	0.6%		
Off-balance sheet Corporate Asset Class	27 422	3	-		
Subtotal for off-balance sheet credit risks	**43 364**	**100**	**0.2%**		
Total	**200 140**	**5 510**	**2.8%**		

As at 31 December 2006 SKK million	Exposure	Provisions	Provisions coverage	Estimated value of collateral	Provisions and collateral coverage
Portfolio provisions	**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	**68 286**	**1 149**	**1.7%**	**16 558**	**25.9%**
Not impaired exposures	66 472	-	-	16 005	24.1%
Impaired exposures	1 814	1 149	63.3%	553	93.8%
Subtotal for balance sheet credit risks	**129 520**	**4 275**	**3.3%**	**48 282**	**40.6%**
Off-balance sheet Retail Asset Class	5 843	78	1.3%		
Off-balance sheet Corporate Asset Class	28 521	2	-		
Subtotal for off-balance sheet credit risks	**34 364**	**80**	**0.2%**		
Total	**163 884**	**4 355**	**2.7%**		

In 2006 and 2007, the development of risk provisions corresponded with the increasing volume, 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 the credit risk data-pool indicating reduced risk of loss for performing loans and a higher risk of loss for defaulted loans. The improved quality and availability of data enabled a reduction in the level of uncertainty in parameters used for loan loss provisions recognition.

In 2007, resulting from enhanced knowledge and historical experience, the Bank created portfolio impairment provisions of SKK 124 million for SME loans and advances. These exposures are seen as a homogenous group of credit exposures with similar risk characteristics and specific risk profile.

In 2007, the Bank increased provisions for impaired factoring receivables by SKK 280 million to cover incurred losses in this portfolio of receivables.

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 2007 and 31 December 2006.

Social loans

In 2003, the Bank performed an analysis of circumstances related to loans provided in the past as 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.

During 2004-2006 the Bank realized several phases of social loans portfolio restructuring. As at 31 December 2006 the remaining social loans to be resolved amounted to SKK 517 million and the related provisions were in the amount of SKK 245 million.

In 2007, the Bank continued restructuring program. As at 31 December 2007, the remaining social loans to be resolved amounted to SKK 235 million. The provisions for social loans amounted to SKK 106 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

During 2007, the Bank continued its cooperation with two external non-related parties following contracts from prior periods and entered into contracts with two additional partners. Under these contracts 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 2 713 million as at 31 December 2007 (2006: SKK 1 513 million).

Sale of receivables

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.

In 2007, the Bank assigned loans that resulted in derecognition of receivables in the gross amount of SKK 301 million. The consideration received amounted to SKK 173 million. The loss on sale was partly compensated by the use of provisions totalling SKK 128 million.

Sources of estimation uncertainty

Portfolio impairment is calculated on the basis of parameters which estimate the probability of loan default, balance of receivable at the time of default and the loss to the Bank resulting from defaulted loan. In estimating portfolio impairment the Bank considers the time between the loss event and the actual identification of such impaired loans.

Although many of these estimates are based on actual historical experience, for a significant number of variables the Bank continues to rely on prudent assumptions supported by experience from the Slovak banking sector.

Individual impairment is dependant upon the Bank's estimate of future cash-flows that will be collected from impaired loans and their timing. These estimates are subject to multiple uncertainties, risks as well as judgment.

The Bank believes that the amounts of provisions for impaired loans represent the most reasonable projections 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.

The Bank continues to collect data, such as migration matrices, to create a history data-pool that should enable quantification of the estimated loan impairment with a reduced level of uncertainty. All estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates of loan impairment are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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.

SKK million	2007	2006
Gross investment in finance leases	**6 017**	**4 946**
Thereof:		
- Less than 1 year	2 099	1 600
- From 1 year to 5 years	3 565	3 013
- Over 5 years	353	333
Unearned income	837	(672)
Subtotal	**6 854**	**4 274**
Provision	(90)	(45)
Gross investment in finance leases	**6 764**	**4 229**
Thereof:		
- Less than 1 year	2 352	1 310
- From 1 year to 5 years	3 958	2 696
- Over 5 years	454	223

16. PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

SKK million	2007	2006
As at 1 January	4 275	3 624
Net allocation/(release) of provisions (excluding effect of unwind)	1 462	941
Use of provisions due to sale and write-off of receivables and other adjustments	(173)	(131)
Effect of unwind	(154)	(159)
As at 31 December	**5 410**	**4 275**

Use of provisions results mainly from the assigned receivables, see Note 15.

Unwinding represents a change in the impairment provisions amount, resulting from the unwinding of the cash flow discounting due to passage of time.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

SKK million	2007	2006
Trading securities		
Debt securities and other fixed income securities - listed	10 073	451
Equity securities – shares – listed	4	2
Financial derivatives with positive fair value (Note 35)	2 202	3 447
Interest Rate Agreements	838	810
Exchange Rate Agreements	1 109	2 628
Other	255	9
	12 279	3 900
Assets at fair value		
Credit investments	4 755	4 907
Debt securities and participation certificates	1 130	503
	5 885	5 410
Total	**18 164**	**9 310**

The amounts represent the maximum exposure to credit risk.

The trading portfolio of debt securities and other fixed income securities at fair value through profit and loss by issuer comprise:

SKK million	2007	2006
State institutions in the Slovak Republic	32	94
Foreign state institutions	-	105
Financial institutions in the Slovak Republic	9 966	166
Foreign financial institutions	41	86
Other entities in the Slovak Republic	34	-
Total	**10 073**	**451**

Credit Investments

The 'Fair Value Through Profit and Loss' portfolio includes credit investments in the amount of SKK 4 755 million as at 31 December 2007 (2006: SKK 4 907 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 (2007: SKK 4 003 million, 2006: SKK 3 286 million), senior tranches and mezzanine tranches represent 52% and 48%, respectively (2006: 32% and 68%).

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 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, investors receive a recovery rate.

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

As of 31 December 2007, fair values of credit investments held by the Bank were determined with reference to third party quotations. Where available, these quotations were tested by reference to the quoted market prices.

As of the date of the financial statements, the market was affected by decreased liquidity resulting from increased risk aversion and the widening of credit spreads in the financial capital market resulting in increased volatility in market prices.

The Bank believes that the prices of asset backed securities used as of 31 December 2007 represent prudent and the best possible estimate of the fair value of these financial instruments. As of 31 December 2007 the Bank has no intention to dispose of these assets.

Type of instrument	Actual rating range	Carrzing amount 2007 MSKK	2006 MSKK	National amount 2007 MSKK	2006 MSKK
CDOs	AAA-BB	4 003	3 286	4 199	3 225
Managed Funds	A-B	298	1 093	316	1 079
CLNs	AA	412	457	450	449
RMBS	AA	42	71	42	71
Total		**4 755**	**4 907**	**5 007**	**4 824**

18. SECURITIES AVAILABLE FOR SALE

SKK million	2007	2006
Debt securities and other fixed income securities - listed	21 423	26 300
Managed Funds	1 362	-
Equity securities - shares	315	266
listed	91	48
unlisted	224	218
Gross amount	**23 100**	**26 566**
Provision for impairment	(137)	(137)
Net amount	**22 963**	**26 429**

The maximum exposure to credit risk represents carrying amounts after impairment.

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

SKK million	2007	2006
State institutions in the Slovak Republic	13 350	20 358
Financial institutions in the Slovak Republic	3 359	2 518
Foreign state institutions	436	684
Foreign financial institutions	4 880	1 070
Other entities in the Slovak Republic	500	405
Other foreign entities	260	1 265
Total	**22 785**	**26 300**

The Bank has in its portfolio as at 31 December 2007 fixed rate EUR denominated bonds with face value of EUR 50 million (2006: EUR 50 million). As the purchase of the bonds 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, paying fixed and receiving floating rates. Notional and fair value of the aforementioned hedging derivative is reported in note 44.

During the period, the hedge was effective in hedging the fair value exposure to interest rate movements. For the year ended 31 December 2007, the Bank recognised a net gain of SKK 95 million (2006: loss of SKK (23) million), representing the gain on the hedging instruments. The total loss on hedged item attributable to the hedged risk amounted to a loss of SKK (81) million (2006: gain of SKK 27 million).
As at 31 December 2007 in its available for sale portfolio the Bank has mortgage bonds in the amount of SKK 1 016 million (2006: SKK 997 million) which were collateralised by state bonds in the amount of SKK 1 081 million (2006: SKK 1 081 million). Additionally, corporate bonds in the amount of SKK 79 million (2006: SKK 97 million) were guaranteed by the state in the same volume (2006: SKK 79 million).

19. SECURITIES HELD TO MATURITY

SKK million	2007	2006
Debt securities and other fixed income securities		
listed	52 584	44 699
unlisted	-	-
Total	**52 584**	**44 699**

The amounts represent the maximum exposure to credit risk.

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

SKK million	2007	2006
State institutions in the Slovak Republic	46 456	40 172
Financial institutions in the Slovak Republic	2 971	3 235
Foreign financial institutions	1 522	379
Other entities in the Slovak Republic	712	913
Other foreign entities	923	-
Total	**52 584**	**44 699**

As at 31 December 2007, the securities included in the held to maturity portfolio placed as collateral for repo trades include state bonds amounting to SKK 13 384 million notional value (2006: SKK 32 331 million).

As at 31 December 2007, in its held to maturity portfolio the Bank has mortgage bonds in the amount of SKK 1 019 million (2006: SKK 1 019 million) which were collateralised by state bonds in the amount of SKK 1 155 million (2006: SKK 1 208 million). Additionally, corporate bonds in the amount of SKK 705 million (2006: SKK 712 million) are guaranteed by state in the same volume.

20. INVESTMENTS IN ASSOCIATES

SKK million	2007	2006
Investment in associates	1 591	1 254
Total	**1 591**	**1 254**

During 2007, the Group received dividends from participations in the amount of SKK 103 million (2006: SKK 107 million).

Investment in associates

Name of the company	Registered office	Principal activity	Bank interest 2007	Bank voting rights 2006
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%

2007 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	7	18	15	22	24
Prvá stavebná sporiteľňa, a. s.	9.98	35.00	785	54 528	7 868	3 841	3 004
Poisťovňa Slovenskej sporiteľne, a. s.	33.33	33.33	140	4 565	419	1 016	919
Slovak Banking Credit Bureau, s.r.o.	33.33	33.33	-	13	-	37	35
Erste Corporate Finance, a. s.	25.00	25.00	15	92	62	99	100
s IT Solutions SK, spol. s r.o.	23.50	23.50	88	522	41	820	794
Czech and Slovak Property Fund, B.V.	10.00	10.00	556	10 133	1 666	713	756
Total			**1 591**				

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**				

In June 2006, the Bank acquired a 35.29% share of the 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 the Czech and Slovak Property Fund, B.V. The Czech and Slovak Property Fund is a fund that invests in real estates. However the Bank's share in the company and voting rights represents only 6.67%. Based on a share of its 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. thereby increasing its share from 6.67% to 10.00%. The profit sharing ratio was not affected by this transaction.

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

During 2007 the share premium (agio) of the Czech and Slovak Property Fund, B.V. has increased. Neither the share of the ownership and voting rights nor the share of profit were affected by this transaction.

In February 2007 shareholders of Poisťovňa Slovenskej sporiteľne, a. s. increased the company's share capital. The shares of the Bank were not affected.

The Bank held a 9.98% shareholding in PSS at 31 December 2007 and 31 December 2006. The Bank, based on the contract with Erste Bank, represents shareholder interests of the parent company in PSS (25.02%). In 2004, following NBS approval 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 significant influence over PSS from 2004. The investment in PSS is therefore presented as associate, with the dividend from this investment reported under 'Income from investment in associates' in 2007 and 2006.

21. INTANGIBLE ASSETS

SKK million	Software	Other intangible assets	Assets not yet put in servie	Total
Cost				
1 January 2007	**3 647**	**244**	**820**	**4 711**
Additions	4		1 264	1 268
Disposals	(356)	(10)	(3)	(369)
Transfers	1 075	2	(1 077)	-
31 December 2007	**4 370**	**236**	**1 004**	**5 610**
Accumulated amortisation				
1 January 2007	(2 466)	(210)	-	(2 676)
Amortisation	(548)	(25)	-	(573)
Disposals	356	10	-	366
Provisions for impairment	(368)	-	-	(368)
Transfers	(5)	5	-	-
31 December 2007	**(3 031)**	**(220)**	**-**	**(3 251)**
Net book value				
31 December 2006	**1 181**	**34**	**820**	**2 035**
31 December 2007	**1 339**	**16**	**1 004**	**2 359**

Assets not yet put in service include the cost of a bank system development project in the amount of SKK 730 million as at 31 December 2007 (2006: SKK 153 million). The total cost of the system is estimated at SKK 2 269 million and its putting into use is expected in 2009.

The original cost of fully amortised intangible assets that are still in use by the Bank amounts to SKK 2.0 billion (2006: SKK 2.0 billion).

In 2007, the Bank identified impairment of software considering its value in use. The full impairment amount of SKK 368 million was recognised as 'Other operating expense'.

22. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

SKK million	Land and buildings	quipment fixtures and fittings	Motor vehicles	Assets not yet put in service	Total property and equipment	Investment property
Cost						
1 January 2007	**4 517**	**6 022**	**175**	**406**	**11 120**	**221**
Additions	1 121	4	2	448	1 575	127
Disposals	(171)	(364)	(5)	(1)	(541)	(73)
Transfers	246	179	6	(425)	6	(25)
Reclassification to/from non-current assets held for sale	775	-	-	-	775	262
31 December 2007	**6 488**	**5 841**	**178**	**428**	**12 935**	**512**
Accumulated depreciation						
1 January 2007	**(1 084)**	**(4 818)**	**(101)**	**-**	**(6 003)**	**(72)**
Depreciation	(179)	(393)	(22)	-	(594)	(59)
Disposals	56	358	5	-	419	46
Provisions for impairment	(214)	(1)	(1)	-	(216)	(11)
Transfers	-	-	-	-	-	-
Reclassification to/from non-current assets held for sale	(222)	-	-	-	(222)	(72)
31 December 2007	**(1 643)**	**(4 854)**	**(119)**	**-**	**(6 616)**	**(168)**
Net book value						
31 December 2006	**3 433**	**1 204**	**74**	**406**	**5 117**	**149**
31 December 2007	**4 845**	**987**	**59**	**428**	**6 319**	**344**

The original cost of property and equipment that is fully depreciated but still in use by the Bank amounts to SKK 3.8 billion (2006: SKK 3.7 billion).

The Bank has assessed the impairment of assets (buildings) 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 2007 provisions for impairment of buildings amounted to SKK 260 million (2006: SKK 338 million).

Operating leases

The Bank enters into operating leasing arrangements for premises used for banking operations.

The following table summarises future minimum lease payments under non-cancellable operating leases:

Outstanding commitments from operating leases	2007 MSKK	2006 MSKK
Payable in period:		
- Less than 1 year	150	143
- From 1 year to 5 years		143
- Over 5 years		-
Operating leasing payments recognised as expense in the period	145	143

Investment property

The Bank owns buildings rented to other parties of total net book value of SKK 211 million (net of the effect of impairment, SKK 32 million) as at 31 December 2007 (2006: SKK 70 million), and equipment under operating leasing at net book value of SKK 133 million as at 31 December 2007 (2006: SKK 79 million). The total rental income earned by the Group amounted to SKK 109 million (2006: SKK 43 million) and is presented under 'Other interest income and similar income' or 'Interest income'. The depreciation of investment property is presented under 'General administrative expenses' and amounted to SKK 93 million (2006: SKK 16 million).

Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during 2007 amounted to SKK 4 million (2006: SKK 8 million) are presented under 'General administrative expenses'.

The estimated fair value of investment property as at 31 December 2007 was SKK 344 million (2006: SKK 149 million). The Group uses its own model for determining the fair value of investment property, which is based on discounting 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 the calculation of an independent valuer when appropriate.

Insurance coverage

The Group's insurance covers all standard risks to tangible and intangible assets (theft, robbery, natural hazards, vandalism, and other damages).

23. NON-CURRENT ASSETS HELD FOR SALE

SKK million	2007	2006
As at 1 January	**684**	**-**
Additions:		
Acquisitions	-	-
Reclassification from Property and Equipment	278	1 654
Revaluation	-	-
Total additions	**278**	**1 654**
Disposals:		
Sales	(62)	(137)
Reclassification to Property and Equipment	(808)	(811)
Revaluation		-
Provision for impairment	38	(22)
Total disposals	**(832)**	**(970)**
As at 31 December	**130**	**684**

Following the decision in December 2007, the Group intends to dispose of selected items of property within the next 12 months. A search is under way for a buyer(s).

In 2007, the Group revised its intention to sell a group of buildings classified as property held for sale as at 31 December 2006. With respect to the current market conditions the Group decided to reclassify buildings of net book value amounting to SKK 339 million back to property and equipment and SKK 179 million back to investment property. This transaction had no impact on the Income Statement and affected only the classification of property in the Balance sheet.

The Group has used judgments in the valuation of particular components of fixed assets to reflect their recoverable amount. This is related to own land and buildings, property held for sale (IFRS 5), and software.

24. INCOME TAX ASSETS AND LIABILITIES

The structure of the tax position as at 31 December 2007 and 31 December 2006 was as follows:

SKK million	2007	2006
Deferred income tax assets	14	12
Current Income tax assets	12	177
Total income tax assets	**26**	**189**
Deferred income tax liability	36	510
Current income tax liability	338	5
Total income tax liabilities	**374**	**515**

	directly to equity		to Income statement									
Deferred tax booked SKK million	Securities available for sale	Cash flow h edges	Loans and advances to customers	Provisions for losses on loans and advances	Securities	Intangible a ssets	Property and equipment	Provisions	Associates and other inv.	Tax loss carried forward	Other	Total
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)**
Charge/(credit) to equity for the year	51	(4)	-	-	-	-	-	-	-		-	47
Charge/(credit) to Income statement for the year	-	-	-	-	445	-	(35)	4	-	2		416
Recycled from equity to Income statement	-	13	-	-	-	-	-	-	-		-	13
31 December 2007	**(35)**	**(4)**	**-**	**-**	**20**	**1**	**(88)**	**24**	**26**	**33**	**1**	**(22)**

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

SKK million	2007	2006
Deferred income tax liabilities	(36)	(510)
Deferred income tax assets	14	12
Total deferred income tax liabilities	**(22)**	**(498)**

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 tax benefits in the future.

During 2006, legislation governing the taxation of income was amended, resulting in additional tax liability arising from coupons of bonds, 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 however, 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 the full amount of the deferred income tax liability of SKK 445 million was released and recorded as a reduction of income tax expense in 2007.

25. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

SKK million	2007	2006
Amounts owed on demand	624	342
Repo trades with debt securities	-	22 034
Term deposits and clearing	23 980	22 050
Total	**24 604**	**44 426**

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

26. AMOUNTS OWED TO CUSTOMERS

SKK million	2007	2006
Amounts owed on demand	78 508	71 022
Savings deposits	14 281	14 921
Term deposits	137 207	124 086
Total	**229 996**	**210 029**

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

SKK million	2007	2006
Savings deposits	14 281	14 921
Term deposits and amounts owed on demand:		
Corporate clients	49 885	45 784
Retail clients	135 116	117 298
Public sector	27 780	29 545
Other	2 934	2 481
Total	**229 996**	**210 029**

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. This amount also includes accrued interest until the date of transfer.

As at 31 December 2007 and 31 December 2006 no amounts owed to clients were collateralised by securities.

As at 31 December 2007, Amounts owed to customers includes special guaranteed deposits in the amount of SKK 8 624 million (2006: SKK 4 740 million). These contracts includes embedded currency, and commodity and equity derivatives in the amount of SKK 356 million (2006: 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’.

27. DEBT SECURITIES IN ISSUE

SKK million	2007	2006
Bonds in issue	14 878	11 055
less bonds held by the Group	(77)	(70)
Total bonds	14 801	10 985
Bonds in issue - Guaranteed deposit	599	255
Short term debt securities	94	1 016
Total	**15 494**	**12 256**

Bonds in issue are presented in the following table:

	Date of issue	Maturitz date	Actual interest date	Nominal value 2007 MSKK	Nominal value 2006 MSKK
Mortgage bonds	July 2002	July 2007	7.40%	-	1 000
Mortgage bonds	July 2003	July 2008	4.60%	1 000	1 000
Mortgage bonds	August 2003	August 2010	4.65%	500	500
Mortgage bonds	October 2003	October 2008	4.60%	1 000	1 000
Mortgage bonds	June 2004	June 2009	4.50%	1 000	1 000
Mortgage bonds	August 2004	August 2010	4.40%	500	500
Mortgage bonds	November 2004	November 2009	4.50%	1 100	1 100
Mortgage bonds	March 2005	March 2008	2.70%	400	400
Other bonds	May 2005	April 2009	2W REPO	2 000	2 000
Mortgage bonds	July 2005	July 2008	2.60%	800	800
Mortgage bonds	March 2006	March 2016	6M BRIBOR + 0.09%	500	500
Other bonds	June 2006	June 2010	3M BRIBOR + 0.15%	500	500
Other bonds	November 2006	November 2010	6M BRIBOR + 0.15%	600	600
Other bonds	June 2007	June 2010	6M BRIBOR + 0.04%	2500	-
Other bonds	June 2007	June 2011	4.48%	400	-
Mortgage bonds	July 2007	July 2027	4.95%	500	-
Other bonds	September 2007	September 2012	6M BRIBOR + 0.02%	600	-
Other bonds	November 2007	November 2008	4.26%	500	-
Other bonds	December 2007	September 2008	3M SOFIBOR + 0.05%	343	-
Total nominal value				**14 743**	**10 900**
Accrued interest				135	155
Net debt securities in issue				**14 878**	**11 055**
less bonds held by the Group				(77)	(70)
Total				**14 801**	**10 985**

All of the bonds shown above are listed and traded on the Bratislava Stock Exchange (‘BSE’).

Part of the mortgage bonds issued is collateralised by state bonds included in the HTM portfolio in the carrying amount of SKK 2 233 million (2006: 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 2007 was SKK 94 million (2006: SKK 1 016 million).

As at 31 December 2007, Debt securities in issue includes embedded commodity derivatives and shares in the amount of SKK 17.4 million (2006: SKK 9 million) which were separated and are disclosed under “Financial assets at fair value through profit or loss” and “Financial liabilities at fair value through profit or loss”.

The Bank set up a fair value hedge in July 2007 to hedge issued mortgages bonds in the amount of SKK 500 million with fixing rate. To protect interest rate risk, the Bank entered into an interest rate swap. The notional and fair value of the aforementioned hedging derivative is reported in Note 44.

During the period, the hedge was effective in the hedging of fair value exposure to interest rate movements. For the year ended 31 December 2007, the Bank recognised a net gain of SKK 5 million, representing the gain on the hedging instruments. The total profit on hedged items attributable to hedged risk amounted to SKK 3 million.

28. PROVISIONS FOR LIABILITIES AND OTHER PROVISIONS

SKK million	2006	Additions	Use	Reversals	2007
Provision for off-balance sheet items	80	84	-	(64)	100
Interest bearing deposit products	27	26	(26)	-	27
Legal cases	494	8	-	(221)	281
Sponsoring	25	-	(25)	-	-
Employee benefit provisions	132	12	(9)	(65)	70
Other provisions	126	82	(15)	(16)	177
Total	**884**	**212**	**(75)**	**(366)**	**655**

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 the off-balance sheet.

b) Provisions for interest-bearing products

Provision has been made for prize-saving books, and for 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 2007. These litigations have arisen from normal banking activities, both prior and after the privatisation in 2001. With reference 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 2007, the Bank released a provision for a legal case that was won at the Supreme Court of the Slovak Republic amounting to SKK 183 million. The release of the provisions is reported under ‘Other operating result’ in the Income Statement.

d) Sponsoring provision

Pursuant to the share purchase agreement from 2001, 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 commitments for these activities.

According to the privatisation contract, the amount originally designated for strictly defined sponsoring activities in the public interest should have been used until the end of 2005, but following agreement with the MF SR, this deadline was prolonged until year-end 2007.

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

During 2006, the Bank continued sponsoring as defined in the privatisation contract and financed activities amounting to SKK 41 million. During 2007, the Bank used the remaining part of the provision amounting to SKK 25 million and finally used the full amount in which it had committed to finance sponsoring activities.

e) Long – term employee benefits provisions

The Bank has a defined benefit program, under which employees are entitled to a lump-sum payment upon taking retirement or a working jubilee. As at 31 December 2007 there were 4 688 employees at the Bank covered by this program (2006: 4 774 employees).

During the year ending 31 December 2007, the actuarial calculation based on the projected unit credit method was performed resulting in the final employee benefit obligation in the amount of SKK 70 million (2006: SKK 132 million). The decrease of the provision resulted from the cancellation of life anniversary benefits.

The amounts recognised in the balance sheet and Income Statement as at 31 December 2007 are as follows:

SKK million	Pension provisions	Jubilee provisions	otal long-term provisions
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 losses	14	17	31
Long-term employee provisions at 31 December 2006	**42**	**90**	**132**
New commitments from acquisitions of companies	-	-	-
Service costs	3	5	8
Interest costs	2	2	4
Payments	(1)	(8)	(9)
Actuarial (gains)	(12)	(53)	(65)
Long-term employee provisions at 31 December 2007	**34**	**36**	**70**

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	otal long-term provisions
31 December 2003	-	-	-
31 December 2004	24	84	108
31 December 2005	25	71	96
31 December 2006	42	90	132
31 December 2007	34	36	70

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.

mil. Sk	2007	2006
Real annual discount rate	5.06%	4.37%
Annual future real rate of salary increases	2.50%	2.80%
Annual employee turnover	2.08-20.64%	4.41%-24.59%
Retirement age	based on valid law	based on valid law

f) Other provisions

Other provisions are comprised mainly of provisions for certain social benefit obligations amounting to SKK 106 million, and provisions relating to other contractual commitments where the Bank settlement to be probable in the amount of SKK 72 million.

The amounts recognized as provisions for liabilities are based on the management's judgments and represent the best estimate of expenditures required to settle a liability of uncertain timing or amount resulting from an obligation.

29. OTHER LIABILITIES

SKK million	2007	2006
Other short-term payables to customers related to money transfer	1 903	3 024
Accruals for general administrative expenses	1 565	1 270
Various creditors	1 429	1 243
Fair value of hedging instrument	71	(83)
Total	**4 968**	**5 454**

Summary of the social fund liability included in Other liabilities - various creditors is as follows:

SKK million	2007	2006
As at 1 January	64	63
Additions	130	158
Drawings	(143)	(157)
As at 31 December	**51**	**64**

30. SUBORDINATED DEBT

For strengthening of the Bank's own funds, on 21 December 2006 the Bank entered into subordinated loan contract with its parent company Erste Bank. Based on the contract, the Bank could draw EUR 100 million subordinated loan till 21 February 2007 with a repayment date of 21 December 2016, with floating interest rate based on selected 3M or 6M EURIBOR. During February 2007 the Bank withdrew the loan in the whole amount.

The subordinated debt is a type of received loan which ranks behind other liabilities in case of financial difficulties of the Bank.

31. EQUITY

Share capital

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

Nominal value	Number of shares	2007 MSKK	Number of shares	2006 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.

The distribution of profit is shown in the following table:

	Attributable from the profit for the year	
Dividends per share	2007*	2006
Dividends paid to shareholder from profit for the year (MSKK)	1 600	2 224
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)	**251**	**349**
Amount of dividends per SKK 100 million share (SKK)	**25 101 162**	**34 890 615**

* 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 10% 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 2007 included only the Statutory fund amounting to SKK 1 178 million (2006: SKK 1 177 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 2006, 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 shareholders.

32. EARNINGS PER SHARE

SKK million	2007	2006
Net profit applicable to ordinary shares (MSKK)	4 167	3 865
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)	**654**	**606**
Basic and diluted profit per SKK 100 million share (SKK)	**65 374 961**	**60 636 963**

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:

SKK million	2007	2006
Cash on hand (Note 13)	5 149	4 425
Nostro accounts with the NBS (Note 13)	864	853
Accounts with other financial institutions repayable on demand (Note 14)	171	784
Repo trades with the central bank treasury bills (Note 14)	20 846	57 814
Treasury Bills	9 932	-
Total cash and cash equivalents	**36 962**	**63 876**

Total interest received during the year ended 31 December 2007 was SKK 8 478 million (2006: SKK 7 440 million).

34. FINANCIAL RISK MANAGEMENT

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 Bank. The most significant risks the Bank faces include:

_credit risk is the risk of loss arising from default by a creditor or counterparty.

_market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc.

_liquidity risk is the risk of loss resulting from the inability of the Bank to meet its investment and financing requirements with regard to cash flows discrepancy.

_operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

_compliance risk represents the risk of breaching regulatory rules and related litigation risk (with regulars or clients), and financial risk (fines, compensation of damage).

The ultimate risk management body is the Board of Directors. Some of its authority for particular risk management areas are delegated to respective committees - Asset & Liability Committee (ALCO), Credit Committee of the Board of Directors (CRC), and the Security and Operational Risk Committee (SORC).

ALCO has ultimate authority over the market risk of both trading and banking books, and over liquidity risk.

As for credit risk, the ultimate decision making body is the Credit Committee of the Supervisory Board, which is composed of members of the Supervisory Board. The Credit Committee of the Board of the Directors (CRC) is next in line with direct authority over the credit risk area.

ALCO and CRC are composed of the members of the board and senior managers. The Chief Risk Officer is a member of both ALCO and CRC.

SORC is the authorized body to make decisions for both information security and operational risk strategies, and approves operational risk appetite and tolerance levels. Chief Risk Officer is a member of SORC.

The Operating Liquidity Committee (OLC) governs the execution of liquidity management. OLC reports directly to ALCO. It analyzes the liquidity situation of the Bank on a regular basis and proposes measures to be taken. OLC consists of members of both Trading and BSM units.

The lower (executive) level of risk management organization consists of four crucial risk units:

_Balance Sheet Management - mainly responsible for liquidity risk and market risk in the banking book.

_Corporate Credit Risk Management Division - carries out all activities concerning the operative credit risk of corporate clients and financial institutions.

_Retail Credit Risk Management Division - carries out all activities concerning the operative credit risk of retail clients.

_Strategic Risk Management (SRM) - responsible for operational risk, complete trading book market risk, banking book risk measurement (based on VAR) and limit setting and credit risk control. In addition, SRM has an integration role in risk management that concerns all other risk areas. In operational risk it coordinates the activities of other relevant departments (blue/dashed lines in the chart).

_Financial Crime & Compliance - responsible for compliance risk (e.g. anti-money laundering program) and for investigation and prevention of financial fraud.

The risk management function is independent from business lines. Overall, risk management has the following roles:

_setting strategies and policies for risk management.

_building a risk-aware culture within the Bank.

_establish internal risk policies and structures for business units.

_designing and reviewing processes of risk management.

_risk reporting.

_risk pricing and setting of risk premiums.

_implementation, calibrating, and periodical reviewing of models for risk measurement.

_to protect against losses from financial crime activities and compliance violations.

35. CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet contractual obligations.

Credit risk is the largest single risk in the Bank. It arises from traditional lending activities (loans and advances to customers) where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk also includes sovereign, country, concentration, settlement, and dilution risk.

The implementation of new Basel II rules on capital adequacy is at the centre of the Bank's attention. At the end of the year the Bank submitted the official application for approval of the "internal-ratings based" (IRB) approach to credit risk.

The cornerstone of a loan process in Bank is based on risk assessment using rating systems and assignment of a rating grade. The final rating is a key factor for a loan decision, loan amount and price.

The Corporate Credit Risk Management Division formulates credit policy and internal provisions on credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). It furthermore monitors the development credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets and monitors limits, maintains deal and limit documentation for corporate clients, work-out, effective debt recovery for corporate clients and collateral management.

The Retail Credit Risk Management Division formulates credit policy and internal provisions on the credit approval process for retail clients. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). It furthermore monitors the development of the credit portfolio of retail clients. It also designs, sets and monitors limits, maintains deal and limit documentation, performs early & late collection, and effective debt recovery.

Strategic Risk Management (SRM), more specifically its Credit Risk Section, is the independent risk control unit in the meaning of Basel II. SRM is not involved in operative credit decision-making. However, it is responsible for the design of rating systems, the testing and monitoring of the accuracy and selectivity of internal rating grades, and the production and analysis of summary reports from the Bank's rating systems. SRM is also responsible for the design and implementation of models for the calculation of risk parameters (Probability of default - PD, Loss-given default - LGD, Credit conversion factor - CCF etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for the calculation of risk-weighted assets according to Basel II and the model for economic capital.

Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit.

Maximum exposure to credit risk

Maximum exposure to the credit risk of financial assets is represented by their net carrying amount (carrying amount in the case of derivatives measured at fair value).

Maximum exposure to credit risk for off balance sheet commitments (e.g. undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Bank has to pay if the commitment is called on.

Information regarding exposure to credit risk arising from financial assets other than loans and off balance sheet commitments is detailed in individual notes.

Exposure to credit risk from loans, advances to customers, financial guarantees granted and undrawn loan commitments

The following table presents the maximum exposure to credit risk of loans, advances to customers, financial guarantees granted and undrawn loan commitments:

SKK million	2007	2006
Gross amount	**200 140**	**163 884**
Retail	83 724	66 961
Corporate and other classes	116 416	96 923
Provision for impairment	**(5 510)**	**(4 355)**
Retail	(3 830)	(3 202)
Corporate and other classes	(1 680)	(1 153)
Net amount	**194 630**	**159 529**
Retail	79 894	63 759
Corporate and other classes	114 736	95 770

Note: Retail loans include small loans to entrepreneurs.

Provisions for impairment are structured as follows:

SKK million	2007	2006
Provisions for losses on loans and advances (Note 16)	5 410	4 275
Provisions for off-balance sheet items (Note 28)	100	80
Total provision for impairment	**5 510**	**4 355**

Information on the credit quality of loans, advances to customers, financial guarantees granted and undrawn loan commitments, classified as retail asset class by the Bank are as follows:

Retail asset class

SKK million	2007	2006
Total exposure		
Investment grade (1-5)	60 782	53 081
Subinvestment grade (6)	9 665	6 405
Subinvestment grade (7)	5 168	1 165
Subinvestment grade (8)	1 411	1 641
Rating R: Defaulted	6 698	4 669
Gross amount	**83 724**	**66 961**
Provisions for impairment	(3 830)	(3 202)
Net amount	**79 894**	**63 759**
Ageing of loans rated 1-8 is as follows:		
0 days	72 669	58 681
1-30 days	3 496	2 867
31-60 days	600	521
61-90 days	261	223

Note: The increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Bank considers the financial position and performance of the counterparty, qualitative factors, as well as general economic trends in the particular industry and country.
Exposures rated as 1-8 according to the Bank's internal rating are not considered to be individually impaired.

Individually impaired loans and irrevocable commitments

Impaired loans and irrevocable commitments are those for which the Bank determines that it is probable it will be unable to collect all principal and interest due according to the contractual terms of these financial instruments. These are graded R in the Bank's internal risk rating system.

Past due but not individually impaired loans

Loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate.

Neither past due nor individually impaired loans

Loans where contractual interest or principal payments are not past due and the Bank does not expect impairment.

Information regarding the credit quality of loans, advances to customers, financial guarantees granted and undrawn loan commitments (classified as corporate, institutional or sovereign asset class) are as follows:

Corporate and other asset classes

SKK million	2007	2006
Total exposure		
Investment grade (1-5)	80 216	56 371
Subinvestment grade (6)	21 069	23 850
Subinvestment grade (7)	8 227	7 853
Subinvestment grade (8)	3 953	6 976
Rating R: Defaulted	2 950	1 873
Gross amount	**116 416**	**96 923**
Provision for impairment	(1 680)	(1 153)
Net amount	**114 736**	**95 770**
Individually impaired		
Gross amount	**2 950**	**1 873**
Provision for impairment	(1 508)	(1 153)
Net amount	1 442	720
Past due (excluding individually impaired)		
Investment grade (1-5)	1 561	87
Subinvestment grade (6)	309	224
Subinvestment grade (7)	347	472
Subinvestment grade (8)	438	471
Rating R: Defaulted	-	-
Gross amount	2 655	1 254
Provision for impairment	(1)	-
Net amount	**2 654**	**1 254**
Past due but not impaired comprises:		
1-30 days	1 692	716
31-60 days	759	379
61-90 days	135	80
90 days+	69	79
Neither past due nor individually impaired		
Investment grade (1-5)	78 656	56 284
Subinvestment grade (6)	20 761	23 626
Subinvestment grade (7)	7 880	7 382
Subinvestment grade (8)	3 514	6 504
Rating R: Defaulted	-	-
Gross amount	**110 810**	**93 796**
Provision for impairment	(171)	-
Net amount	**110 639**	**93 796**

Note: The Increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Bank considers financial position and performance of counterparty, qualitative factors as well as general economic trends in particular industry and country.
Exposures rated as 1-8 according to Bank's internal rating are not considered to be individually impaired

Default events

Part of the Bank's reporting is the monitoring of defaults events behind defaulted individually significant loans. The Bank defines five default events:

_E1 – unlikeliness to pay
_E2 – 90 days overdue
_E3 – distressed restructuring of exposure
_E4 – Exposure write-off
_E5 – Bankruptcy

When a default event is recognized in the system, the rating of the client is automatically changed to defaulted.

Collaterals

The Group holds collateral against loans and advances to customers in the form of real estates, securities, bank guaranties and other credit enhancements. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not generally held over loans and advances to banks, except when securities are held as a part of reverse repurchase activities (see Note 14). Collaterals against investment securities are described in Note 18 and 19.

The carrying amount of collaterals and other credit enhancements held against loans, advances to customers, financial guarantees granted and undrawn loan commitments is shown below:

SKK million	2007	2006
Real estates	104 762	73 145
Securities	10 234	5 218
Bank guaranties	6 971	3 376
Other	4 690	4 767
Total	**126 656**	**86 506**

As at 31 December 2007, the Group took possession of real estates with an estimated value of SKK 216 million, which the Group is in the process of selling. These amounts are included under 'Other Assets'.

Concentration risk

Summary of concentrations of financial assets (including derivatives) as of 31 December 2007 and 2006 are presented below:

31 December 2007 SKK million	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
	Gross	Net	Gross	Net	Gross	Net
Agriculture and forestry	1 359	1 210				
Mining	78	78				
Manufacturing	25 919	25 110			519	519
Energy and water supply	9 044	9 044				
Construction	5 988	5 844			19	19
Trade	21 975	21 210				
Hotels and restaurants	3 198	3 185				
Transport and communication	8 720	8 646			1 710	1 710
Banking and insurance	9 777	9 773	34 111	34 111	21 156	21 021
Real estate and other business activities	28 582	28 420				
Public administration	1 509	1 509			70 255	70 255
Health and social work	935	930				
Other service activities	2 384	2 369				
Private households	76 882	73 516			109	109
Other	3 790	3 786			78	78
Total	**200 140**	**194 630**	**34 111**	**34 111**	**93 846**	**93 711**

31 December 2006	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
SKK million	Gross	Net	Gross	Net	Gross	Net
Agriculture and forestry	1 222	1 140				
Mining	154	153				
Manufacturing	17 508	16 682			752	752
Energy and water supply	5 278	5 269				
Construction	6 664	6 568				
Trade	19 468	19 153				
Hotels and restaurants	1 998	1 949				
Transport and communication	8 261	8 214			810	810
Banking and insurance	11 702	11 700	69 110	69 110	17 222	17 085
Real estate and other business activities	19 107	19 006				
Public administration	1 559	1 558			61 435	61 435
Health and social work	551	546				
Other service activities	2 787	2 783				
Private households	62 056	59 249			217	217
Other	5 569	5 559			139	139
Total	**163 884**	**159 529**	**69 110**	**69 110**	**80 575**	**80 438**

A summary of concentrations of loans and advances to customers, loan commitments, and guarantees classified by asset classes (as of 31 December 2007 and 2006) are presented below:

	2007		2006	
SKK million	Gross	Net	Gross	Net
Retail	83 723	79 894	66 961	63 760
Corporate	112 386	110 705	94 992	93 838
Institution	308	308	433	433
Sovereigns	3 723	3 723	1 498	1 498
Carrying amount	**200 140**	**194 630**	**163 884**	**159 529**

The following table presents the summary of the Group’s credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government, and similar exposures:

	2007		2006	
SKK million	Amount SKK million	Portion of total assets %	Amount SKK million	Portion of total assets %
Cash and balances at the central bank	7 308	2.40%	8 561	2.87%
Repo trades with NBS treasury bills	21 946	7.22%	57 814	19.41%
Loans and advances to customers	7 083	2.33%	7 682	2.58%
Securities portfolios	70 509	23.20%	61 456	20.63%
Total	106 846	35.16%	135 513	45.49%

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

SKK million	2007	2006
Financial assets at fair value through profit or loss	**9 964**	**94**
Treasury bills	9 932	-
State bonds denominated in SKK	32	94
Securities available for sale	**13 377**	**20 478**
Treasury bills	-	-
State bonds denominated in SKK	9 543	16 640
Slovak government Eurobonds	3 740	3 741
Companies controlled by the Slovak government	94	97
Securities held to maturity	**47 168**	**40 884**
State bonds denominated in SKK	46 456	40 172
Companies controlled by the Slovak government	712	712
Total	**70 509**	**61 456**

The rating of the Slovak Republic according to the international rating agency Standard & Poor's is A .

36. MARKET RISK

Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of four key elements:

_risk identification - identify all risks inherent in the trading operations and in new products (new products check), and ensure these are subject to adequate procedures and controls before being introduced or undertaken.
_risk measurement – calculation of risk exposure using sensitivities and value-at-risk.
_limits management - development of a comprehensive limit system and limit allocation. Limit setting is a way to restrict the maximum risk exposure.
_risk monitoring and reporting

The main tool to measure market risk exposure in the Bank is Value-at-Risk (VaR). Value-at-Risk methodology is a statistical analysis used to determine maximum possible loss in the market value of a position (portfolio) due to change in market factors, given certain confidence to the interval and holding period. An important part of the VaR model is Back Testing that compares the ex post computed VaR with the profit and loss actually achieved over the holding period and thus ascertains whether the actual loss of overdrafts is in accordance with the selected confidence level. Value-at -Risk is not an indication of the actual future performance of investments which may increase or decrease in value.

The Group separates its exposure to market risk between the Trading Book and Banking Book.

Market Risk - Trading Book

The trading book represents the Bank's positions in financial instruments – cash, derivative or securities - held either with trading intent (i.e. for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements) or in order to hedge other instruments of the trading book.

For the purpose of market risk measurement of the trading book, VaR with complementary stress testing and extreme value theory measurements is used.

The VaR risk measurement estimates the maximum potential loss in pre-taxation profit over a given holding period for a specified confidence level. VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities, changes in interest rates, foreign exchange rates, and other market factors. Risks can be measured consistently across all markets and products of the trading book, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR. Value-at-Risk is not an indication of actual future performance of investments which may increase or decrease in value.

As of 31 December 2007, the maximum one day expected loss from exposures of the trading book, that may result from changes in interest rates, exchange rates and other market factors, are as follows:

SKK million			2007			
Desk	Interest	Currency	Price	Volatility	Total	Limit
Foreign Exchange	1.3	5.0	-	1.0	5.3	25
Money Market	14.4	-	-	-	14.4	25
Fixed Income	3.5	-	-	0.2	3.5	30
Equities	-	-	1.0	0.4	0.8	20
Total	**14.6**	**5.0**	**1.0**	**1.0**	**14.3**	**55**

SKK million			2006			
Desk	Interest	Currency	Price	Volatility	Total	Limit
Foreign Exchange	0.5	4.8	-	2.3	5.3	30
Money Market	10.8	-	-	-	10.7	30
Fixed Income	3.2	-	-	-	3.1	35
Equities	-	-	0.1	-	0.1	20
Total	**13.0**	**4.8**	**0.1**	**2.3**	**12.4**	**70**

Foreign exchange are positions in foreign currencies and foreign currency options.

The money market includes deposits, derivatives (FRA, OIS, FX swaps), repurchase transactions, and positions in treasury bills.

Fixed income represents bonds positions and interest rate derivatives (IRS, CIRS, Caps&Floors, Bond Futures, etc.).

Equities are positions in stocks and stock derivatives (equity or equity index options and futures).

Limit represents the Bank's internally defined maximum one day loss that is used as a benchmark for managing the market risk of the trading book.

Value-at-risk is subject to some model assumptions (normality of distribution, historical simulation, etc.). Stress testing partially tackles these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

Market Risk - Banking Book

Market Risk of Banking book is managed by the Balance Sheet Management Department ("BSM").

The main steps to market risk analyzing and managing:

_data collection – on the Bank's portfolio and market data.
_assumptions set-up – on products, scenarios and strategies building.
_analysis results:
  _MVE risk - risk of change of market value of the portfolio in the case of change of interest rates curve (see note 38).
  _deterministic net interest income and net interest income risk - forecast of net interest income in future periods and change of net interest income in the case of defined development of yield curve (see note 38).
  _stochastic net interest income - stochastic distribution of net interest income in the case of stochastic rate changes.
_tools to manage the market risk exposure of the banking book – investment strategy must be prepared on an annual basis:
  _investments to BSM Department portfolio.
  _hedging.

Results of standard analysis (stable balance sheet, stable margins, parallel shocks) are included in the ALCO report and presented at the ALCO meeting by on a monthly basis. Based on the requests and market situation, non-standard analysis is presented at ALCO meetings on an irregular basis.

37. 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 termed 'Stop-loss Limits on foreign exchange strategic position of banking book'.

A three-level framework is proposed:

_10 day stop-loss - 10 day limit equals 2% of the SKK value of current open position, valued using rate as of 10 business days ago. Violation occurs if the 10-day unrealised loss on current open position is greater than the limit amount. ALCO has to be notified immediately.
_20 day stop-loss - 20 day limit equals 2.5% of the SKK value of current open position, valued using rate as of 20 business days ago. Violation occurs if the 20-day unrealised loss on current open position is greater than the limit amount. In that case, BSM closes 25% of the originally approved position or a different ALCO decision is taken.
_Yearly stop-loss - triggered if cumulative year-to-day loss (including both realised and unrealised income statement effect) is greater than SKK 100 million. At each change of the position, ALCO reconsiders the amount of the limit, based on Central Risk Management proposal.

The table below provides an analysis of the Group's net open foreign exchange positions. The remaining currencies are included under 'Other':

SKK million	EURO	US Dollar	Czech Crown	Other	ovak Crown	Total
Cash and balances at the central bank	562	113	221	230	11 376	12 502
Loans and advances to financial institutions	2 403	3 181	92	88	28 347	34 111
Loans and advances to customers	28 016	368	2 355	315	125 722	156 776
Provisions for losses on loans and advances	(328)	(1)	(1)	-	(5 080)	(5 410)
Financial assets at fair value through profit or loss	3 627	831	3	39	13 664	18 164
Securities available for sale	7 655	91	577	292	14 348	22 963
Securities held to maturity	2 265	232	905	-	49 182	52 584
Total financial assets	**44 200**	**4 815**	**4 152**	**964**	**237 559**	**291 690**
Amounts owed to financial institutions	12 690	4 539	660	162	6 553	24 604
Amounts owed to customers	24 302	2 913	890	916	200 975	229 996
Debt securities in issue	11	7	-	344	15 132	15 494
Financial liabilities at fair value through profit or loss	-	-	-	-	2 387	2 387
Subordinated debt	3 368	-	-	-	-	3 368
Total financial liabilities	**40 371**	**7 459**	**1 550**	**1 422**	**225 047**	**275 849**
Total net FX position of financial assets and liabilities at 31 December 2007	**3 829**	**(2 644)**	**2 602**	**(458)**	**12 512**	**15 841**
Total financial assets at 31 December 2006	31 959	3 649	2 236	610	249 384	287 838
Total financial liabilities at 31 December 2006	33 021	5 021	1 191	1 191	231 121	271 545
Total net FX position of financial assets and liabilities at 31 December 2006	**(1 062)**	**(1 372)**	**1 045**	**(581)**	**18 263**	**16 293**

The following table details the Group's sensitivity to percentage movement of exchange rates. These changes represents the management's assessment of reasonably possible changes in foreign exchange rates:

Currency	Appreciation of SKK	Depreciation of SKK	Appreciation impact (SKK million)	Depreciation impact (SKK million)
EUR	3.28%	-	(126)	-
USD	-	5.38%	-	(142)
CZK	1.03%	-	(27)	-

38.INTEREST RATE RISK

Interest rate risk indicators

Interest rate risk is the risk that net interest income of 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 Bank's net interest income and market value of the Bank's assets and liabilities. Interest rate risk limits are approved by ALCO. The one year forecasted net interest income in the case of 200 basis points (bp) parallel change of interest rates should not exceed 15% of the forecasted NII according to the base market scenario (stable yield curve). The change of the market value of the portfolio of Bank interest earning assets and liabilities in the case of 200 bp parallel changes of interest rates should not exceed 20% of the capital of the Bank.

The limit on the interest rate risk of the banking book's off-balance sheet contracts is in the amount of SKK 200 mil. The risk is calculated as the expected change of market revaluation of existing positions in the case of +/-200 bp change of interest rates. The limit is set for total risk regardless of currency. The currency risk is restricted by the foreign exchange limit approved by ALCO. Derivative contracts, which are used for hedging purposes, are not included in risk calculation as they do not cause fluctuations in the Income Statement.

As of 31 December 2007, the +/- 200 bp change in interest rates would affect net interest income as at 31 December 2007 and 2006 as follows:

Net interest income risk limit	2007	2006
+ 200 bp	2.05%	1.97%
- 200 bp	(2.82%)	(2.92%)

Change in yield curve by + 200 bp would affect the market value of interest bearing assets and liabilities as follows:

SKK million	+200 bp.	
Currency / Shift of interest rates	2007	2006
SKK	10	729
EUR	(187)	210
USD	(39)	(10)
Total	**(216)**	**929**

The limit defined by risk management for the maximum change of interest bearing assets and liabilities from +200 bp parallel change of interest rates amounts to SKK 3 599 million as of 31 December 2007 (SKK 2 907 million as of 31 December 2006).

Interest rate re-pricing analysis

The following table presents the interest rate re-pricing terms 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 2007 SKK million	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unde-fined	Total
PCash and balances at the central bank	12 502	-	-	-	-	-	**12 502**
Loans and advances to financial institutions	30 223	2 136	1 752		-	-	**34 111**
Loans and advances to customers	31 693	14 125	39 401	57 999	6 683	6 875	**156 776**
Provisions for losses on loans and advances	-	-	-	-	-	(5 410)	**(5 410)**
Financial assets at fair value through profit or loss	1 443	12 142	2 373	681	668	857	**18 164**
Securities available for sale	857	6 570	2 829	6 657	5 775	275	**22 963**
Securities held to maturity	26 792	79	3 312	7 342	15 059	-	**52 584**
Investments in subsidiaries, associates and other investments	-	-	-	-	-	1 591	**1 591**
Intangible assets	-	-	-	-	-	2 359	**2 359**
Property and equipment	-	-	-	-	-	6 319	**6 319**
Investment property	-	-	-	-	-	344	**344**
Non-current assets held for sale	-	-	-	-	-	130	**130**
Current income tax asset	-	-	9	-	-	3	**12**
Deferred income tax asset	-	-	-	-	-	14	**14**
Other assets	64	-	616	-	-	774	**1 454**
Total assets	**103 574**	**35 052**	**50 292**	**72 679**	**28 185**	**14 131**	**303 913**
Amounts owed to financial institutions	13 599	2 257	1 316	7 423	-	9	**24 604**
Amounts owed to customers	75 083	35 616	55 300	63 390	-	607	**229 996**
Debt securities in issue	23	1 796	9 075	3 700	500	400	**15 494**
Provisions for liabilities and other provisions	-	-	-	-	-	655	**655**
Financial liabilities at fair value through profit or loss	434	387	790	623	153	-	**2 387**
Other liabilities	2 064	772	1 258	-	-	874	**4 968**
Current income tax liability	-	-	338	-	-	-	**338**
Deferred income tax liability	-	-	-	-	-	36	**36**
Subordinated debt	-	3 368	-	-	-	-	**3 368**
Total liabilities	**91 203**	**44 196**	**68 077**	**75 136**	**653**	**2 581**	**281 846**
Current gap	**12 371**	**(9 144)**	**(17 785)**	**(2 457)**	**27 532**	**11 550**	**22 067**
Cumulative gap	**12 371**	**3 227**	**(14 558)**	**(17 015)**	**10 517**	**22 067**	**-**

As at 31 December 2007 SKK million	On demand and less than 1 month	1 to 3 months	3 months 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	129	**26 429**
Securities held to maturity	26 532	29	3 354	4 128	10 656	-	**44 699**
Investments in subsidiaries, associates and other investments	-	-	-	-	-	1 254	**1 254**
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**	**-**

Effective yield information

The effective yields of significant financial assets and liabilities per major currencies as at 31 December 2007 and 2006 are as follows:

	31 December 2007		31 December 2006	
	Average effective interest rate	Average effective interest rate	Average effective interest rate	Average effective interest rate
%	SKK	Other	SKK	Other
Assets				
Cash and balances at the central bank	1.50%	-	1.50%	-
Loans and advances to financial institutions	4.15%	4.75%	4.05%	2.93%
Loans and advances to customers	7.57%	5.16%	7.39%	4.26%
Treasury bills and bonds	4.53%	4.77%	4.72%	4.79%
Liabilities				
Amounts owed to financial institutions	4.00%	4.55%	4.23%	2.66%
Amounts owed to customers	1.85%	2.21%	1.67%	1.48%

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

39. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to meet commitments associated with financial instruments.

Structural Liquidity Risk is managed by ALCO. In 2006 OLC (Ordinary liquidity committee) was established, it is responsible for operational managing and analysing of the liquidity situation of the Group. Daily liquidity managing and the fulfilment of minimum required reserves is performed by the treasury division. Liquidity risk is quantified under the liquidity arrangement of the NBS. Own measurement and prediction system of financing needs offers superior information for liquidity managing. The liquidity of the Bank is covered by a high share of government bonds on the total balance sheet. The ratio of fixed and illiquid assets to own capital and reserves was 0.7 (2006: 0.71) as at 31 December 2007, in accordance with the requirements of the regulator (the NBS). The liquidity situation of the Bank is safe.

Maturity analysis

The following table shows the Group’s remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities. The table includes both interest and principal cash flows. The principal cash flows are the best estimates using average effective yield

As at 31 December 2007 SKK million	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts owed to financial institutions	13 612	2 268	1 315	8 183	-	25 378
Amounts owed to customers	150 502	29 114	36 934	13 989	-	230 539
Debt securities in issue		478	3 884	11 308	1 356	17 026
Total	**164 114**	**31 860**	**42 133**	**33 480**	**1 356**	**272 943**

As at 31 December 2006 SKK million	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Amounts owed to financial institutions	30 962	2 332	2 192	9 587	17	45 090
Amounts owed to customers	140 603	23 125	32 624	12 349	-	208 701
Debt securities in issue	357	378	1 449	10 068	590	12 842
Total	171 922	25 835	36 265	32 004	607	266 633

The following table details the Group's liquidity analyses for its derivative financial instruments. The table has been drawn up based on the undiscounted cash inflows/outflows.

As at 31 December 2006 SKK million	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Positive						
Foreign exchange contracts (with change of nominal)	51 230	12 478	49 209	391	-	113 308
Foreign exchange contracts (without change of nominal)	34	14	106	547	-	701
Interest rate contracts	126	214	1 203	2 566	1 000	5 109
Negative						
Foreign exchange contracts (with change of nominal)	51 322	12 588	49 235	392	-	113 537
Foreign exchange contracts (without change of nominal)	35	11	108	549	-	703
Interest rate contracts	174	211	1 118	2 499	994	4 996

As at 31 December 2006 SKK million	On demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Positive						
Foreign exchange contracts (with change of nominal)	40 223	10 038	27 811	3 732	-	81 804
Foreign exchange contracts (without change of nominal)	41	-	28	448	-	517
Interest rate contracts	102	142	827	2 559	771	4 401
Negative						
Foreign exchange contracts (with change of nominal)	40 105	10 124	27 808	3 855	-	81 892
Foreign exchange contracts (without change of nominal)	40	-	200	434	-	674
Interest rate contracts	127	221	927	2 557	758	4 590

40. OPERATIONAL RISK

Operational risk is the risk of loss (direct and indirect) resulting from inadequate or failed internal processes, people and systems or from external events which lead (or have the potential to lead) to losses, or have other negative impact on the Bank. This definition includes legal risk, but excludes strategic and reputation risk. Operational risks arise from all of the Group's operations and in each of the business lines.

Primary responsibility for the day-to-day management of operational risk is assigned to every business unit. The Central Risk Management unit performs activities of global scope and has a methodical, coordination, and harmonization role.

The main objectives of operational risk management are:
_to set up a Bank-wide framework for operational risk management and to translate this framework into internal regulations.
_to properly identify major drivers of operational risk.
_to develop models for the quantification of risk exposure profile and for the calculation of both economic and regulatory capital.
_to prevent or minimize losses due to operational risk by the adaptation of suitable processes, preventive measures, or selecting suitable insurance.
_to create an effective system of business continuity management.
_to continuously improve the operational risk management process.
_to provide quality reporting and documentation (quarterly reporting of operational risk events for the board of directors, senior management and regional directors).

Operational risk management is performed within the following main activities:
_system of internal controls - each unit manager is responsible for the effectiveness and quality of the control system within its area of competence.
_business continuity management - to ensure the uninterrupted provision of business operations and services.
_insurance – to minimize losses due to operational risk.
_outsourcing – the respective business unit is responsible for the operational risk management related to outsourcing, internal audit can also exercise periodically controls.
_anti-money laundering.
_risk assessment of new products, activities, processes and systems before being introduced or undertaken.

The Group measures its operational risk exposure using the loss distribution approach. In modelling the distribution, the following are used: internal data collection, external data, scenario analysis, risk mapping and key risk indicators (key risk indicators track the most important drivers of operational risk), factors reflecting the business environment, and internal control systems.

In this, the probability distribution of both the frequency of loss and the amount of loss is modelled, and is recombined into a compound distribution of yearly losses. From this distribution, both expected and unexpected losses can be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9% and the holding period should be one year. Risk measurement is exploited for the effective identification of risks, setting of risks definitions within internal regulations (strategy, policy), and reducing the potential frequency/severity of loss, as well as serving as the basis for economic capital measurement and allocation. The long-term objective is to implement the Advanced Measurement Approach (AMA) defined by Basel II.

Since 2005 the Group has been involved in a comprehensive group-wide captive insurance program. Under this program, the vast majority of operational risks - property damage, internal & external fraud, IT failures, civil liability, etc. - are covered for both the Bank and its subsidiaries.

41. CAPITAL MANAGEMENT

The Group's lead regulator, the NBS, sets and monitors capital requirements. In implementing current capital requirements the NBS requires the Group to maintain a prescribed ratio of total capital to total risk weighted assets (minimum 8%). The Bank calculates requirements for market risk in its trading portfolios based on the Bank's VaR models and uses four grades prescribed by NBS decree as the basis for risk weightings of credit risk (off balance sheet exposures included) taking into account all eligible guaranties and collaterals. From 1 January 2008 after changing over to Basel II, a standardized approach as the basis for credit risk weightings will change based on the ratings of permitted external agencies. Under the IRB approach, internal gradings will be applicable. Basel II comes with a new capital requirement on operational risk.

The Group's regulatory capital is analysed in two tiers:

_Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve after deduction for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

_Tier 2 capital, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base. The amount of qualifying tier 2 capital cannot exceed tier 1 capital, qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. Other deductions from capital include the carrying amounts of investments qualifying as financial institutions exceeding 10% participation on their share capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

As of 31 December 2007 and 2006, the Group has complied with all externally imposed capital requirements.

The Group's regulatory capital position at 31 December 2007 and 2006 was as follows:

SKK million	2007	2006
Tier 1 capital		
Ordinary share capital	6 374	6 374
Share premium	-	-
Perpetual bonds	-	-
Capital reserves	3 582	3 592
Retained earnings	7 730	6 080
Translation reserve		-
Less intangible assets	(2 339)	(2 035)
Other regulatory adjustments		-
Total	**15 347**	**14 011**
Tier 2 capital		
Fair value reserve for available-for-sale equity securities	74	-
Collective allowances for impairment	-	-
Qualifying subordinated liabilities	3 360	-
Total	**3 434**	**-**
Deductions from Tier I and Tier II capital	(140)	(88)
Total regulatory capital	**18 641**	**13 923**
Risk-weighted assets		
Credit risk	178 894	142 097
Market and other risks	2 826	3 236
Total	**181 720**	**145 333**
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	10.26%	9.58%
Total Tier 1 capital expressed as a percentage of risk-weighted assets	8.45%	9.64%

42. CASH FLOW HEDGE

The Group decided to hedge its EUR interest cash flows from selected financial assets during the period of 48 months, starting April 2005. The hedging instrument is EUR borrowing which is amortised according to the amount of cash flows received during the period. The fair value of the hedging instrument as at 31 December 2007 was SKK 444 million (2006: SKK 878 million). Foreign exchange differences from hedging instrument are retained in the cash flow hedge reserve in equity and transferred into interest income as the cash flows from the hedged items come. Thus the interest income is fixed at the level of the rate existing as at the start of the hedge.

If cash flows from individual financial assets are no longer expected to occur (mainly due to prepayment of financial assets), the respective amount retained in the equity reserve is released into the Income Statement in 'Net profit on financial operations'.

The Group also hedges its cash flows from interest expense from a part of issued bonds at a floating rate, over the period of 3 years starting November 2006. The hedging instrument is the interest rate swap in the fair value of SKK (89) thousand (2006: SKK (2.4) million), paying a float rate and receiving a fixed rate. As at 31 December 2007 and 2006, the hedge was effective.

The amounts that were removed from equity and included in the Income Statement are as follows:

SKK million	2007	2006
Net interest income	48	21
Net profit on financial operations	17	10
Total	**65**	**31**

43. CONTINGENT LIABILITIES AND COMMITMENTS

Legal disputes

Provisions are maintained to cover risks related to possible losses of the Group related to legal cases. Provisions for legal cases are described in Note 28 (c).

44. 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 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 that 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 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

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

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

The following table contains off-balance sheet credit exposures (see Note 15) and also treasury commitments:

SKK million	2007	2006
Guarantees provided	8 310	3 985
Guarantees from letters of credit	110	252
Loan commitments and undrawn loans	34 944	30 127
Total	**43 364**	**34 364**

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 2007.

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-à-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. Both contracts qualify for hedge accounting under the specified rules of IAS 39.

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

A forward rate agreement is an agreement to settle amounts at a specific future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Bank 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

2007 SKK million	Receivables Notional value	Fair value	Liabilities Notional value	Fair value
Hedging	**1 980**	**60**	**1 980**	
Total hedging instruments	1 980	60	1 980	-
Trading derivatives				
Forward rate agreements (FRA)	16 766	4	16 766	6
Foreign currency forwards	18 748	124	19 086	464
Option contracts	37 625	702	37 476	698
Interest rate swaps (IRS)	74 887	838	74 887	788
Currency interest rate swaps (CIRS)	2 843	4	2 812	33
Currency swaps	94 559	534	94 452	398
Total trading derivatives	**245 428**	**2 206**	**245 479**	**2 387**
Total	**247 408**	**2 266**	**247 459**	**2 387**

Negative value of derivatives of 2007 SKK 2 387 million (2006: SKK 3 950 million) are presented as 'Financial liabilities at fair value through profit and loss'.

2006 SKK million	Receivables Notional value	Fair value	Liabilities Notional value	Fair value
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**

2. Derivatives based on the trading place

2007 SKK million	Receivables Notional value	Fair value	Liabilities Notional value	Fair value
Hedging				
OTC	1 980	60	1 980	
Total hedging instruments	**1 980**	**60**	**1 980**	**-**
Trading derivatives				
Forward rate agreements (FRA)	16 766	4	16 766	6
Quoted	-	-	-	-
OTC	16 766	4	16 766	6
Option contracts	37 625	702	37 476	698
Quoted	-	-	-	-
OTC	37 625	702	37 476	698
Interest rate swaps	74 887	838	74 887	788
Quoted	-	-	-	-
OTC	74 887	838	74 887	788
Other derivatives	116 150	662	116 350	895
Quoted	-	-	-	-
OTC	116 150	662	116 350	895
Total trading derivatives	**245 428**	**2 206**	**245 479**	**2 387**
Total	**247 408**	**2 266**	**247 459**	**2 387**

2006 SKK million	Receivables Notional value	Fair value	Liabilities Notional value	Fair value
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
Option contracts	28 271	517	28 372	674
Quoted	-	-	-	-
OTC	28 271	517	28 372	674
Interest rate swaps	82 667	2 121	83 014	2 390
Quoted	-	-	-	-
OTC	82 667	2 121	83 014	2 390
Other derivatives	50 492	799	50 492	793
Quoted	-	-	-	-
OTC	50 492	799	50 492	793
Total trading derivatives	**180 430**	**3 447**	**180 878**	**3 868**
Total	**183 196**	**3 447**	**183 644**	**3 950**

3. Maturity analysis

SKK million	2007 Receivables	Liabilities	2006 Receivables	Liabilities
Hedging				
Up to 1 month	-	-	-	-
From 1 to 3 months	-	-	-	-
From 3 to 12 months	-	-	-	-
From 1 to 5 years	308	308	1 037	1 037
Over 5 years	1 672	1 672	1 729	1 729
Hedging – total	**1 980**	**1 980**	**2 766**	**2 766**
Trading derivatives				
Forward rate agreements (FRA)	16 766	16 766	19 000	19 000
Up to 1 month	2 500	2 500	8 000	8 000
From 1 to 3 months	4 500	4 500	5 500	5 500
From 3 to 12 months	9 766	9 766	5 500	5 500
From 1 to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Foreign currency forwards	18 748	19 086	23 727	24 100
Up to 1 month	3 383	3 431	4 194	4 265

From 1 to 3 months	3 532	3 603	5 262	5 206
From 3 to 12 months	11 824	12 042	11 845	11 981
From 1 to 5 years	9	10	2 426	2 648
Over 5 years	-	-	-	-
Option contracts	37 625	37 476	28 271	28 372
Up to 1 month	4 532	4 525	2 214	2 232
From 1 to 3 months	2 220	2 193	4 401	4 334
From 3 to 12 months	10 213	10 107	13 095	13 379
From 1 to 5 years	20 304	20 295	8 561	8 427
Over 5 years	356	356	-	-
Interest rate swaps (IRS)	74 887	74 887	50 492	50 492
Up to 1 month	2 150	2 150	1 146	1 146
From 1 to 3 months	1 800	1 800	837	837
From 3 to 12 months	21 555	21 555	8 025	8 025
From 1 to 5 years	37 946	37 946	27 179	27 179
Over 5 years	11 436	11 436	13 305	13 305
Currency interest rate swaps (CIRS)	2 843	2 812	863	1 122
Up to 1 month			-	-
From 1 to 3 months			262	475
From 3 to 12 months	2 178	2 165	170	271
From 1 to 5 years	665	647	431	376
Over 5 years			-	-
Currency swaps	94 559	94 452	58 077	57 792
Up to 1 month	47 847	47 891	36 029	35 840
From 1 to 3 months	8 945	8 986	4 776	4 918
From 3 to 12 months	37 385	37 193	15 966	15 827
From 1 to 5 years	382	382	1 306	1 207
Over 5 years	-	-	-	-
Total trading derivatives	**245 428**	**245 479**	**180 430**	**180 878**
Total	**247 408**	**247 459**	**183 196**	**183 644**

45. 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 2007	Estimated fair value 2007	Carrying value 2006	Estimated fair value 2006
Financial assets				
Loans and advances to financial institutions	34 111	34 113	69 110	69 173
Loans and advances to customers	151 366	152 892	125 245	126 538
Held to maturity securities	**52 584**	**53 266**	**44 699**	**45 009**
Financial liabilities				
Amounts owed to financial institutions	24 604	24 637	44 426	44 512
Amounts owed to customers and debt securities in issue	245 490	241 699	222 285	207 587

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. The credit risk of each instrument is taken into account in the way that the yield curve used for the discounting of this instrument is increased by the value of the relevant credit risk margin.

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 3(g).

Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. This demand is modelled according general accepted assumptions within the Erste Bank Group. 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.

46. 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.

47. 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 33 956 million and SKK 25 425 million of assets as at 31 December 2007 and 2006, 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.

48. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table shows the distribution of assets and liabilities and equity to current (due within one year) and non-current (due over one year) based on their contractual maturity.

		2007			2006	
SKK million	Current	Non-current	Total	Current	Non-current	Total
Cash and balances at the central bank	12 502	-	12 502	13 046	-	13 046
Loans and advances to financial institutions	33 962	149	34 111	68 672	438	69 110
Loans and advances to customers	54 589	102 187	156 776	43 817	85 703	129 520
Provisions for losses on loans and advances	-	(5 410)	(5 410)	-	(4 275)	(4 275)
Financial assets at fair value through profit or loss	12 023	6 141	18 164	2 358	6 952	9 310
Securities available for sale	7 295	15 668	22 963	8 523	17 906	26 429
Securities held to maturity	16 300	36 284	52 584	1 252	43 447	44 699
Investments in associates and other investments	-	1 591	1 591	-	1 254	1 254
Intangible assets	-	2 359	2 359	-	2 035	2 035
Property and equipment	1 570	4 749	6 319	-	5 117	5 117
Investment property	-	344	344	-	149	149
Non-current assets held for sale	-	130	130	-	684	684
Current income tax asset	12	-	12	177	-	177
Deferred income tax asset	2	12	14	-	12	12
Other assets	680	774	1 454	88	553	641
Total assets	**138 935**	**164 978**	**303 913**	**137 933**	**159 975**	**297 908**
Amounts owed to financial institutions	17 136	7 468	24 604	35 416	9 010	44 426
Amounts owed to customers	216 033	13 963	229 996	196 027	14 002	210 029
Debt securities in issue	4 282	11 212	15 494	2 170	10 086	12 256
Provisions for liabilities and other provisions	-	655	655	-	884	884
Financial liabilities at fair value through profit or loss	1 129	1 258	2 387	2 509	1 441	3 950
Other liabilities	4 094	874	4 968	4 959	495	5 454
Current income tax	338	-	338	5	-	5
Deferred income tax liability	-	36	36	-	510	510
Subordinated debt	8	3 360	3 368	-	-	-
Equity	-	22 067	22 067	-	20 394	20 394
Total liabilities and equity	**243 020**	**60 893**	**303 913**	**241 086**	**56 822**	**297 908**

49. 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:

SKK million	Erste Bank	2007 Companies under the control ofErste Bank	Erste Bank	2006 Companies under the control ofErste Bank
Assets				
Loans and advances to financial institutions	2 714	120	1 613	229
Loans and advances to customers	-	2 793	-	2 334
Financial assets at fair value through profit and loss	253	-	198	-
Securities held to maturity	-	-	-	-
Other assets	10	76	8	41
Total	**2 977**	**2 989**	**1 819**	**2 604**
Liabilities				
Amounts owed to financial institutions	13 376	88	8 718	329
Amounts owed to customers	-	455	-	408
Debt securities in issue	-	-	-	6
Other liabilities	-	232	8	297
Subordinated debt	3 368	-	-	-
Total	**16 744**	**775**	**8 726**	**1 040**

The Group received a guarantee issued by its parent bank with a maximum value of SKK 8.4 billion (2006: SKK 4.8 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 Italy in face value amounts totalling EUR 250 million (2006: EUR 140 million).

Exposures towards corporate clients covered by the parent's bank guarantees (excluding exposures towards ERSTE Group entities) are in the amount of SKK 5.2 billion (2006: SKK 740 million).

The Group purchased software from Erste Bank in 2006 in the amount of SKK 4 million, and from companies under the control of Erste Bank in the amount of SKK 377 million (2006: SKK 610 million).

On 21 December 2006, the Bank entered into a loan contract with its parent company Erste Bank. Based on the contract, the Bank can draw EUR 100 million subordinated loan till 21 February 2007 with repayment date on 21 December 2016. During February 2007, the Bank withdrew the loan in the whole amount.

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

SKK million	Erste Bank	2007 Companies under the control of Erste Bank	Erste Bank	2006 Companies under the control of Erste Bank
Interest income	43	156	135	107
Interest expense	(272)	(40)	(500)	(55)
Net fees and commissions	7	(9)	8	26
Net trading result	(28)		49	
General administrative expenses	(5)	(461)	(14)	(268)
Other operating result		(55)	(1)	(6)
Total	**(255)**	**(409)**	**(323)**	**(196)**

The Group received dividends from its associates that are under the control of Erste Bank group in the amount of SKK 10 million in 2007 (2006: SKK 16 million).

c) Transactions with associates of the Bank, other than those under control of Erste Bank

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

SKK million	2007	2006
Assets		
Loans and advances to financial institutions	327	6
Loans and advances to customers	-	-
Total	**327**	**6**
Liabilities		
Amounts owed to financial institutions	3	11
Amounts owed to customers	89	12
Total	**89**	**23**

Income and expenses from the associates include the following:

SKK million	2007	2006
Interest income	16	-
Interest expense	(2)	(5)
Total	**14**	**(5)**

The Group received dividends from its associates in the amount of SKK 103 million in 2007 (2006: SKK 107 million).

d) Transactions with key management personnel

Loans and advances granted to members of the Board of Directors and Supervisory Board represent SKK 2.5 million and SKK 962 thousand, and liabilities SKK 71.1 million and SKK 52.7 million as at 31 December 2007 and 2006, respectively.

Remuneration of members of the Board of Directors and Supervisory Board paid during 2007 amounts to SKK 62.0 million (2006: SKK 60.6 million) which represents short-term employee benefits.

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