Annual report 2008

SLOVENSKÁ SPORITEĽŇA

Member of Erste Group

Annexes

01 The company at a glance

The company at a glance

Registered office: Tomášikova 48
832 37 Bratislava
Slovak Republic
Company Registration Number (IČO): 00151653
Legal form: joint stock company
Line of business: universal bank
Shareholders as at 31 December 2008:

Erste Group Bank AG	100%

Significant participations:

Asset Management Slovenskej sporiteľne, správ. spol., a.s.	100.00%
Realitná spoločnosť Slovenskej sporiteľne, a.s.	100.00%
Factoring Slovenskej sporiteľne, a.s.	100.00%
Leasing Slovenskej sporiteľne, a.s.	96.66%
Derop B.V.	85.00%
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, a.s. as at 31 December 2008

Fitch Ratings	
Long-term liabilities	A
Short-term liabilities	F1
Individual rating	C/D
Outlook stable	

Moody's Investors Service	
Long-term liabilities	A1
Short-term liabilities	P-1
Financial strength	C-
Outlook stable	

Standard and Poor's	
Credit rating	A-pi
	(based on published information)

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

02 Financial highlights

Financial highlights

According to IFRS Prepared in accordance with the International Financial Reporting Standards	as of 31 Dec 2005 (MSKK)	as of 31 Dec 2006 (MSKK)	as of 31 Dec 2007 (MSKK)	as of 31 Dec 2008 (MSKK)
Balance sheet total	258 992	297 908	303 913	378 282
Receivables from banks	67 681	69 110	34 111	81 725
Receivables from clients	96 928	129 520	156 776	172 061
Securities and participations (positive value of derivates included)	84 066	81 691	95 302	73 356
Liabilities towards clients	177 550	210 029	229 996	257 972
Equity	19 150	20 394	22 067	24 157
After tax profit	3 569	3 860	4 167	4 282
Selected ratios				
ROE	19.3%	20.3%	19.82%	18.66%
ROA	1.3%	1.4%	1.45%	1.33%
Cost income ratio	55.5%	54.1%	51.82%	49.69%
Non-interest income to Operating income	32.2%	30.3%	27%	28.5%
Net interest margin	3.2%	3.5%	4.04%	3.99%
Loans to Deposits ratio	54.6%	61.7%	68.16%	66.7%
Capital adequacy (%) according to NBS	11.4%	9.1%	10.3%	9.7%
Other figures				
Average number of employees	4 762	4 710	4 713	4 799
No. of branches	302	271	273	275
No of ATMs	519	555	585	627
No of Payment cards	1 086 318	1 138 466	1 264 215	1 340 427
SKK/EUR exchange rate (final rate set in July)	37.8	34.6	33.6	30.126

Results achieved in selected indicators listed in page 11 to 58 comply with Consolidated Financial Statements prepared according to IFRS if not determined otherwise.

03 The Slovak economy in 2008

The Slovak economy in 2008

Economic slowdown in 2008

After recording exceptionally strong growth in 2007, Slovakia's economy grew more slowly last year, though it was still one of the fastest growing in the European Union. Gross domestic product (GDP) increased by 6.4% in real terms, in comparison to 10.4% in 2007. The growth of value added in industry in the first half year was no longer as impressive as before, with car and electronics manufacturers not raising production as rapidly as they had in 2007. Moreover, by the year-end, the economy's output was also reflecting the sharp slowdown in the euro area, which hit mainly the production and export of cars and related industries. Household consumption maintained strong growth owing to a substantial rise in employment, especially in the first three quarters, and to the continuing rise in real wages (adjusted for inflation). Investment activity in the economy was strong, which should ensure that the economy in 2009 is more able to cope with the euro area recession. Nevertheless, economic growth will continue to slow down in 2009, due to the financial crisis and decline in foreign demand, as well as because of the fading stimulus provided by the reforms implemented between 2002 and 2005.

Inflation began to fall at the year-end

Inflation was on an upward course until the end of the third quarter, largely reflecting the increase in food prices. This was related to the bad harvest and drought in 2007 and to the higher demand for raw materials in biofuel production. From a level of 3.8% in January, inflation gradually rose to a peak of 5.4% in September. From then on, as the effect of more expensive foods dropped from year on year basis, inflation edged down to the December level of 4.4%. The fall in inflation at the end of the year also reflected a sharp decline in fuel prices and the fact that the lower oil prices were not creating pressure for a further increase in energy prices (political pressure, too, prevented gas prices from climbing). Average inflation increased from 2.8% to 4.6% in comparison to 2007.

Public finances

Although the general government deficit for the past year was not known when this Annual Report was being written, we do not expect it to deviate far from the budgeted figure of 2.3% of GDP. That would be almost the same as the 2007 deficit of 2.2% of GDP. The budget approved by Parliament for 2009 has a deficit of 2.1% of GDP, but it is highly unlikely that the economy will grow at the projected pace of 6.5%, and therefore incomes will be lower and the budget deficit could be greater.

Slovak koruna replaced by the euro

On 1 January 2009, Slovakia became a member of the euro area as it adopted single currency. 2008 was an interesting year for the koruna, especially during the first half when it gained 11% against the euro. Investors expected the currency to appreciate against the central parity (35.44 SKK/EUR), and by buying koruna, they further strengthened the currency. At the end of May, the koruna's central parity against the euro was, to the market's surprise, revalued to the strongest possible level of 30.1260 SKK/EUR, i.e. the lower limit of the ERM-2 band. At the beginning of July, the conversion rate was set at this central parity rate of.

Interest rates cut by central bank

With euro area entry approaching, the Slovak central bank (NBS) was coordinating its monetary policy with the policy of the European Central Bank and followed the ECB's reduction in interest rates. Over the course of the year, the NBS cut the key two-week repo rate by a total of 175 basis points. At the year-end, this rate stood at 2.50 per cent, and it was further reduced to 1.50 per cent by mid March 2009. The cutting of rates by the ECB was a response to the economic slowdown across the euro area and also to the decline of inflation that made the rate cuts possible.

04 Top management of Slovenská sporiteľňa

REGINA OVESNY-STRAKA

Chairman of the Board of Directors and General Manager

Mag. Regina Ovesny-Straka is an Austrian citizen and a 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 became Chairman of the Board of Directors of Bank Austria Creditanstalt Slovakia, a.s. Since April 2001, she has been Chairman of the Slovenská sporiteľňa's Board of Directors. Her responsibilities include retail banking, product management, marketing, communications and human resources. Ms. Ovesny-Straka is also President of the Slovak Banking Association, Chairman of the Supervisory Board of Leasing Slovenskej sporiteľne, a.s., and a member of the Supervisory Boards of Asset Management Slovenskej sporiteľne, a.s., Realitná spoločnosti Slovenskej sporiteľne, a.s. and Prvá stavebná sporiteľňa, a.s. She is Deputy-Chairman of the Board of the Deposit Protection Fund.

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 General Manager until December 1998, when he returned to Slovenská sporiteľňa to become Deputy-Chairman of the Board of Directors. As financial director of Slovenská sporiteľňa, his responsibilities cover controlling, property management, and the Bank‘s equity participations. Mr Máj is also Chairman of the Supervisory Board of Factoring Slovenskej sporiteľne, a.s. and is a member of the Supervisory Board of Asset Management Slovenskej sporiteľne, a.s.

FRANK-MICHAEL BEITZ

Member of the Board of Directors and Deputy General Manager

Frank-Michael Beitz is an Austrian citizen and a 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 to Česká spořitelna from there. He was a member of the senior management and head of the Credit Risk Management Department there. His current responsibilities cover Slovenská sporiteľňa's risk management and compliance. He has for a long time been specializing in the analysis and management of credit risk. Mr Beitz is a member 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 introduction of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka, a.s. 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 elected a member of the Board of Directors of Slovenská sporiteľňa. He is responsible for capital market matters, including balance-sheet management. Mr Krutil is a member of the Supervisory Boards of Asset Management Slovenskej sporiteľne, a.s. and Erste Corporate Finance, 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. Since 1 January 2006, he has been a member of the Board of Directors of Slovenská sporiteľňa. He is responsible for corporate banking services and legal services. Mr Vlčan is a member of the Supervisory Boards of Leasing Slovenskej sporiteľne, a.s., Factoring Slovenskej sporiteľne, a. s., Realitná spoločnosť Slovenskej sporiteľne, a.s. and Prvá stavebná sporiteľna, 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, he was a project manager with MMI Informatik Zurich, where he oversaw the implementation of 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 May 2001, he was elected a member of the Board of Directors of Slovenská sporiteľňa, a.s. His responsibilities cover payment systems, organization, and information technology.

SUPERVISORY BOARD of Slovenská Sporiteľňa

Franz Hochstraser
Chairman of the Supervisory Board

Péter Kisbenedek
Vice-Chairman of the Supervisory Board (until 17 June 2008)

Wolfgang Schopf
Member of the Supervisory Board (since 11 August 2008)
Vice-Chairman of the Supervisory Board (since 17 October 2008)

Beatrica Melichárová
Member of the Supervisory Board

Eva Strieblikovâ
Member of the Supervisory Board (until 9 August 2008)

Herbert Juranek
Member of the Supervisory Board

Bernhard Spalt
Member of the Supervisory Board

05 Statement by the Chairman of the Board of Directors/ General Manager

Statement by the Chairman of the Board of Directors and General Manager

Dear shareholders, clients and business partners,

We have had a year marked by a global financial crisis and the introduction of the single European currency. But despite the adverse situation in the financial markets and the costs required by the euro changeover, Slovenská sporiteľňa recorded very good results. Our bank reported a profit of SKK 4.28 billion (142 mil. EUR), the highest in its history, and our total assets increased to SKK 378 billion (12,5 bn. EUR). Therefore, we have confirmed our position as the largest and the strongest bank in Slovakia again.

The quality of the banking sector was put to the most thorough test during the past period. Many banks faced very serious, even existential problems. That we avoided this was thanks to our strict compliance with prudential business rules. The fact that people in Slovakia associate our bank with stability and trustworthiness was confirmed by rising number of clients. Our assets also rose significantly, and the net trading income was as much as 39% higher than the year before.

The top priority in 2008 was to prepare the Bank for the transition to the euro. This involved adapting all banking systems, working procedures, products and services to the new currency. All processes were set so as to ensure an easy and comfortable transition for all our clients. We can say now that this challenge was accomplished and that the changeover was smooth and trouble-free. Clients were able to handle their funds, make ATM withdrawals and to make card payments with convenience, and to use their accounts actively.

As regards the euro, we considered it our duty, as the market leader, to support the respective public information campaign. Over the course of the year, we dedicated ourselves to provide up to date and important information and a euro advisory service.

In the field of deposits, I am pleased to see us maintaining our primacy. In the final quarter of 2008, the amount of funds held in client deposit and current accounts recorded its highest ever increase of almost SKK 30 billion (1 bn. EUR). By the end of the year, the amount being deposited with Slovenská sporiteľňa each day was as much as would usually be deposited in a month. Most popular was the new product ‚Eurocash' – a time deposit with advance payment of interest in euros. We also saw positive development in the area of financing. The total amount of retail lending rose by 23% in comparison with the previous year, reaching SKK 92.7 billion (about 3 bn. EUR). Of that, almost SKK 57 billion (1.8 bn. EUR) comprised retail loans secured by real estate, which in absolute terms increased by 36% year-on-year. Corporate lending reached SKK 79 billion (2.6 bn. EUR), a rise of 2% year-on-year. Lending to sole traders climbed by almost SKK 1 billion (more than 33 mil. EUR). We strengthened our residential business, which was connected with the option of financing home purchases through our housing loans.

Non-cash payments are becoming more and more popular with people because of the flexibility and convenience they offer. This is confirmed by the steadily rising interest in electronic banking and payment cards. Electronic transactions accounted for no less than 82% of the total number of transactions performed in 2008. In all, 1.34 million payment cards of Slovenská sporiteľňa were used in almost 54 million transactions worth around SKK 129 billion (4,2 bn. EUR). We responded to this trend by expanding the network of ATMs and payment terminals and by introducing the exclusive payment card MasterCard Platinum. The total number of payment terminals rose to 8377 with the addition of 1676 new ones.

For the high quality of its card transactions processing, Slovenská sporiteľňa won the Mastercard Worldwide Regional Award 2007 last year, becoming the only bank in Slovakia, and one of three banks in central and Eastern Europe, to have been awarded by Mastercard. For the seventh time since 2002, we received a prestigious award from Deutsche Bank for the quality of outgoing and incoming payments in US dollars, meeting 99.2% of the award criteria.

2008 also saw the completion of the new headquarters building of Slovenská sporiteľňa – a modern designed 12-story building with a total floor area of 55 520 m^2 (including 29 000 m^2 of office space) and 405 parking places. Whereas the headquarters operation was previously spread across 12 buildings, it is now under one roof, which makes communication as effective as possible and also saves on costs. The retail network, too, underwent improvements, as we opened seven new points of sale and renovated another 23, all with the aim of making conditions more comfortable for clients and employees. By further optimizing working and sales procedures, we achieved a total operating profit of SKK 8 billion (266 mil. EUR) representing an increase of 14.6% on the year before. We also managed to reduce the operating cost-to-income ratio to below 50%.

It pleases us to see how highly the public has rated our efforts to support education, charity, regional community development, culture, sport and the environment. In particular, there was a huge response to our project „Vodný les Slovenskej sporiteľne“ (Water Forest of Slovenská sporiteľňa), which was entered for the WORLD ENERGY GLOBE AWARD (Earth category) as one of the 30 out of 853 best national projects from more than 100 countries. The project attracted participation of more than 800 volunteers from 26 countries, who planted thousands of trees in an area of 80 hectares in the Tatra forest and constructed a unique rainwater collection system to support recovery of the forest.

Although last year was not easy, Slovenská sporiteľňa ended it successfully. Most significant, in my view, is that we made a smooth transition to the euro and strengthened our leading position in the Slovak banking market. Credit for all our successes is owed to the entire staff of Slovenská sporiteľňa, who demonstrated exceptional diligence and perseverance.

It is clear that year 2009 will also be very demanding. Our bank, however, stands on firm foundations and is well prepared to cope with whatever challenges lie ahead. I have no doubt that with the confidence of our shareholders and clients, who value the stability and reliability of Slovenská sporiteľňa, and with our long experience in the field of savings banking, the next year will be successful for us.

Regina Ovesny – Straka
Chairman of the Board of Directors and General Manager

February 2009

06 Report of the Supervisory Board

Report of the Supervisory Board

The Supervisory Board of Slovenská sporiteľňa performed its activities in compliance with statutory provisions and carried out its tasks arising under the Articles of Association, the Statute of the Supervisory Board, and the law of the Slovak Republic.

During the course of 2008, the Board of Directors kept the Supervisory Board regularly informed about the Bank's business activities and the implementation of its business plan, and it regularly submitted financial results, asset reports, and information on the Bank's performance. The Supervisory Board convened four times, in accordance with its statute. Matters discussed at these meetings included the consolidated financial statements, the proposal for profit distribution, the business plan for 2008, and the report on the Bank's participations. The Supervisory Board was kept informed about risk management in the Bank and about the activities and plan of the Internal Audit Staff Unit. It took decisions on matters falling within its competence as laid down in the Bank's Competence Rules. The Board was regularly briefed about the Bank's activities concerning preparations for the introduction of the euro and about other matters related to the Bank's development.

The consolidated balance sheet of Slovenská sporiteľňa as at 31 December 2008, and accompanying consolidated income statements, was 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 2008.

Considering these facts, the Supervisory Board recommended the General Meeting to approve the Bank's financial statements for 2008 and the distribution of the Bank's profits.

07 Statement on corporate governance

Statement on corporate governance

The management of Slovenská sporiteľňa („the Bank“) 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 Group Bank is the Austrian Code of Corporate Governance. Erste Group Bank 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 Group Bank, its sole shareholder, which can be found online at www.erstebank.at (hereinafter referred to as „the Corporate Governance Code“). The Bank‘s governance methods are consistent with those of Erste Group, as published at www.erstebank.at. In 2008, there were no deviations from the Corporate Governance Code in the Bank.

The Bank also adheres to the Corporate Governance Code issued by the Bratislava Stock Exchange which is available online on www.bcpb.sk. There were no deviations to Corporate Governance Code issued by the Bratislava Stock Exchange, recorded in 2008.

Periodic ‚road shows‘ are held with senior management in order to keep employees informed about the Bank‘s results and objectives, and thematic conferences are held for managerial employees. Staff discussions and suggestions are welcome at these meetings, as well as in online chats with members of the Board of Directors. Suggestions for improvement are collected by the ‚ideas manager‘, who is responsible for analysing and implementing them. Staff is also involved in corporate governance through regular independent surveys of the corporate culture, the results of which are reflected in the decisions of the Bank‘s management. Detailed results from the most recently held group-wide survey of corporate culture were presented by members of the Market Research and Ombudsman Staff Unit, in cooperation with the Human Resources Division, to all organizational units of the headquarters and sales network throughout the Slovak Republic. The presentations followed up staff workshops at which recommendations and ideas were gathered for the benefit of managers of different units, who used them to produce action plans to cover areas of development. The results of this survey suggested, among other things, that staff has a strong emotional connection to the Bank and that they value the level of openness in internal communication.

The corporate culture in Erste Group allows employees throughout the Group to share in the profits of the Group.

Internal control system

Slovenská sporiteľňa has defined principles of an internal control system, in place. The internal control system comprises the system, policies, procedures and processes laid down by the Board of Directors or management in order to safeguard the Bank‘s assets, limit or control risks, and achieve the Bank‘s objectives. It is closely related to operational risk management, especially in regard to risk identification and risk control phases.

The internal control systems have the following objectives:
- to prevent and reveal errors and the inefficient or wasteful utilization of resources;
- to prevent and reveal abuses and fraud;
- to improve the effectiveness and efficiency of banking operations;
- to improve the integrity, accuracy, timeliness and reliability of information;
- to raise the quality of record-keeping;
- to comply with laws, regulations and internal policies.

The Bank‘s Board of Directors is responsible for the implementation of the internal control system and its regular monitoring and evaluation. It ensures that an adequate and effective set of internal controls is established and maintained.

Managers at all levels are responsible for adequately and efficiently putting the ICS into practice in their departments. Managers are accountable for the execution of internal controls and may not delegate their accountability for internal controls.

Employees are accountable for their work and are to abide by ICS principles. They perform their duties in accordance with internal guidelines and applicable laws. They contribute to the system by strictly observing the competence principles for approval and authorization. Internal controls constitute part of employees‘ work and responsibilities.

An integral part of the ICS is the Internal Audit Staff Unit, which reports directly to the Bank‘s Supervisory Board. Internal Audit provides an objective, independent review of bank activities, internal controls and information system management, which helps the Board of Directors monitor and evaluate the adequacy and effectiveness of internal controls.

Company organization

General Meeting

As the Bank's supreme body, the General Meeting has competence, inter alia, to amend the Articles of Association, to decide on share capital increases or reductions, to elect or recall members of the Supervisory Board and other bodies stipulated in the Articles of Association (except for members of the Supervisory Board elected or recalled by the 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 about the Bank and the convening and holding of its General Meeting.

A full description of the activities and powers of the General Meeting, the rights of shareholders, and the procedure for exercising these rights is laid down in the Bank's Articles of Association, the full text of which is available at the Bank's registered office and on its website.

Supervisory Board

The Supervisory Board is the Bank's supreme supervisory body and has six members. Two thirds of its members are elected by the General Meeting, and one third by employees. Each member is appointed for a five year term of office, and their membership may not be substituted. The Supervisory Board oversees how the Board of Directors exercises its powers and how the Bank carries on its business activities. It convenes on a quarterly basis and held four meetings in 2008. In exercising its competences, the Supervisory Board mainly checks the Bank's compliance with generally binding legal regulations, with the Articles of Association and with resolutions of the General Meeting, examines the Bank's financial statements and proposal for profit distribution (or settlement of losses), reviews the regular status reports on the Bank's business activities and assets, submits opinions, recommendations and proposals for the decision of the General Meeting and Board of Directors, and assesses information submitted by the Board of Directors regarding the Bank's principal business objectives.

The Supervisory Board approves in advance the selection of the external auditor, the establishment of any legal entities by the Bank and the appointment of the head of the Internal Audit Staff Unit; it elects members of the Board of Directors, including the Chairman and so on. 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
The Credit Committee, in accordance with the Bank's Competence Rules, approves credit facilities (new facilities, changes to existing facilities, restructuring and work-out) for corporate clients, local authorities, retail clients, and persons in a special relationship to the Bank.

Personnel Committee of the Supervisory Board
The Personnel Committee deals with personnel issues relating to members of the Board of Directors, other than their election, recall or form of remuneration. 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 applicable legal regulations, the committee includes 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 in its name. It decides on all matters not subordinated to the General Meeting or Supervisory Board by generally binding legal provisions or the Bank's Articles of Association. The Board of Directors has six members and last year held 56 regular meetings. Under the Articles of Association, the Chairman of the Board of Directors also serves as the General Manager, the Deputy-Chairman of the Board of Directors as First Deputy General Manager, and each member of the Board of Directors is a Deputy General Manager. The members and chairman of the Board of Directors are elected by the Bank's Supervisory Board. The term of office of a member of the Board of Directors is five years.

The current members of the Board of Directors are:

Regina Ovesny–Straka, Chairman of the Board of Directors and General Manager – responsible for retail banking, product management, marketing, communications, human resources, and the Market Research and Ombudsman Staff Unit;

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

Frank-Michael Beitz, member of the Board of Directors and Deputy General Manager – responsible for risk management and compliance;

Peter Krutil, member of the Board of Directors and Deputy General Manager – responsible for capital markets and balance sheet management;

Samuel Vlčan, member of the Board of Directors and Deputy General Manager – responsible for corporate banking services and legal services;

Michael Vogt, member of the Board of Directors and a Deputy General Manager – responsible for payment systems, organization, and information technology.

The Board of Directors may establish advisory committees with delegated tasks and competences.

Assets and Liabilities Committee (ALCO)
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. It also manages operating liquidity through Operating Liquidity Committee.

Members of the committee: all members of the Board of Directors and heads of the Treasury Division, Accounting and Controlling Division, Strategic Risk Management Staff Unit and Balance Sheet Management Staff Unit.

Credit Committee
The Credit Committee approves credit facilities (new facilities, changes to existing facilities, restructuring and work-out) for corporate clients, local authorities, retail clients, and persons in a special relationship to the Bank.

Members of the committee: Chairman of the Board of Directors, BoD member responsible for risk management, BoD member responsible for capital markets, BoD member responsible for corporate banking, and head of the Corporate Credit Risk Management Division.

Product Pricing Committee (PPC)
The PPC Committee sets the prices at which the Bank and its subsidiaries sell products to clients. It approves the Bank's product-pricing strategy (interest and fees), receives information on structural developments in the Bank's products and subsidiaries' products, and on market position.

Members of the committee: Chairman of the Board of Directors, Deputy-Chairman of the Board of Directors, BoD member responsible for capital markets, BoD member responsible for corporate banking, BoD member responsible for risk management, and heads of the Product Management Division, Retail Sales Management Division, Specialized Finance Department, Commercial Centres Division, Treasury Division, Accounting and Controlling Division, Large Corporate Clients Department, and Balance Sheet Management Staff Unit.

Bank IT Committee – information systems changes management committee
The Bank IT committee manages the costs of information systems development and controls the process of change management of bank's IT systems. It sets timeframes for changes, as well as its volume, according to disposable resources and resolves conflicts in the process of change management.

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

Business Committee
The Business Committee analyses the business results and adopts measures to implement the business plan.

Members of the committee: all members of the Board of Directors and heads of the Accounting and Controlling Division, Retail Sales Management Division, Commercial Centres Division, Treasury Division, Large Corporate Clients Department and Product Management Division, and the Bank's chief economist.

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, BoD member responsible for banking operations, and heads of the Organization Division, Accounting and Controlling Division, Property Management Division and Human Resources Division.

Operational Risk and Compliance Committee (ORCO)

The ORCO Committee defines and approves strategies and processes for the management of operational risk, compliance as well as money laundering and financial crime and decides on measures to reduce or mitigate operational risk,

Members of the Committee: Board of Directors member responsible for Risk Management, Board of Directors member responsible for Controlling and Property management, Board of Directors member responsible for Banking Operations, Head of Organization Division, Head of Strategic Risk Management Staff Unit, Head of Human resources Division, Head of Market & Operational Risk Section, Head of Payments and Settlements Division, Chief Security Officer, Compliance Officer.

Crisis Committee

Crisis committee is responsible for evaluating the situation in case of threatening crisis, for managing processes in the Bank, adopting decisions, assigning responsibilities, coordinating communication leading in order to reach stabilization and pacification of situation during the state of crisis.

Members of the Committee: Members of the Board of Directors, Head of the Treasury Division, Head of the Payments & Settlement Division, Head of the Retail Sales Management Division, Head of the Organization Division, Head of the Legal & Compliance Staff Unit, Head of the Strategic Risk Management Staff Unit, Head of the Communication & Sponsoring Staff Unit.

Share capital

The Bank‘s share capital is divided into 2 074 207 registered shares each with a par value of SKK 1 000 (33.1 EUR) 42 registered shares each with a par value of SKK 100 million (3319391.8 EUR), and 100 000 registered shares each with a par value of SKK 1 000 (33.1 EUR).

Securities issued by the Bank are transferable without restriction. The Bank‘s share capital is wholly (100%) owned by Erste Group Bank. As at the preparation date of this Annual Report, no employee shares had been issued. As for any increase or reduction in the share capital, only the General Meeting is competent to decide on it. Regarding material agreements to which the Bank is a contracting party, the Bank is not aware of any that enter into force, are amended or cease to be valid as a result of a change in the control of the Bank related to a takeover bid made for it.

The payment of gratuities by the Bank is regulated by agreements in accordance with Labour Code. Gratuities are to be paid where:

– a member of the Board of Director is recalled before the end of his term of office, and, at the same time, the employment contract is terminated by agreement or by notice of termination given by the managerial employee in accordance with the Labour Code.

Disclosure and transparency

The Bank strictly observes and complies with legal regulations and corporate governance principles, and periodically provides the parent company‘s shareholders and investors with all relevant information on its business activities, financial and operating results, and other material events. The general public and clients are kept informed about the Bank‘s financial results and strategic progress 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 it from misusing internal information that could allow them to make an unjust profit.

The Bank places emphasis on anti-money laundering measures, and has established an independent Compliance unit reporting directly to the member of the Board of Directors responsible for risk management. The unit‘s tasks also include checking the Bank‘s internal regulations for compliance with legal regulations of regulatory bodies, and identifying and dealing with fraudulent acts.

Slovenská sporiteľňa has produced a Global Compliance Code governing the basic principles of compliance with ethical standards in the Bank. The Code is a response to the EU requirement for harmonization of legal provisions, and it brings the internal standards of Slovenská sporiteľňa into line with the internal standards of Erste Group Bank. It also reflects the requirement for a higher level of corporate culture, especially in the field of securities trading (Slovenská sporiteľňa is the first bank in Slovakia to apply measures under the EU's Markets in Financial Instrument's Directive (MiFID) aimed at increasing the protection of consumers when using investment instruments). 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, furthermore, a point of reference for preventing or solving conflicts of interest between the Bank, employees, management and clients.

Responsibility to clients and society

In addressing the transition to the single European currency, Slovenská sporiteľňa also took account of its corporate social responsibility. In the area of sponsorship, it has focused on activities that helped prepare the public for the euro.

As regards support for education, Slovenská sporiteľňa and its long-standing partner CISCO Company prepared, in cooperation with the Ministry of Education of the Slovak Republic, a unique e-learning project for secondary school students, enabling them to take a course on the European Union and single European currency and then take a final test on what they had learned. More than 12 000 students passed the test in the first half of 2008. Thanks to Slovenská sporiteľňa's long-time cooperation with 13 Slovak universities, selected information about the euro was communicated to university students, too. Projects that included expert lectures on the changeover were carried out on the campuses of several universities. For example, the Technical University of Košice held an open door day for this purpose. The education of minority groups on this subject also received support from Slovenská sporiteľňa. In cooperation with the Liptov Community Foundation, it prepared an attractive euro campaign for hundreds of children in children's homes, which explained to them the subject of the European Union and euro in an appropriate way and helped them recognize the different euro banknotes and coins.

In addition to education projects, the Bank continued its long-running and successful partnerships in the fields of culture and sports, as well as community support and development.

During 2008, Slovenská sporiteľňa promoted almost ten new theatre productions at partner theatres in Martin, Nitra, Prešov, and Bratislava (at the Aréna Theatre and Radošina Naive Theatre). The Bank is thus continuing its long-term strategy of cultural development and is helping to ensure that young artistic talents in the regions have an opportunity to perform at a high professional level.

The Slovak Philharmonic, which we have been supporting as a partner for seven years now, can also look back on a successful year. A now traditional aspect of this partnership is the Golden Note Awards of Slovenská sporiteľňa for the best classical musicians up to the age of 35. Through these awards, the Bank seeks to promote the performance of classical music in Slovakia and to encourage young people to excel in this area.

For Slovak canoeists – supported by Slovenská sporiteľňa through its partnership with the Association of White Water Canoeing – 2008 was an exceptionally successful year. Their results at the Beijing Olympics confirmed canoeing as the sport in which Slovakia is the most successful. The Bank understands the importance of bringing through young talents in this sport, and therefore the partnership also focuses on supporting them in throughout Slovak regions. We also support the progress of young disabled sportspeople through our partnership with the Slovak Association of Disabled Sportspeople.

Slovenská sporiteľňa's long-term strategy to support and develop Slovak society was continued in 2008 also through the Slovenská sporiteľňa Foundation, whose activities centred on education, culture, social assistance, communities and sport. The Foundation supports these areas both through its own programmes and by backing individual projects.

Through the education grant programme „Škola praxou" (School of Experience), open to students at business academies, the Foundation supported projects that enabled business academies from different regions to organize their own euro campaign, workshops and an exhibition of euro coins.

Through the social grant programme „Bližšie k zdraviu" (Closer to Health), the Foundation focused on improving the therapeutic rehabilitation process at centres for children and young people with neurological and traumatological disorders. It gave out ten grants aimed at improving therapeutic procedures for young patients in several regions of Slovakia. In total during 2008, the Foundation‘s spending on support for projects came to almost SKK 15 million (492 ths. EUR).

In 2008, Slovenská sporiteľňa continued to gauge its service quality through the Customer Satisfaction Barometer (CSB) and Mystery Shopping (used as the basis for calculating the Customer Service Index), and by measuring the satisfaction of internal clients. The CSB for 2008 recorded the satisfaction of external retail clients at 57.2%. That this figure was far lower than the 94.7% recorded for 2007 was largely due to a change in the CSB calculation methodology – measurements were deemed applicable even where the client did not know the advisor and no other client was addressed. External SME clients and corporate clients had satisfaction levels of 89.2% and 96.3%. The satisfaction index for internal clients rose to 93% in 2008. According to the Customer Service Index of service quality, branches recorded 87.6% and the headquarters scored 91.29%.

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 thebest 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 2008, no event was identified that could give rise to whatever event of breach of the Code of Governance of the parent company Erste Group Bank.

08 Management report on activities in 2008

Management report on activities in 2008

Review of financial results for 2008

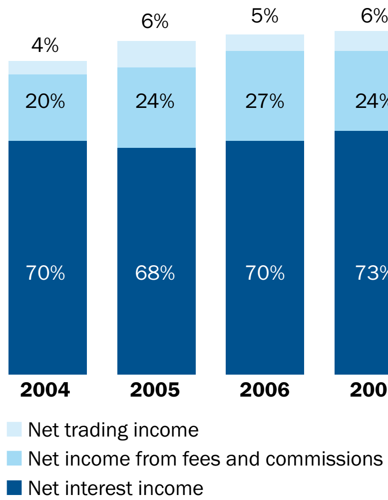
Balance sheet changes

As at 31 December 2008, Slovenská sporiteľňa reported a balance sheet total of SKK 378 billion (12.54 bn. EUR), representing a year-on-year increase of 24.4% (SKK 74 bn. / 2.45 bn. EUR) and a market share of 19.7%. The sharpest rise among asset items was recorded by cash and loans to the National Bank of Slovakia (NBS), which more than doubled to stand at SKK 43 billion (1.42 bn. EUR). This was largely related to the Bank placing surplus liquidity with the NBS, and to the changeover from the koruna to the euro, which required cash reserves to be kept in a larger than usual amount. Loans to clients rose by almost 10%, to SKK 172 billion (5.7 bn. EUR), and accounted for more than 45% of the balance sheet total. Total deposits rose by 12% year-on-year (SKK 27,9 bn. / 0.9 bn. EUR), to reach almost SKK 258 billion (8.5 bn. EUR). This increase was mainly driven by deposits from private clients, which jumped by 29% (SKK 44 bn. / 1.4 bn. EUR) primarily because of deposits in current accounts and time deposits made in anticipation of the euro changeover. The amount of securities, by contrast, recorded a decline, especially securities held to maturity and securities available for trading. Both sides of the balance sheet saw a substantial rise in interbank loans.

Net interest income

Slovenská sporiteľňa managed to increase its net interest income by about 7% year-on-year, or SKK 739 million (24.5 mil. EUR). The continuing rise in lending to households and SMEs again made a significant contribution to interest income growth. Interest expenses increased, partly because of the sharp rise in deposits (especially in the latter months of the year) and the accompanying high interest payments. The loan-to-deposit ratio fell to 66.7% (from 68,2% in 2007), mainly due to the huge rise in deposits and to the weaker growth in lending caused by the financial crisis.

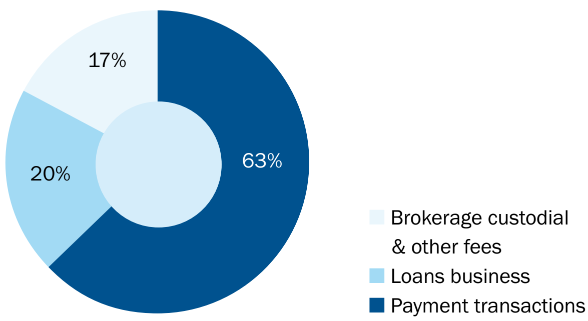
Income structure (SKK bn.)



Net income from fees and commissions

Net income from fees and commissions rose by 10% year-on-year, to more than SKK 3.5 billion (116 mil. EUR). This was caused mainly by a rise in the number of transactions, which reflected increasing demand for banking products. By contrast, fees from subsidiaries declined, and did so most sharply in the area of asset management, which was hit by the financial markets crisis. As a share of the Bank's total income, income from fees and commissions rose to 22.3% in 2008 (from 22.1% in 2007).

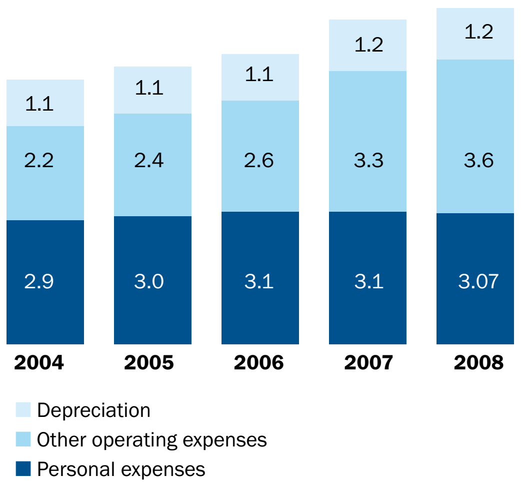
Structure of net income from fees and commissions



General operating expenses

In 2008, general operating expenses of Slovenská sporiteľňa rose by 4% year-on-year, largely because of the cost increases related to the euro changeover, as well as to the gradual implementation of new banking information systems. Personnel expenses remained substantially unchanged with a slight drop to SKK 3.07 billion (101 mil. EUR). The Bank's key efficiency indicator – the cost-to-income ratio – improved substantially, to stand at 49.7% (compared to 51.8% at the end of 2007).

Structure of general operating expenses (SKK bn.)



Net profit

Slovenská sporiteľňa made a consolidated net profit of SKK 4.28 billion (142 mil. EUR) for 2008, representing an increase of nearly SKK 116 million (3.8 mil. EUR), or 3%, in comparison with 2007. Its operating profit climbed even more sharply year-on-year, rising by more than SKK 1 billion (33 mil. EUR), or almost 15%, to more than SKK 8 billion (265 mil. EUR).

Retail services

Last year in Slovenská sporiteľňa was marked by preparations for the euro. Our aim was to offer clients a comprehensive range of financial services supplemented with services related to the currency changeover. The Bank's efforts attracted a positive response from clients, and, bearing this out, the number of private clients rose year-on-year by almost 26 000, the sharpest rise in recent years, to stand at more than 2 440 000.

Retail deposits rose by SKK 44 billion (1.46 bn. EUR) in 2008, compared to an increase of SKK 20 bn. (663 mil. EUR) in 2007. Most of this success was attributable to deposits made in anticipation of the currency changeover – almost SKK 30 billion (995 mil. EUR) was deposited with Slovenská sporiteľňa in the last quarter of the year, which represented the Bank's highest ever increase in retail deposits. Time deposits proved the most popular, attracting 80% of new deposits, while a further 18% were placed in current accounts. By the year-end retail deposits totalled SKK 193 billion (6.4 bn. EUR).

Retail lending increased by more than SKK 16.4 billion (544 mil. EUR), a rise 21% higher than the previous year's figure. Loans secured by real estate accounted for 94% of the increase. Consumer lending rose by SKK 1.5 billion (49 mil. EUR) year-on-year, to SKK 24 billion (796 mil. EUR). A total of 81 000 new investment and consumer loans were arranged in 2008, amounting to SKK 29 billion (962 mil. EUR).

Private loans

Housing loans

New housing loans arranged by the Bank in 2008 amounted to more than SKK 19 billion, representing an increase of 28% year-on-year. Mortgage loans for young people, including a preferential mortgage rate, also contributed to the increased demand for home financing, and as a share of the total amount of housing loans they accounted for 5.3% (SKK 2.12 bn / 70.3 mil. EUR). The rising popularity of mortgage loans for young people was also supported by the option of progressive repayment, through which the amount of the loan may be up to a third higher than would be possible with annuity repayment. More than 20% of the loans arranged by the Bank were based on progressive repayment. The average amount of a housing loan rose by SKK 100 000 in 2008, to SKK 1.2 million (by 3319 EUR to almost 40 000 EUR). The average loan maturity period also increased, to around 21 years for the CreditPLUS for Housing product and to almost 28 years for mortgage loans for young people. In 2008, Slovenská sporiteľňa continued its successful progress in the private financing of property development projects, arranging private loans worth more than SKK 800 million (26.5 mil. EUR) for this purpose. The Bank's share of the housing loan market stands at 26,5% (loans by building societies excluded).

Consumer loans and credit cards

In July 2008, the Bank introduced several new products and procedural improvements in the area of private loans, including, most significantly, pre-approved credit limits. This ensured that from July 2008 more than 40% of consumer loans were being sold through a simpler process.

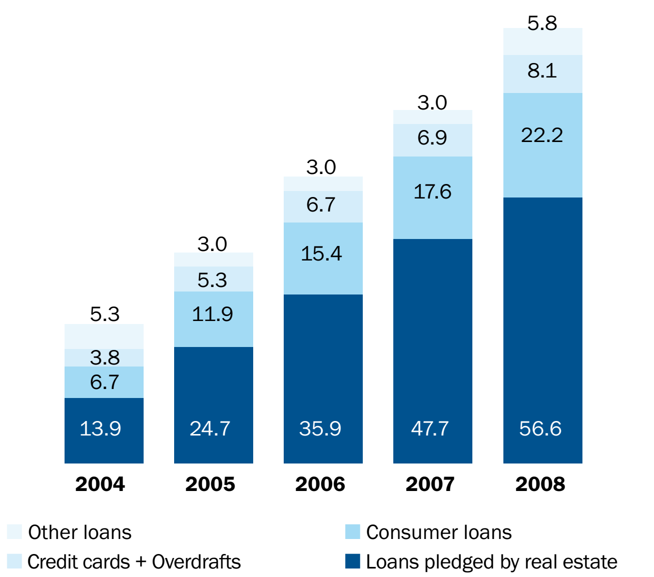
In the consumer loans market (covering any purpose loans, student loans and Gas Loans), Slovenská sporiteľňa has a share of 41%. Last year, the amount of new consumer loans not secured by real estate represented SKK 9.3 billion (308 mil. EUR).

By the end of 2008, Slovenská sporiteľňa had issued 116 000 credit cards, and the total lending on these cards came to more than SKK 1 billion (more than 33 mil. EUR).

Revolving products

Almost 50 000 authorized overdrafts were granted in 2008, amounting to more than SKK 520 million (17.2 mil. EUR). The Bank continued setting up the so-called „starting facility – authorized overdraft", available to clients whose account with Slovenská sporiteľňa is credited with at least SKK 5 000 (around 166 EUR) per month.

Retail lending (SKK billion)



Deposit and investment products

Private deposits

Slovenská sporiteľňa's progress in 2008 was strongly evident in its deposit holdings. The surge in deposits at the end of 2008 was largely due to a higher inflow of cash in anticipation of the euro's adoption as the domestic currency, as well as to an increase in household disposable income and an outflow of money from mutual funds.

Retail deposits totalled SKK 193 billion (6.4 bn. EUR) and accounted for almost 75% of the Bank's overall deposits. Year-on-year, they rose by SKK 44 billion (1.46 bn. EUR), or more than 29%. The largest increase in deposits was recorded in the final quarter of 2008, when funds placed on deposit or in retail accounts rose by 17%. In the last quarter of 2007, by contrast, deposits increased by 4%.

Other causes of this increase, apart from the effect of the euro, were special product conditions and the transfer of investments from higher-risk to more conservative products.

As for products, we came up with the idea of providing advance payment of interest in euros. Clients took advantage of this deposit product, and over the course of a single month they deposited SKK 10 billion (332 mil. EUR) on it.

For clients interested in products with a guaranteed principal and guaranteed yield, the Bank offered four issues of secured deposits, thereby following up the successful 2007 sale. Client investments in guaranteed-yield products during the year amounted to SKK 7 billion (232 mil. EUR).

Current accounts

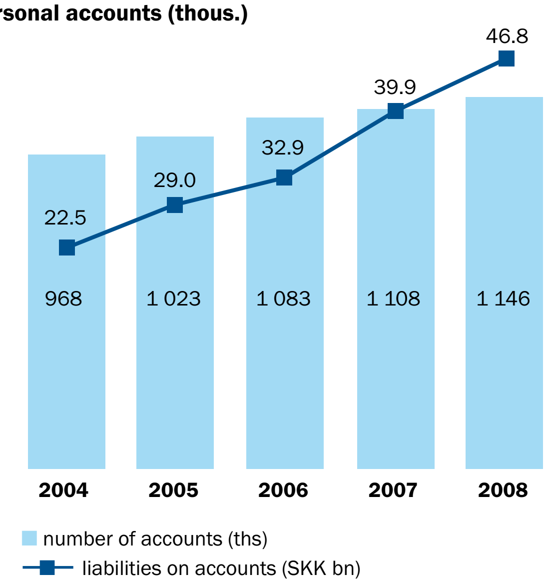
The multiyear positive trend in the number of retail accounts and in the amount of funds deposited in current accounts continued in 2008. Total current account funds rose by 12% in comparison to 2007. Most of that increase occurred in the last months of the year in anticipation of the euro changeover, and December alone saw the figure rise by 10% (SKK 8.4 bn. / 278 mil. EUR).

The total number of accounts also rose sharply in 2008, by 38 000. Retail current accounts accounted for 90% of the total number of accounts. The Bank caters for all client groups with a product portfolio that includes, for example, standard current accounts, accounts for young people aged up to 26 and university students, and accounts for seniors, as well as targeted packages of products and services.

Whereas in 2007 a quarter of all accounts were package products, in 2008 it was more than one-third. The number of package accounts in the retail segment increased by 50%.

A major benefit of the increase in package products is the intensive utilization of all services in the package, in particular, non-cash transactions performed with payment cards or through electronic banking. As many as 97% of clients with current accounts or packages have subscribed to at least one of eBanking services.

Personal accounts (thous.)



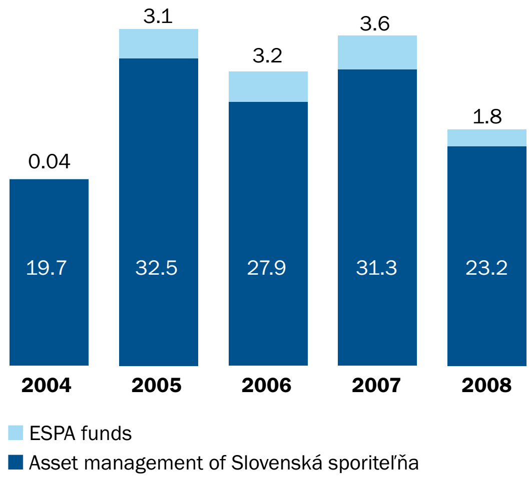
Mutual funds

Last year saw the eruption of a financial crisis that will certainly be etched on the memory of all financial market investors. The collapsing share markets, oil price volatility, and recession in the world economy also affected the yields of all mutual funds.

The funds of Asset Management Slovenskej sporiteľne (AMSS) were no exception and recorded a decline in yields and increase in the number of redemptions. Despite the adverse conditions in the world capital markets, AMSS managed, through its proactive portfolio management, to limit the effect of these developments.

Even in 2008, Asset Management Slovenskej sporiteľne kept up its standards of previous years and prepared new investment opportunities for its clients. In the first months of 2008, Asset Management began offering the SPORO February Fund of Guaranteed Yields, suitable mainly for conservative clients. Under the programme Wealth Creation, three new funds were offered – Stabil, Opti and Top, tailored to the client's investment profile. Certainly, one of the highest priorities at the end of the year was to ensure a smooth transition to the euro, and this task, too, was managed successfully.

Net asset value of mutual funds (SKK billion)



Insurance

In 2008, Poisťovňa Slovenskej sporiteľne a.s. (PSS) strengthened its position in the life assurance market, despite the turbulence caused by the financial crisis. While its sales of insurance products with periodic premiums remained at the 2007 level, its single Premium insurance product in recorded significant increase, thanks to a unique product in the Slovak insurance market: INDEX – Fix150. With sales of SKK 450 million (15 mil. EUR) in August, this became the pivotal product in the Wealth Creation programme, and after three months it was the top-selling product of Poisťovňa Slovenskej sporiteľne.

Securities

Investing in securities is becoming increasingly sought-after way of yielding financial resources by sophisticated clients. Slovenská sporiteľňa is the first bank to launch an online securities-trading system in the branchnetwork. In 2008, we arranged five issues of mortgage bonds for retail banking clients. The total amount invested in them reached more than SKK 1 billion (33 mil. EUR). For private banking clients, we arranged one mortgage bond issue worth SKK 300 million (10 mil. EUR).

Client care

Slovenská sporiteľňa continued to implement its care strategy on a segment by segment basis with regard to particular needs in each segment. The Bank's proactive approach was supported by efficient targeting of the most common client requirements through service packages and electronic banking. With regard to client satisfaction, we also set about implementing modern communication tools, which provided simpler and faster access to our services with the aim of finding suitable solutions to client needs.

By implementing new care programmes for selected client segments, we intensified relationship building between the Bank and both its corporate and retail clients, the aim being to stabilize the existing client base and, at the same time, acquire new creditworthy clients. With newly implemented data mining technology, we are ready to identify clients' potential needs in a more comprehensive way and to prepare tailored solutions for them.

In 2008, despite the turbulence in global financial market, the Bank again confirmed its stability and creditworthiness by its responsible business policy, differentiated approach to clients, and transparent communication.

Central Claims and Investigations Management Group

The client care provided by Slovenská sporiteľňa also includes the handling of complaints. Last year, the Bank dealt with a total of 7 334 submissions, of which 5 657 were made by clients of Slovenská sporiteľňa. These mostly concerned the return of domestic or foreign payments, the clarification of information on foreign payments, the review of payment processing, and the identification of payments or card operations.

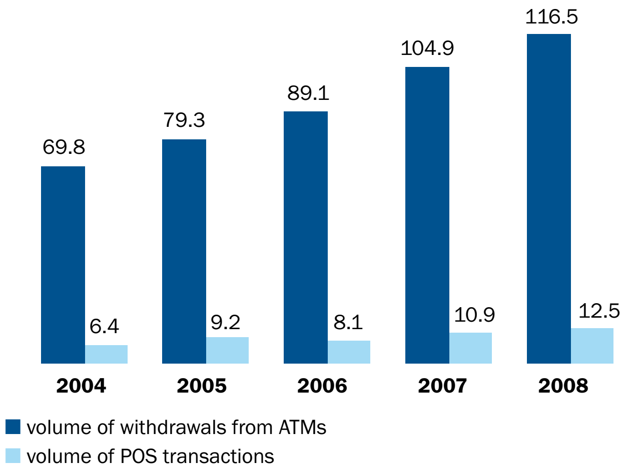
Transaction business

Transactions and sales channels

Number of outgoing foreign payments increased by 15% in 2008, maintaining their strong pace of year-on-year growth, while outgoing domestic payments rose moderately, remaining close to the previous year's level. Slovenská sporiteľňa is maintaining its significant position in the field of domestic payments, and handles 22% of the total number of payments made through the Slovak banking sector. Electronic banking services are clearly the preferred service channel, and their dominant position is confirmed by the fact that more than 82% of all clients' domestic and foreign transfers are made electronically. Regarding transfer orders made on paper forms, the number for domestic transfers fell by 30% year-on-year, and for foreign transfers, by 13%.

The strong preference for electronic banking services is also confirmed by the year-on-year rise in client numbers. In December 2008, these services were used by 600 000 clients, representing an increase of 24%.

Transactions with cards of Slovenská sporiteľňa (SKK bn.)



Payments and settlement

As part of its euro transition objectives in 2008, Slovenská sporiteľňa made preparations for admission to the payment and settlement system Target 2, in which it will be a direct participant.

Multiple sales channels

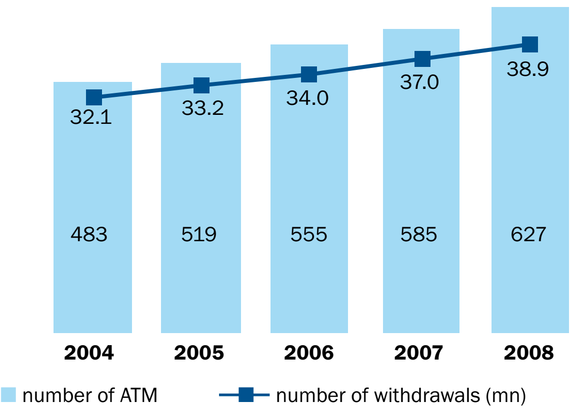
Development of the branch network

With 275 branches and 627 ATMs, Slovenská sporiteľňa has the most extensive distribution network in Slovakia. The Bank strengthened this network in 2008 with the addition of six new branches, located mainly in attractive and easily accessible shopping and commercial centres and including four new branches in Bratislava. A further 21 branches were either completely modernized or relocated to new premises.

ATM network

In January 2008, Slovenská sporiteľňa launched a new service through its ATM network – the recharging of prepaid cards of O2, the third mobile operator. For holders of VISA payment cards, it made available information on the outstanding balance. By the end of 2008, Slovenská sporiteľňa was operating 627 ATMs, an increase of 7% year-on-year. Its ATM network remains the largest in Slovakia with a market share of 28%. The amount of cash withdrawals rose by 11 %, to more than SKK 116.5 billion (3.8 bn. EUR). The average withdrawal represented almost SKK 3 000 (nearly 100 EUR). The total number of ATM transactions stood at 63.3 million, representing an increase of 3%.

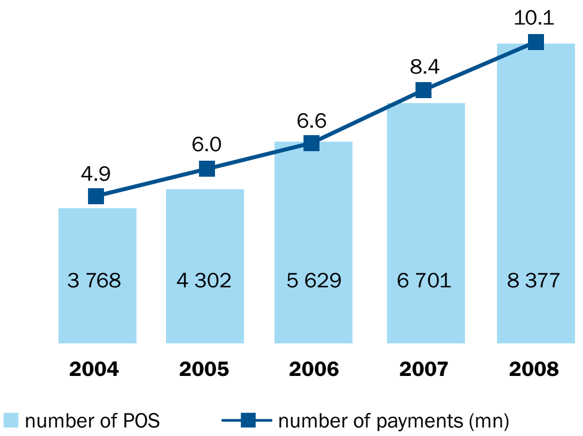
Number of ATMs and withdrawal count



POS terminals

In June 2008, Slovenská sporiteľňa, became the first Slovak bank to provide the „cash back service" within its network of POS terminals. The introduction of this service means that holders of VISA and MasterCard may, when paying with their card, obtain an amount of cash of up to 50 euros. Likewise, in cooperation with partners, prepaid cards of mobile operators may be recharged at POS terminals.
The Bank's POS terminal network grew by 25% in 2008 to include 8 377 terminals in total. More than 10.1 million transactions were carried out through these terminals in 2008, representing an increase of over 20% in comparison with 2007. By the year-end, the total amount of these transactions came to SKK 12.5 billion (414 mil. EUR), a rise of almost 15% on the previous year. The Bank maintained its leading position in the POS terminal market with a 26% share of the total number of terminals.

Number of POS and payment count



Card transactions

In 2008, Slovenská sporiteľňa maintained its dominant position in the Slovak card market. By the year-end, its total number of issued payment cards stood at 1 340 427, representing an increase of 6% compared to 2007. The Bank continued to be the market leader in number of debit cards, which increased by 6% year-on-year. The number of debit card transactions rose to more than 48 million (up by 13% year-on-year), while their amount increased by 13.4%, to SKK 114 billion (3.7 bn. EUR). Overall, transactions performed with the Bank's payment cards numbered more than 54 million (up by 10%) and amounted to SKK 129 billion (4.28 bn. EUR).

Slovenská sporiteľňa brought out several new products and services. In May 2008, it extended the Own Card service to credit card holders, enabling them to customize the design on their cards. For the top segment of private clients, the Bank expanded the portfolio of revolving cards by offering MasterCard Platinum, an exclusive card that comes with a wide range of ancillary services. During the year, Slovenská sporiteľňa continued the migration of its card portfolio to smart cards (chip).

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. In 2008, the number of calls it received rose by 4.4% year-on-year, and the number of e-mails processed increased by more than 31%. The processing of undeliverable consignments to the Bank‘s clients was centralized at the call centre. The portfolio of client requests made through electronic channels and processed by Sporotel was also expanded. Last year Sporotel broadened its support service to cover other electronic channels, including the MultiCash and Sporopay services.

SME services

Among banks serving the segment of small and medium-sized enterprises (SMEs), Slovenská sporiteľňa strengthened its market position in 2008. Its lending to this segment came to SKK 32.26 billion (1.07 bn. EUR), while deposits held by SME clients with the Bank ended the year at SKK 13.4 billion (444 mil. EUR), comparable with the figure in 2007.

SME‘s are served by Slovenská sporiteľňa‘s nine regional Commercial Centres and seven corporate centres attached to them. The business network was expanded in 2008 with the addition of a new corporate centre in Levice. By setting up new points of sale, we are steadily increasing the convenience of the service for our clients. The services of Commercial Centres were used by a total of 5 860 clients in 2008, representing an increase of 21% year-on-year. As regards loans to SME clients, we maintained our leading position last year, arranging 1 647 loans. The highest demand was, as usually, for investment loans. Under the EBRD credit line, we arranged loans amounting to SKK 300 million (10 mil. EUR).

The number of SMEs using the Bank‘s products and services rose in 2008. There was more intensive uptake of electronic banking services in 2008 and the number of clients who made payments through electronic channels increased by 5.3%. Income from treasury transactions rose by 7% year-on-year.

The facility for frontloading euro cash ahead of Slovakia‘s adoption of the new currency was used by 276 of our clients, who received a total of SKK 882.7 million (29.3 mil. EUR)

Last year, we paid more attention to organizing client meetings with the Bank‘s experts, as well as with external advisors from both domestic and foreign companies. For our clients, we prepared a financial academy and a meeting with Hungarian businesspeople, thereby developing professional knowledge of the clients and helping them to penetrate markets outside Slovakia. Slovenská sporiteľňa also supported foreign clients in Slovakia.

Corporate banking

Large corporate clients

In 2008, Slovenská sporiteľňa focused on maintaining achieved position. In regards to increasing quality of services, the emphasis was mainly put on simplifying processes in order to respond to client requests quickly and to provide solutions in line with their expectations. Clients were greatly advantaged by the group-level approach, which resulted in streamlining of communications between our clients‘ subsidiaries and different member banks of Erste Group. This approach provided for new and efficient solutions to the financing needs of multinational companies, with regard to their individual requirements specified by local markets.

The amount of lending – more than SKK 31 billion (about 1 bn. EUR) – reflected the quality of cooperation and communication with large corporate clients, both in the context of a growing economy and during the financial and economic crisis. The Bank increased the number of clients last year. This was possible through acquisition activities focused on the quality of the expanding portfolio. Our clients included strategic partners in the energy, automotive, telecom and transport sectors. As for deposit facilities, we concentrated on improving services related to account maintenance, transaction banking and payments, which at the same time served as preparation for our clients‘ smooth transition to the euro.

Specialized finance and project financing

Slovenská sporiteľňa confirmed its position in the field of project financing, and its project financing portfolio amounted to more than SKK 8.5 billion (282 mil. EUR). Most of the lending was arranged for large acquisitions (mergers), management buy-outs, greenfield projects and syndications, mainly in the energy, construction and engineering sectors. The Bank also made a large contribution to trade and export financing. Guarantees issued by the Bank in 2008 amounted to SKK 3.5 billion (116 mil. EUR) and the amount of open documentary credits came to SKK 1.5 billion (almost 50 mil. EUR).

In terms of real estate financing, Slovenská sporiteľňa increased its credit portfolio by almost 18%, to SKK 16.3 billion (more than 541 mil. EUR), maintaining its long-standing position among banks as the second largest provider of real estate financing in Slovakia. Last year saw the Bank take on several interesting projects outside Bratislava, and more than half of the increase in its real estate-financing assets was accounted for by projects in the regions. Broken down by segment, the projects were heavily concentrated in the construction of apartments and hotels, and to a lesser extent in commercial developments (such as shopping centres in the larger regional towns) and smaller office developments.

Financial markets

Trading in financial markets

In 2008, Slovenská sporiteľňa achieved an 8.7% share of the turnover in deposit, swap and repo transactions, which represented the third largest share among banks in Slovakia (according to NBS data).

Capital market trading

The Bratislava Stock Exchange (BSSE) reported a total turnover of almost SKK 1 485 billion (49.29 bn. EUR) in 2008, an increase of 110% in comparison with 2007. Bond transactions again dominated, accounting for 99.9% of the turnover, or SKK 1 484 billion (49.25 bn. EUR). Share market turnover for 2008 came to SKK 962 million (31,9 mil. EUR) . Slovenská sporiteľňa had the largest share of transaction turnover on the BSSE in 2008 – 68.7% or SKK 1 020 billion (33.85 bn. EUR). The majority of the transactions were in bonds.

Primary issues of securities

Despite the complicated situation on the financial markets, Slovenská sporiteľňa lead-managed the issuance of clients' corporate bonds with a total value of SKK 1 billion (over 33 mil. EUR), which accounted for more than 22% of the primary market for domestic corporate bonds and for 100% of the primary issues of corporate bonds listed on the Bratislava Stock Exchange. Including its own issues of bonds and mortgage bonds, intended for both retail and institutional investors, the Bank issued or lead-managed the issue of debt securities worth more than SKK 5.7 billion, last year (over 189 mil. EUR).

Financial product sales

Given the situation in financial markets, last year saw Slovenská sporiteľňa sell conservative products in a greater proportion in order to meet clients' requirements. The range of hedged products that include a principal guarantee and are placed through the branch network exceeded SKK 6 billion (200 mil. EUR), added to which was a further rise in sales of own debt securities.

Human resources

At a time of labour market tightening, the main objective for human resources in 2008 was to stabilize the front-office team in the branch network and to retain talented front-office staff of other sales divisions. Changes initiated in 2007 were implemented, specifically in the areas of remuneration strategy, performance management, development programmes, and staff induction. Decentralization of the staff selection process resulted in a 127% increase in the speed with which vacancies are filled, without any more human resources staff having to be taken on. The new system of a ‚managed induction process' brought a 40% reduction in the number of staff who leave within three to six months after starting their employment, and a 47% reduction in those who leave within six to twelve months. The managed induction process also improved the return on investment (ROI) in human resources (HR) by bringing total savings of SKK 15.3 million (507 ths. EUR). Based on these visible savings and the increase in the efficiency of HR work processes, Slovenská sporiteľňa last year won a national prize in HR management – HR GOLD 2008 – for the company with the best HR value-added project.

Slovenská sporiteľňa became the first bank in Slovakia to introduce a Virtual Training Branch as part of its training centre. The virtual branch consists of an accurate reproduction of a branch, including the interior and equipment, and is used to ensure faster and better training in customer orientation and real business situations.

In 2008, Slovenská sporiteľňa successfully implemented a pilot programme for performance management systems based on employees‘ key performance indicators (KPIs), mainly among groups of employees who support or provide sales services. Following up the results from the pilot divisions and staff units, Slovenská sporiteľňa trained and prepared other support divisions to launch a KPI-based performance management system for 2009.

As regards the managed identification and induction of talents, Slovenská sporiteľňa reworked the talents selection strategy and introduced two parallel management lines for talents – work with talents at universities, and work with talents for the branch network at secondary school. In cooperation with a selected small group of business academies, Slovenská sporiteľňa played an active role in the training process and supported the incorporation of a banking education framework in the education reform of 2008.

In regard to preventive health, Slovenská sporiteľňa audited all workplaces and offices in order to assess staff working conditions as well as the conditions of standard and preventive medical examinations. The content of the health examinations was revised and the focus of targeted preventive examinations was directed at the prevention and early detection of cancer. More than 79 percent of the Bank‘s employees were included in preventive programmes.

The average length of training undertaken by employees during 2008 was 6.4 days, representing an increase of 4.9% on the previous year. Slovenská sporiteľňa had 4 876 employees as at the end of 2008, and the share of employees with higher vocational or university education continued to increase last year. The average age of employees stood at 39 years, and the proportion of female employees remained unchanged at 80.3%.

09 Risk management in 2008

Risk management in 2008

Slovenská sporiteľňa is, by virtue of its business activities, exposed to several risks, the most significant being 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,
- the Financial Crime and Compliance Department.

The Bank has set up several committees that fulfil an important role in risk management:
- the Credit Committee,
- the Assets and Liabilities Committee (ALCO),
- the Operating Liquidity Committee (OLC),
- the Operational Risk and Compliance Committee (ORCO).

Credit risk

The Bank brought to a successful conclusion its preparations for the implementation of the new Basel II rules on the capital adequacy of banks. Following an in-depth review of data quality, models and calculations, the National Bank of Slovakia granted Slovenská sporiteľňa approval to use the Internal Ratings Based (IRB) Approach, from 1 July 2008 at the earliest. Slovenská sporiteľňa is the first bank in Slovakia to use the IRB Approach for the measurement of credit risk.

For the development of its rating systems, the Bank uses statistical methods. On the basis of validation, the Bank improved its rating systems for both private and corporate clients. For private and micro clients, the Bank employs a behavioural rating.

At the heart of the lending process in Slovenská sporiteľňa is risk assessment through the use of rating tools and rating assignment. The eventual rating is a key factor in deciding whether to arrange a loan and in setting the amount and price of the loan.

The Bank, in arranging loans, 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 (IFRS). In calculating provisions, the Bank has since 2008 made full use of risk parameters calculated under the IRB Approach.

The Bank's credit portfolio includes bad loans past due by up to three years, and since its ability to effectively sell these non-performing loans (NPLs) is restricted by Slovak tax law, the share of NPLs in the overall portfolio represents the three-year cumulative default rate.

Loans secured by real estate constituted 33% of the total portfolio.

Market risk

Since February 2008, when the holding company Erste Group Bank introduced a new organizational structure, interbank trading operations in Slovenská sporiteľňa have been confined to the money market desk and the rest of these operations have been centralized at the holding's level. For the purpose of managing market risks in the trading book and reporting them in regard to capital adequacy, Slovenská sporiteľňa uses an internal model based on a value-at-risk (VAR) methodology and calculated by an historical simulation method. Risk management is further supplemented by a sensitivity analysis and by stress testing carried out on a monthly basis. The VAR model is subjected to daily back-testing. In order to restrict the maximum acceptable risk, a comprehensive system of limits has been adopted.

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 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 2008, the ratio of the Bank's fixed and illiquid assets to its own funds and reserves (in accordance with regulatory requirements) was approximately 0.64. On 15 November, the National Bank of Slovakia approved a new decree on liquidity management in order to ensure the functioning of the domestic market following the adoption of the euro in 2009. Under the new regulatory requirement (the ratio of liquid assets to volatile liabilities must be more than 1.00; it is to be reported for each day and the reports are to be sent once a week), banks must hold a greater amount of liquid assets in their balance sheets. The ratio reported by Slovenská sporiteľňa ranged between 1.56 and 1.77, and at the year-end it was 1.65. This level means that Slovenská sporiteľňa will be able to increase its lending in 2009. The euro adoption will further improve liquidity management through access to euro area capital market. The Bank's liquidity situation is secured satisfactorily.

Operational risk

In 2008, Slovenská sporiteľňa continued to prepare for the transition to the Advanced Measurement Approach (AMA) in accordance with Basel II. The result was that, on 30 September 2008, the Bank together with Erste Group submitted to the regulators an application to use the AMA for the purpose of calculating the operational risk capital requirement. The regulators are now examining the submitted application and are also performing on-site evaluations; their decision is expected at the end of the first quarter of 2009.

Since 2004, Slovenská sporiteľňa has had in place a fully functional system for collecting internal data on operational risk losses. This database currently contains more than 5000 data points used in calculations and modelling.

Another way in which the Bank identifies operational risk is through regular risk mapping based on the methodology of the Risk Management Association. The Bank is also a member of the ORX consortium – an external database of operational risk events which has more than 50 member banks and contains more than 100 000 events.

The results from all of the risk identification methods (internal and external data, risk mapping, new product checks, etc.) are finally used in scenario analyses. The scenarios are quantified and used directly in capital requirement calculations. Together with Erste Group, the Bank last year developed a completely new method of scenario design, which involves both risk management experts and business experts. In this way, the Bank created several new scenarios with which to supplement its risk profile.

Operational risk is overseen by the ORCO Committee, which adopts resolutions on the following matters:
- the approval/rejection of strategies and procedures concerning operational risk management;
- the approval/rejection of degrees of acceptability and levels of tolerance for operational risk;
- decisions on measures to reduce or mitigate operational risk;
- the approval/rejection of strategies and procedures concerning the management or reduction of compliance risk;
- the approval/rejection of the strategy to reduce or mitigate money laundering risk;
- the approval/rejection of the strategy to reduce or mitigate fraud.

Slovenská sporiteľňa is also part of a group-wide insurance programme that ensures comprehensive coverage of losses resulting from operational risk.

Fraud risk

In 2008, Slovenská sporiteľňa set up a fraud risk management department. The primary purpose of fraud risk management is to minimize financial losses caused by internal or external fraud and by organized crime, the aim being to prevent frauds and intercept them in time.

The name under which the department conducts its activities is Financial Crime and Compliance, and the team includes specialist investigators. The department submits regular reports, assesses internal fraud risks, and investigates cases of fraud; it is gradually reducing the time needed for investigations and the time needed to respond to management in order to implement the recommended remedial measures.

Most of the Financial Crime unit‘s success is in analysing fraud on the basis of strategic planning and the implementation of fraud prevention and interception tools, in developing an internal control process, in measurable functions of fraud management, and in working out and communicating definitions and instructions aimed at raising awareness in this area.

Risk of money laundering and terrorist financing

In order to reduce the risk posed by possible money laundering and terrorist financing, the Compliance and AML Group adopted several measures in 2008.

Based on recommendations and requirements from the business line, the new „Programme for the fight against money laundering and terrorist financing“ was produced as a single integrated guideline. In an annex to this guideline there are clearly defined processes that describe the reporting, monitoring and evaluation of unusual business transactions through the existing EMUS or ALCHEMIST systems.
This Programme also includes the precise requirements laid down in the new Act on the Prevention of Money Laundering (No. 297/2008), which was adopted in September 2008 and entered into force from January 2009.

For the purpose of greater transparency regarding relationships, the law introduced the term „Final Beneficiary“, and the Bank is required to identify the Final Beneficiary.
In order to reduce a money laundering risk, a database of politically exposed persons was implemented in the Bank and throughout Erste Group. The persons listed in the database are considered to be a high risk and relations with them are to be conducted with greater care.

Another element in risk reduction was the introduction of monitoring of cross-border payments through the system „SMS Client AML online monitoring“, and the evaluation of these payments for unusualness or potential threats of terrorist financing.

Consolidated Financial Statements

prepared in Accordance with International Financial Reporting Standards as adopted by the European Union for the Year Ended 31 December 2008

and Independent Auditors' Report

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

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 2008, and the income statement, statement of changes in equity, statement of recognized income and expense and statement of cash flows 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 2008, 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 17 February 2009

Deloitte

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

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

02 Consolidated Income Statement
For the Year Ended 31 December 2008

SKK million	Note	2008	2007
Interest income	7	18 241	16 726
Interest expense	7	(6 724)	(6 186)
(Loss)/Income from investments in associates	7	(92)	146
Net interest and investment income		**11 425**	**10 686**
Provisions for losses on loans, advances and off-balance sheet credit risks	9	(2 683)	(1 421)
Net interest and investment income after provisions		**8 742**	**9 265**
Fee and commission income	8	4 002	3 592
Fee and commission expense	8	(433)	(353)
Net fee and commission income		**3 569**	**3 239**
Net trading result	10	988	708
General administrative expenses	11	(7 953)	(7 628)
Other operating result	12	(16)	(942)
Profit for the year before income taxes		**5 330**	**4 642**
Income tax expense	13	(1 047)	(475)
Net profit for the year after income taxes		**4 283**	**4 167**
Net profit attributable to:			
Equity holders of the parent		4 282	4 167
Minority interest		1	-
Total		**4 283**	**4 167**
Basic and diluted earnings per share per SKK 1 000 share (SKK)	**33**	**672**	**654**
Basic and diluted earnings per share per SKK 100 million share (SKK)	**33**	**67 194 854**	**65 374 961**

The notes on pages 72 to 147 are an integral part of these financial statements

These financial statements were approved and authorised for issue by the Board of Directors of the Bank on 17 February 2009.

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

03 Consolidated Balance Sheet
As at 31 December 2008

SKK million	Notes	2008	2007
ASSETS			
Cash and balances at the central bank	14	42 983	12 502
Loans and advances to financial institutions	15	81 725	34 111
Loans and advances to customers	16	172 061	156 776
Provisions for losses on loans and advances	17	(6 693)	(5 410)
Financial assets at fair value through profit or loss	18	4 687	18 164
Securities available for sale	19	25 214	22 963
Securities held to maturity	20	42 240	52 584
Investments in associates	21	1 215	1 591
Intangible assets	22	3 320	2 359
Property and equipment	23	7 213	6 319
Assets held for rental income	23	334	344
Non-current assets held for sale	24	885	130
Current income tax asset	25	9	12
Deferred income tax asset	25	907	14
Other assets		2 182	1 454
Total assets		**378 282**	**303 913**
LIABILITIES AND EQUITY			
Amounts owed to financial institutions	26	68 322	24 604
Amounts owed to customers	27	257 972	229 996
Debt securities in issue	28	14 260	15 494
Provisions for liabilities and other provisions	29	774	655
Financial liabilities at fair value through profit or loss	46	3 234	2 387
Other liabilities	30	3 148	4 968
Current income tax liability	25	972	338
Deferred income tax liability	25	-	36
Subordinated debt	31	5 443	3 368
Total liabilities		**354 125**	**281 846**
Total equity, thereof		24 157	22 067
– Equity attributable to equity holders of the parent		24 096	21 991
– Minority interest		61	76
Total liabilities and equity		**378 282**	**303 913**

The notes on pages 72 to 147 are an integral part of these financial statements.

04 Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2008

	Attributable to equity holders of the parent								
SKK million	Share capital	Legal reserve fund	Other Funds	Retained earnings	Hedging reserves	Revaluation reserves	total	Minority interests	Total
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 losses 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 losses	-	-	-	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**
Available for sale securities:									
Valuation losses taken to equity	-	-	-	-	-	(790)	(790)	-	(790)
Transferred to Income Statement on sale	-	-	-	-	-	73	73	-	73
Cash flow hedges:									
Gains taken to equity	-	-	-	-	40	-	40	(1)	39
Transferred to Income Statement for the period	-	-	-	-	(48)	-	(48)	-	(48)
Actuarial gains	-	-	-	(9)	-	-	(9)	-	(9)
Tax on items taken directly to or transferred from equity	-	-	-	-	2	136	138	-	138
Increase in Minority interests									
Net profit for the year	-	-	-	4 282	-	-	4 282	1	4 283
Dividends paid	-	-	-	(1 600)	-	-	(1 600)	-	(1 600)
Transfers in the group	-	-	-	11	-	-	11	(15)	(4)
Other funds contributed by shareholders	-	-	7	-	-	-	7	-	7
Other changes	-	-	-	1	-	-	1	-	1
As at 31 December 2008	**6 374**	**2 404**	**1 185**	**14 578**	**24**	**(469)**	**24 096**	**61**	**24 157**

The notes on pages 72 to 147 are an integral part of these financial statements.

05 Consolidated Statement of Recognised Income and Expense

For the Year Ended 31 December 2008

SKK million	**Note**	**2008**	**2007**
Available for sale securities:			
Valuation losses taken to equity		(790)	(287)
Transferred to Income Statement on sale		73	(2)
Cash flow hedges:			
Gains taken to equity		39	19
Transferred to Income Statement for the period		(48)	(65)
Actuarial gains / (losses) on post-employment defined benefit plans	29(d)	(9)	13
Tax on items taken directly to or transferred from equity	25	138	68
Net income / (expense) recognised directly in equity		**(597)**	**(254)**
Profit for the year		**4 283**	**4 167**
Total recognised income and expense for the year		**3 686**	**3 913**
Attributable to:			
Equity holders of the parent		3 686	3 908
Minority interest		-	5

The notes on pages 72 to 147 are an integral part of these financial statements.

06 Consolidated Statement of Cash Flows

For the Year Ended 31 December 2008

SKK million	Note	2008	2007
Cash flows from operating activities			
Profit before income taxes		5 330	4 642
Adjustments for:			
Provisions for losses on loans, advances, off-balance sheet and write-offs		2 683	1 421
Provisions for liabilities and other provisions		182	(174)
Depreciation and amortisation	11	1 250	1 229
Gain on disposal of fixed assets		(50)	(56)
(Release of Impairment)/Impairment of tangible and intangible assets		(239)	290
Accruals for liabilities		(1 259)	295
Equity in earnings of associates		92	(123)
Other adjustment		626	616
Unrealized valuation adjustments of financial instruments and other assets		(1 961)	-
Transfer of interest income of HTM portfolio to investment activity		(1 776)	(2 247)
Cash flows from operations before changes in operating assets and liabilities		**4 878**	**5 893**
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the central bank	14	(20 519)	1 279
Placements with the central bank	15	1 100	(1 100)
Loans and advances to financial institutions	15	7 141	(1 157)
Loans and advances to customers		(19 653)	(26 444)
Financial assets at fair value through profit or loss and securities available for sale		1 119	2 527
Other assets		(728)	(827)
Increase/(decrease) in operating liabilities:			
Amounts owed to financial institutions		46113	(19 702)
Amounts owed to customers		29 064	19 239
Other liabilities		(676)	(893)
Increase in derivative financial instruments		1 488	403
Net cash flows provided by / (used in) operating activities before income tax		**49 327**	**(20 782)**
Income taxes paid		(1 193)	(355)
Net cash flows provided by / (used in) operating activities		**48 134**	**(21 137)**
Cash flows from investing activities			
Net increase / (decrease) from securities held to maturity		12 120	(5 638)
Dividends received from associates		116	103
Proceeds from sale of associates		1 226	-
Net (increase) / decrease in investments in associates		102	(326)
Purchase of intangible assets, property and equipment		(3 743)	(2 937)
Proceeds from sale of property and equipment		182	307
Net cash flows provided by / (used in) investing activities		**10 003**	**(8 491)**

SKK million	Note	2008	2007
Cash flows from financing activities			
Subordinated debt		2 411	3 223
Net cash flows from issued bonds	28	(1 937)	2 678
Dividends paid		(1 600)	(2 224)
Loans to group companies from third parties		(819)	(947)
Net cash flows provided by / (used in) financing activities		**(1 945)**	**2 730**
Effect of foreign exchange rate changes on cash and cash equivalents		(207)	(16)
Net increase / (decrease) in cash and cash equivalents		**55 985**	**(26 914)**
Cash and cash equivalents at the beginning of the year	**34**	**36 962**	**63 876**
Cash and cash equivalents at the end of the year	**34**	**92 947**	**36 962**

The notes on pages 72 to 147 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements
Prepared in Accordance with International Financial Reporting Standards as adopted by the European Union Year Ended 31 December 2008

1. Introduction

Slovenská sporiteľňa, a. s. (hereafter 'the Bank') has its registered office at Tomašikova 48, 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. These consolidated financial statements comprise the accounts of the Bank and its subsidiaries (together 'the Group').

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 as members. The Chairwoman of the Board of Directors is also the Bank Managing Director. The Vice Chairman of the Board of Directors is also the First Deputy Managing Director of the Bank. The Vice Chairman fully represents the Chairwoman in her absence. Other members of the Board of Directors are simultaneously deputies of the Bank Managing Director.

The members of the Supervisory Board as at 31 December 2008 were as follows: Dr. Franz Hochstrasser (Chairman), Mag. Bernhard Spalt, Herbert Juranek, JUDr. Beatrica Melichárová, and Wolfgang Schopf. Former member Peter Kisbenedekt resigned during 2008.

As at 31 December 2008, the only shareholder of the Bank was Erste Group Bank AG (hereafter 'Erste Group Bank'), with registered office Graben 21, 1010 Vienna, Austria. The consolidated financial statements of Erste Group Bank 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 Relevant to Bank's Operations, Effective in the Current Period

Two new Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

These are:

IFRIC 11	IFRS 2: Group and Treasury Share Transactions (effective beginning on or after 1 March 2007);
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The adoption of these Interpretations has not led to any changes in the accounting policies.

b) Early Adoption of Standards and Interpretations

The Group has elected to early adopt IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009).

The principal change to the Standard eliminated the previously available option to expense all borrowing costs when incurred. The Group has applied this change in the accounting policy prospectively, in line with transitional provisions of IAS 23 (Revised).

The impact of this change in accounting policy for the year ended 31 December 2008 has been reduction of interest expense by SKK 114 million with corresponding increase in intangible assets by SKK 49 million and property by SKK 65 million.

c) Standards and Interpretations Issued but not yet Effective

At the date of authorisation of these financial statements, other than IAS 23 Borrowing costs (Revised) that was adopted by the Group in advance of its effective date, the following Standards were in issue but not yet effective:

- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008).

- IFRS 2 (revised in 2008) Share-based Payment: Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009);
- IAS 1 (revised in 2007) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009);
- IAS 32 (revised in 2008) Financial Instruments: presentation and IAS 1 (revised in 2008) Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009);
- Improvements to IFRSs 2007 (effective for annual periods beginning on or after 1 January 2009);

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

Standards:
- IFRS 1 First-time Adoption of IFRS – Restructured standard (2008) (effective for annual periods beginning on or after 1 January 2009);

Amendments:
- Amendments to standards IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures are effective from 1 July 2008. These permit to reclassify some non-derivative financial assets in limited circumstances. The Bank has not used this option.
- IFRS 3 (revised in 2008) Business Combinations (effective for annual periods beginning on or after 1 July 2009);
- IFRS 1 (revised in 2008) First adoption and IAS 27 (revised in 2008) Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009);
- IAS 27 (revised in 2008) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009);
- IAS 39 (revised in 2008) Financial Instruments: Recognition and Measurement: Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18 Transfers of Assets from Customers (effective for annual periods on or after 1 July 2009)

Interpretations:
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008);
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).

The management of the Bank anticipates that all of the above amended Standards and Interpretations, if endorsed by the European Union, will be adopted in the Group's financial statements when they become effective and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

3. Significant changes during 2008

(a) Disposal of Credit Investments

In March 2008, the Group disposed total of SKK 3.3 billion of securities from Fair Value Through profit and Loss portfolio to its parent bank. These securities were represented mostly by collateralized debt obligations, residential mortgage backed securities and managed fund (see note 18).

(b) Sale of Bank's Investment in Poisťovňa Slovenskej sporiteľne, a.s.

In September 2008, the Group sold a 28.33% ownership interest from its 33.33% ownership interest in Poisťovňa Slovenskej sporiteľne, a.s., for a consideration of SKK 1 226 million, resulting in net gain of SKK 1 064 million (Note 21).

(c) Centralization of Trading activities in Erste Group Bank

With effect from 4 February 2008, the Bank has adopted a new business model of financial markets trading in cooperation with Erste Group Bank. Erste Group Bank has started to conduct all trading operations on a central trading book in order to better manage market risks from trading activities (i.e., transactions with retail, corporate and other institutional clients) with the exception of the equity risk trading and transactions for the Bank's liquidity management purposes.

Trading gains (i.e. from Erste Group Bank's market positions) are distributed according to approved rules based on the financial results back to the Erste Group Bank's local banks and reported in the 'Net trading result'. The basic principle underlying these rules involves Erste Group Bank absorbing potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. In the new business model of financial markets trading is reallocation of the trading costs for individual participating Erste Group Bank subsidiaries based on the Cost Income Ratio (see note 18).

4. 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 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 2c) 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 2008 on 17 February 2009.

The financial statements of the Group for the previous period (31 December 2007) were signed and authorised for issue on 14 February 2008.

(b) Basis of Preparation

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

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

The Bank holds controlling interests in subsidiaries and has a significant influence in associates as described in Note 6 and 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 Group 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 cease 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 in which the Bank normally holds, directly or indirectly, more than 20% but less than 50% 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 against provisions 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. Recoveries of loans and advances previously written-off are reflected into income.

The Group 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

The impairment assessment of the loans and advances that are considered by the Bank as being individually non-significant is performed on a portfolio basis. These exposures are divided by product and internal rating into portfolios with homogenous risk characteristics. The Group 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 Group 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 on the basis of an estimated time period between a loss event occurrence and its actual identification by the Group.

Individual assessment of impairment

Loans and advances to institutions, sovereign and corporate classes are generally considered by the Group 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 assessed for impairment 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 Group enters into credit-related commitments, which are recorded in off-balance sheet accounts. The Group 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 trading result'. 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 Group that are intended to be held for an indefinite period of time or which may be sold as liquidity requirements arise or market conditions change. AFS securities are initially recognised at cost and are subsequently re-measured to fair value. Interest is recognised using the effective interest rate in the 'Net interest and investment income'. Unrealised changes in the fair values of AFS securities are recognised as adjustments to equity revaluation reserves, with the exception of the impairment losses. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity revaluation reserve is included in income statement for the period as 'Other operating result'.

The 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 46.

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 value 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 pre-determined 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 stated at costs less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their 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 2008 and 2007**
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) Assets Held for Rental Income

Assets held for rental income are property, i.e. land or building, held to earn rental revenue. Assets held for rental income are stated at historical cost less impairment provisions and accumulated depreciation using a straight-line basis depreciation over estimated useful lives. The carrying amount of assets held for rental income, its depreciation, and rental revenues are disclosed in Note 23. The useful life of buildings classified as assets held for rental income 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 principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. 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 29 (d) 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 included in 'Other liabilities'.

Interest income received from customers for factoring services is included in 'Interest 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 Group 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 trading result’.

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 43.

(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 trading result'.

(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 trading result'.

(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 48.

(dd) Regulatory Requirements

The Group 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 Group, liquidity, interest rate, and foreign currency position.

5. Key sources of estimation uncertainty

The presentation of financial statements in conformity with IFRS requires the management of the Group 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 future reported financial position and results of operations.

Significant areas of judgement include the following:

– The recent financial crisis and resulting impact on financial markets and the economic environment have resulted in material adjustments to valuation of the Banks assets. The management of the Bank has considered all relevant factors in making prudent and reasonable valuation estimates in the circumstances. The financial markets continue to be affected by market liquidity issues and high price volatility. There is also continuing increased level of uncertainty about future economic developments. These factors could result in future changes in valuation of assets and the changes could be material.
– Financial assets at fair value through profit and loss and securities available for sale include credit investments and managed funds totaling SKK 1 223 million as of 31 December 2008. The estimated fair values of these assets have been affected by decreased market liquidity and widening credit spreads in the financial markets. The continuing high volatility in market prices and economic uncertainty could result in future valuation adjustments.

- As described in Note 16 and 17 the Bank creates provision for impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are negatively impacted. These provisions are based on Bank's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to loan default, as well as subjective judgments of the Bank's management about estimated future cash-flows. Considering current economic conditions, the outcome of these estimates could differ from the amounts of impairment provisions recognized as of 31 December 2008.

- 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 29 for more detailed disclosures of provisions for liabilities.

- 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.

6. Companies included in consolidation

The consolidated financial statements include the following subsidiaries and associates:

Name of the company	Registered office	Principal activity	Group interest 2008	Group voting rights 2008
Subsidiaries – fully consolidated				
Asset Management Slovenskej sporiteľne, práv. spol., a. s.	Tomášikova 48 832 65 Bratislava Slovenská republika	Asset management	100.00%	100.00%
Realitná spoločnosť Slovenskej sporiteľne, a. s.	Námestie SNP 18 811 06 Bratislava Slovenská republika	Real estate agency	100.00%	100.00%
Leasing Slovenskej sporiteľne, a. s.	Tomášikova 48 832 69 Bratislava Slovenská republika	Financial and operational leasing	96.66%	96.66%
Factoring Slovenskej sporiteľne, a. s.	Tomášikova 48 832 67 Bratislava Slovenská republika	Factoring	100.00%	100.00%
Derop, B.V	Naritaweg 165 1043 BW Amsterdam Holandsko	Incorporation, management and financing of companies	85.00%	85.00%
Laned, a. s. (100% subsidiary of Derop, B.V.)	Tomášikova 48 832 71 Bratislava Slovenská republika	Real estate agency	85.00%	85.00%
Associates – consolidated at equity				
3on private equity, a. s.	Štefanovičova 12 811 04 Bratislava Slovenská republika	Investment advisory	35.29%	35.29%
Prvá stavebná sporiteľňa, a. s.	Bajkalská 30 829 48 Bratislava Slovenská republika	Banking	9.98%	35.00%
Slovak Banking Credit Bureau, s.r.o.	Malý trh 2/A 811 08 Bratislava Slovenská republika	Retail credit register	33.33%	33.33%
Erste Corporate Finance, a. s.	Evropská 2690/17 160 00 Praha 6 Česká republika	Financial and legal advisory	25.00%	25.00%
s IT Solutions SK, spol. s r.o.	Prievozská 14 821 09 Bratislava Slovenská republika	Software company	23.50%	23.50%
Czech and Slovak Property Fund, B.V.	Fred. Roeskestraat 123 Amsterdam, Holandsko	Real estate fund	10.00%	10.00%

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

In October 2008, the Group acquired a residual 10% share of the ownership and voting rights in Factoring Slovenskej sporiteľne, a.s. and increased its share in the company to 100%.

7. Net interest and investment income

SKK million	2008	2007
Interest income from:		
Loans and advances to financial institutions	2 970	2 074
Loans and advances to customers	12 320	10 800
Financial assets at fair value through profit and loss	111	310
Securities available for sale	995	1 186
Held to maturity securities	1 776	2 247
Other interest income and similar income	69	109
Total interest and similar income	**18 241**	**16 726**
Interest expense for:		
Amounts owed to financial institutions	(1 538)	(1 672)
Amounts owed to customers	(4 254)	(3 809)
Debts securities in issue	(703)	(560)
Subordinated debt	(229)	(145)
Total interest and similar expenses	**(6 724)**	**(6 186)**
Net interest income	**11 517**	**10 540**
(Loss) / Income from investments in associates	(92)	146
Net interest and investment income	**11 425**	**10 686**

In 2008, interest income includes a total of SKK 175 million
(2007: SKK 154 million) relating to impaired financial assets.

See Note 21 for information concerning subsidiaries and associates.

(Loss) / Income from investments in associates

Company	2008 MSKK	2007 MSKK
Prvá stavebná sporiteľňa, a.s. (PSS)	59	84
Poisťovňa Slovenskej sporiteľne, a.s.	26	32
Erste Corporate Finance, a.s.	1	(1)
IT Solutions SK, spol. s r. o.	-	10
Czech and Slovak Property Fund, B.V.	(204)	19
Other	26	2
Total	**(92)**	**146**

8. Net fee and commission income

SKK million	2008	2007
Fee and commission income from:		
Payment transfers	2 506	2 281
Lending business	834	663
Securities	440	461
Other fees	222	187
Total fee and commission income	4 002	3 592
Fee and commission expense for:		
Payment transfers	(273)	(259)
Lending business	(114)	(41)
Securities	(34)	(49)
Other fees	(12)	(4)
Total fee and commission expense	**(433)**	**(353)**
Net fee and commission income	**3 569**	**3 239**

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

9. Provisions for losses on loans, advances and off-balance sheet

SKK million	2008	2007
Provisioning charges for:		
Specific risk provisions	(1 422)	(842)
Portfolio risk provisions	(1 972)	(1 100)
Total provisioning charges	(3 394)	(1 942)
Release of provisions		
Specific risk provisions	425	371
Portfolio risk provisions	229	263
Total release of provisions	654	634
Net provisions for losses on loans and advances (Note 17)	**(2 740)**	**(1 308)**
Recoveries of loans written off / other	93	(93)
Net creation of provisions for off-balance risks	(36)	(20)
Net provisions	**(2 683)**	**(1 421)**

10. Net trading result

SKK million	2008	2007
Foreign exchange gains and currency derivatives	625	673
Interest derivatives	170	46
Trading securities gains/(losses)	191	42
Other gains/(losses)	2	(53)
Total	**988**	**708**

11. General administrative expenses

SKK million	2008	2007
Personnel expenses		
Wages and salaries	(2 246)	(2 399)
Social security expenses	(760)	(702)
Long term employee benefits	(12)	32
Other personnel expenses	(56)	(46)
Total personnel expenses	**(3 074)**	**(3 115)**
Other administrative expenses		
Data processing expenses	(1 641)	(1 429)
Building maintenance and rent	(537)	(558)
Costs of bank operations	(738)	(575)
Advertising and marketing	(380)	(335)
Legal fees and consultation	(140)	(147)
Other administrative expenses	(193)	(243)
Total other administrative expenses	**(3 629)**	**(3 287)**
Depreciation		
Amortisation of intangible assets	(619)	(573)
Depreciation	(631)	(653)
Total depreciation, amortisation	**(1 250)**	**(1 226)**
Total	**(7 953)**	**(7 628)**

The average number of employees in the Group was 4 923 and 4 812, thereof members of the Board of Directors 6 and 6, in 2008 and 2007 respectively.

Other administrative expense includes the cost of audit services totaling SKK 22 million annually and other advisory services provided by the affiliate of the audit company totaling SKK 25 million.

SKK million	2008	2007
Audit of financial statements	22	22
Tax advisory	2	3
Other related services provided to company	23	33
Total	**47**	**58**

12. Other operating result

SKK million	2008	2007
Revaluation of securities at fair value, net	(284)	(472)
(Loss)/Profit on securities available-for-sale (Note 19)	(436)	21
Net gain from disposal of associate	1 064	-
Contribution to deposit protection fund	(342)	(299)
Other operating result, other	(18)	(192)
Total other operating result	**(16)**	**(942)**

Major components of 'Other operating result, other' in 2008 include reversal of impairment provision on property and movables amounting to SKK 239 million net allocation of provisions for legal cases of SKK 152 million (in 2007 release of SKK 213 million) and insurance expenses of SKK 107 million (in 2007 SKK 39 million).

The Bank sold 28.33% of its 33.33% ownership interest in Poisťovňa Slovenskej sporiteľne, a.s., for a consideration of SKK 1 226 million, resulting in net gain of SKK 1 064 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.

13. Income tax expense

SKK million	2008	2007
Current tax (income) / expense	1 834	891
Deferred tax expense/ (income) (Note 25)	(787)	(416)
Total	**1 047**	**475**

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:

	2008 (SKK million)	%	2007 (SKK million)	%
Profit before tax	**5 330**		**4 642**	
Theoretical tax at income tax rate of 19%	**1 013**	**19**	**882**	**19.0**
Tax effect of expenses that are not deductible in determining taxable profit:				
- Allocation of provisions and reserves	51	1.0	275	5.9
- Other	220	4.1	80	1.7
Total tax effect of expenses that are not deductible in determining taxable profit	**271**	**5.1**	**355**	**7.6**
Tax effect of revenues that are deductible in determining taxable profit:				
- Release of provisions and reserves	(106)	(2.0)	(98)	(2.1)
- Income from dividends	-	-	(31)	(0.7)
- Other	(131)	(2.5)	(188)	(4.0)
Tax effect of revenues that are deductible in determining taxable profit	**(237)**	**(4.4)**	**(317)**	**(6.8)**
Additional tax (income)/expense on interest income from securities	-	-	(445)	(9.6)
Tax expense and effective tax rate for the year	**1 047**	**19.6**	**475**	**10.2**

Net additional tax on interest income from securities of SKK 445 million recognized in 2007 relates to release of deferred tax liability. This was previously accounted for in 2006, on the basis of newly enacted legislation which was subsequently revoked in 2007.

14. Cash and balances at the central bank

SKK million	**2008**	**2007**
Cash balances	10 525	5 149
Nostro accounts with central banks	5 450	864
Minimum reserve deposit with NBS	27 008	6 489
Total	**42 983**	**12 502**

The minimum reserve deposit represents a mandatory deposit (bearing 1.5% interest as of 31 December 2008) 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 5.4 billion (in 2007 SKK 4.3 billion).

15. Loans and advances to financial institutions

SKK million	2008	2007
Loans and advances on demand (nostro accounts)	71	171
Repo trades with central bank treasury bills	76 901	20 846
Placements with central bank	-	1 100
Placements with financial institutions	4 753	11 994
Total	**81 725**	**34 111**

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.

16. Loans and advances to customers

SKK million	2008	2007
Corporate clients	84 108	84 370
Syndicated loans	12 823	9 854
Overdrafts	16 606	15 834
Direct provided loans	47 315	49 566
Finance leasing	5 261	5 717
Factoring	2 103	3 399
Retail clients	86 285	71 081
Mortgage loans	56 749	42 278
Consumer loans	23 324	22 245
Social loans	823	1 056
Overdrafts	5 117	5 327
Finance leasing	272	175
Public sector	1 667	1 325
Total	**172 061**	**156 776**

As at 31 December 2008 the 15 largest customers accounted for 13.3% of the gross loan portfolio were in the amount of SKK 22 970 million (2007: 13.7%, SKK 21 527 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 2008. Exposure information includes undrawn loan commitments.

As at 31 December 2008 **SKK million**	**Exposure**	**Provisions**	**Provisions coverage**	**Estimated value of collateral**	**Provisions and collateral coverage**
Portfolio provisions	**115 496**	**4 788**	**4.1%**	**66 937**	**62.1%**
Private persons	90 184	4 316	4.8%	56 394	67.3%
thereof defaults	5 459	3 742	68.5%	1 278	92.0%
Legal persons	25 312	472	1.9%	10 543	43.5%
thereof defaults	333	279	83.8%	45	97.3%
Individual credit risks	**56 565**	**1 905**	**3.4%**	**22 237**	**42.3%**
Not impaired exposures	53 755	-	0.0%	21 568	40.1%
Impaired exposures	2 810	1905	67.8%	669	91.6%
Subtotal for balance sheet credit risks	**172 061**	**6 693**	**3.9%**	**89 174**	**55.7%**
Off-balance sheet Retail Asset Class	17 763	111	0.6%		
Off-balance sheet Corporate Asset Class	27 622	25	0.1%		
Subtotal for off-balance sheet credit risks	**45 385**	**136**	**0.3%**		
Total	**217 446**	**6 829**	**3.1%**		

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%**		

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 2008, the Bank increased provisions for impaired leasing receivables by SKK 300 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 2008 and 31 December 2007.

Mandate loans

During 2008, the Bank continued its cooperation with four external non-related parties following contracts from prior periods and entered into contracts with two additional partners. Under these contracts, the management and administration of certain non-performing receivables ('mandate loans') is outsourced. The Bank maintains the risks and rewards associated with the underlying credit exposures and shares part of cash recoveries with the external service providers. The Bank's management has analysed potential recoveries relating to the outsourced receivables and recorded provisions reflecting estimated losses - the expected future net cash recoveries. Total outsourced gross loans, including suspended interest amounted to SKK 3 237 million as at 31 December 2008 (2007: SKK 2 713 million).

Write off and sale of receivables

In 2008, the Group sold total of SKK 756 million of loan receivables (2007: SKK 301 million) for a consideration of SKK 131 million (2007: SKK 173 million), and used corresponding provisions of SKK 752 million (SKK 128 million as at 31 December 2007).

Group has also written off loans in carrying amount of SKK 525 million that were fully provided.

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.

Most of these estimates are based on actual historical experience, which is further adjusted for changes in more recent market data. However, for a number of parameters used 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 estimate of the losses currently present in the portfolio under existing circumstances.

The Bank continues to monitor current economic conditions as well as the impacts it has on individual estimates used on the loan impairment calculation. All estimates and underlying assumptions are being 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	2008	2007
Gross investment in finance leases	**6 174**	**6 764**
Thereof:		
- Less than 1 year	2 219	2 352
- From 1 year to 5 years	3 547	3 958
- Over 5 years	408	454
Unearned income	**(775)**	**(837)**
Net investment in finance leases	**5 399**	**6 017**
Thereof:		
- Less than 1 year	1 902	2 099
- From 1 year to 5 years	3 195	3 565
- Over 5 years	302	353

17. Provisions for losses on loans and advances

SKK million	2008	2007
As at 1 January	5 410	4 275
Net allocation / (release) of provisions (excluding effect of unwind)	2 740	1 462
Use of provisions due to sale and write-off of receivables and other adjustments	(1 281)	(173)
Effect of unwind	(176)	(154)
As at 31 December	**6 693**	**5 410**

Use of provisions results mainly from write off and the sale of impaired receivables, see Note 16.

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

18. Financial assets at fair value through profit or loss

SKK million	2008	2007
Trading securities		
Debt securities and other fixed income securities - listed	-	10 073
Equity securities – shares – listed	-	4
Financial derivatives with positive fair value (Note 36)	3 206	2 202
Interest Rate Agreements	1 326	838
Exchange Rate Agreements	1 770	1 109
Other	110	255
	3 206	12 279
Assets at fair value		
Credit investments	242	4 755
Debt securities and participation certificates	1 239	1 130
	1 481	5 885
Total	**4 687**	**18 164**

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	2008	2007
State institutions in the Slovak Republic	-	32
Foreign state institutions	-	-
Financial institutions in the Slovak Republic	-	9 966
Foreign financial institutions	-	41
Other entities in the Slovak Republic	-	34
Total	**-**	**10 073**

With effect from 4 February 2008, the Bank has adopted new business model of financial markets trading in cooperation with Erste Group Bank. Erste Group Bank has started to conduct all trading operations on a central trading book in order to better manage market risks from the group trading activities (i.e., transactions with retail, corporate and other institutional clients) with the exception of the equity risk trading and transactions for the Bank's liquidity management purposes.

Trading gains (i.e. from Erste Group Bank's market positions) are distributed according to approved rules based on the financial results back to the Group's local banks and reported in the 'Net trading result'. The basic principle underlying these rules involves Erste Group Bank absorbing potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. In the new business model of financial markets trading is realocation of the trading costs for individual participating Erste Group Bank subsidiaries based on the Cost Income Ratio.

The remaining assets from trading portfolio in carrying amount of SKK 255 million were reclassified to assets at fair value portfolio.

Credit Investments

The 'Fair Value Through Profit and Loss' portfolio includes credit investments in the amount of SKK 242 million as at 31 December 2008 (2007: SKK 4 755 million). As of 31 December 2008, these investments include credit linked notes (2007: senior and mezzanine tranches of collateralised debt obligations, residential mortgage backed securities, credit linked notes, and managed funds).

In first quarter 2008, the Bank has recognized total net loss of SKK 203 million attributable to revaluation of these securities, followed by disposal of SKK 3.3 bn of credit investments to Erste Group Bank for their estimated fair value.

As of 31 December 2008 and 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.

The Bank believes that the prices of asset backed securities used as of 31 December 2008 and 2007 represent prudent and reasonable the best possible estimate of the fair value of these financial instruments.

Type of instrument	Rating range 2008	Rating range 2007	Carrying amount 2008 MSKK	2007 MSKK	National amount 2008 MSKK	2007 MSKK
Collateralized debt obligations	-	AAA-BB	-	4 003	26	4 199
Managed Funds	-	A-B	-	298	-	316
Credit linked notes	AA	AA	242	412	241	450
Other	-	AA	-	42	-	42
Total			**242**	**4 755**	**267**	**5 007**

19. Securities available for sale

SKK million	2008	2007
Debt securities and other fixed income securities – listed	23 985	21 423
Debt securities and other fixed income securities – unlisted	2	-
Managed Funds	981	1 362
Debt and other fixed income securities	**24 968**	**22 785**
Equity securities - shares	383	315
listed	72	91
unlisted	311	224
Gross amount	**25 351**	**23 100**
Provision for impairment	(137)	(137)
Net amount	**25 214**	**22 963**

Managed funds are investments in funds managed by third party fund managers 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 participating interest.

As of 31 December 2008 and 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.

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	2008	2007
State institutions in the Slovak Republic	18 041	13 350
Financial institutions in the Slovak Republic	1 269	3 359
Foreign state institutions	578	436
Foreign financial institutions	4 443	4 880
Other entities in the Slovak Republic	637	500
Other foreign entities	-	260
Total	**24 968**	**22 785**

The following table represents investments according to three levels of fair value measurement hierarchy which groups fair value measurements based on their observability. Detail information is presented in note 46 (b):

SKK million	2008	2007
Quoted prices in active markets for identical instrument	18 607	13 946
Inputs other than quoted prices with inputs based on observable market data	4 697	6 683
Inputs other than quoted prices with inputs based on unobservable market data	1 664	2 156
Total	**24 968**	**22 785**

Fair value hedge

The Bank has in its portfolio as at 31 December 2008 fixed rate EUR denominated bonds with face value of EUR 50 million or SKK 1 506 million (2007: 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 45.

During the period, the hedge was effective in hedging the fair value exposure to interest rate movements. For the year ended 31 December 2008, the Bank recognised a net loss of SKK (140) million (2007: gain of SKK 95 million), representing the loss on the hedging instruments. The total gain on hedged item attributable to the hedged risk amounted to a gain of SKK 151 million (2007: loss of SKK (81) million).

Other matters

As at 31 December 2007, in its available for sale portfolio, the Bank has mortgage bonds in the amount of SKK 1 016 million collateralised by state bonds in the amount of SKK 1 081 million. There are no comparable investments carried in the available for sale portfolio as of 31 December 2008.

Additionally, corporate bonds in the amount of SKK 79 million (2007: SKK 79 million) were guaranteed by the state in the same volume (2007: SKK 79 million).

As at 31 December 2008, state bonds in total carrying amount of SKK 13 534 million (nominal amount of SKK 13 123 million) and corporate bonds in the carrying amount of SKK 810 million (nominal amount of SKK 700 million) were pledged as collateral for repo trades.

During 2008 the Bank identified objective evidence that certain financial assets in available for sale portfolio are impaired, recognising impairment losses of SKK 436 million under ‘Other operating result’.

20. Securities held to maturity

SKK million	2008	2007
Debt securities and other fixed income securities		
listed	42 240	52 584
unlisted	-	-
Total	**42 240**	**52 584**

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	2008	2007
State institutions in the Slovak Republic	36 669	46 456
Financial institutions in the Slovak Republic	2 707	2 971
Foreign financial institutions	1 325	1 522
Other entities in the Slovak Republic	712	712
Other foreign entities	827	923
Total	**42 240**	**52 584**

As at 31 December 2008, the securities included in the held to maturity portfolio placed as collateral for repo trades include state bonds amounting to SKK 19 926 million notional value (2007: SKK 13 384 million).

As at 31 December 2008, in its held to maturity portfolio the Bank has mortgage bonds in the amount of SKK 1 019 million (2007: SKK 1 019 million) which were collateralised by state bonds in the amount of SKK 1 155 million (2007: SKK 1 155 million). Additionally, corporate bonds in the amount of SKK 705 million (2007: SKK 705 million) are fully guaranteed by the state in the same volume.

In 2008, on the basis of significant deterioration in the creditworthiness of one issuer, the Bank reclassified total of SKK 249 million of securities from held till maturity to available for sale portfolio, recognizing full impairment loss provision in the ‘Other operating result’ in income statement (Note 19).

21. Investments in associates

SKK million	2008	2007
Investment in associates	1 215	1 591
Total	**1 215**	**1 591**

During 2008, the Group received dividends from participations in the amount of SKK 90 million (2007: SKK 103 million).

Investment in associates

Name of the company	Registered office	Principal activity	Bank interest 2008	Bank voting rights 2008
3on private equity, a. s.	Štefanovičova 12 811 04 Bratislava Slovenská republika	Investment advisory	35.29%	35.29%
Prvá stavebná sporiteľňa, a. s.	Bajkalská 30 829 48 Bratislava Slovenská republika	Banking	9.98%	35.00%
Slovak Banking Credit Bureau, s.r.o.	Malý trh 2/A 811 08 Bratislava Slovenská republika	Retail credit register	33.33%	33.33%
Erste Corporate Finance, a. s.	Evropská 2690/17 160 00 Praha 6 Česká republika	Financial and legal advisory	25.00%	25.00%
s IT Solutions SK, spol. s r.o.	Prievozská 14 821 09 Bratislava Slovenská republika	Software company	23.50%	23.50%
Czech and Slovak Property Fund, B.V.	Fred. Roeskestraat 123 Amsterdam Holandsko	Real estate fund	10.00%	10.00%

2008 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	26	20	27	21
Prvá stavebná sporiteľňa, a.s.	9.98	35.00	754	58 716	7 648	4 124	3 439
Slovak Banking Credit Bureau, s.r.o.	33.33	33.33	-	12	2	33	33
Erste Corporate Finance, a.s.	25.00	25.00	17	78	67	103	93
s IT Solutions SK, spol. s r.o.	23.50	23.50	82	592	29	1 156	1 130
Czech and Slovak Property Fund, B.V.	10.00	10.00	355	3 341	877	185	262
Total			**1 215**	**62 765**	**8 642**	**5 628**	**4 978**

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**	**69 871**	**10 071**	**6 548**	**5 632**

In September 2008, the Group sold a 28.33% ownership interest from its 33.33% ownership interest participation in Poisťovňa Slovenskej sporiteľne, a.s., following Erste Group Bank's strategic decision to dispose its insurance businesses, announced in March 2008 (see note 12). The remaining 5% interest is classified in available for sale portfolio.

The Group held a 9.98% shareholding in PSS at 31 December 2008 and 31 December 2007. The Group, based on the contract with Erste Group 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 Group 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 income from this investment reported under 'Income from investment in subsidiaries and associates' in 2008 and 2007.

The Group's share and voting rights in Czech and Slovak Property Fund represents only 10.00%, the company is classified as an associate based on Bank's equity share on its earnings amounting to 33.33%.

22. Intangible assets

SKK million	Software	Other intangible assets	Assets not yet put in service	Total
Cost				
1 January 2008	**4 370**	**236**	**1 004**	**5 610**
Additions	-	-	1 641	1 641
Disposals	(166)	(2)	(24)	(192)
Transfers	905	10	(915)	-
31 December 2008	**5 109**	**244**	**1 706**	**7 059**
Accumulated amortisation and impairment				
1 January 2008	**(3 031)**	**(220)**	**-**	**(3 251)**
Amortisation	(607)	(12)	-	(619)
Disposals	129	2	-	131
Transfers	-	-	-	-
31 December 2008	**(3 509)**	**(230)**	**-**	**(3 739)**
Net book value				
31 December 2007	**1 339**	**16**	**1 004**	**2 359**
31 December 2008	**1 600**	**14**	**1 706**	**3 320**

Assets not yet put in service include the cost of a bank system development project in the amount of SKK 1 176 million as at 31 December 2008 (2007: SKK 730 million). The total cost of the system is estimated at SKK 2 269 million and its putting into use is expected in 2010.

The original cost of fully amortised intangible assets that are still in use by the Group amounts to SKK 2.2 billion (2007: SKK 2.0 billion).

23. Property, equipment and assets held for rental income

SKK million	Land and building	Equipment fixtures and fittings	Motor vehicles	Assets not yet put in in service	Total property and equipment	Investment property	Other movable properties held for rental income
Cost							
1 January 2008	**5 091**	**5 738**	**178**	**1 928**	**12 935**	**354**	**158**
Additions	-	-	-	2 166	2 166	-	21
Disposals	(107)	(608)	(54)	-	(769)	(30)	(62)
Transfers	2 903	461	73	(3 437)	-	-	-
Reclassification to/from non-current assets held for sale	(1 124)	-	-	(37)	(1 161)	37	-
31 December 2008	**6 763**	**5 591**	**197**	**620**	**13 171**	**361**	**117**
Accumulated depreciation and impairment							
1 January 2008	**(1 643)**	**(4 854)**	**(119)**	**-**	**(6 616)**	**(143)**	**(25)**
Depreciation	(199)	(383)	(24)	-	(606)	(4)	(21)
Disposals	33	599	44	-	676	11	10
Provisions for impairment	239	-	-	-	239	-	-
Transfers	-	-	-	-	-	-	-
Reclassification to/from non-current assets held for sale	349	-	-	-	349	28	-
31 December 2008	**(1 221)**	**(4 638)**	**(99)**	**-**	**(5 958)**	**(108)**	**(36)**
Net book value							
31 December 2007	**3 448**	**884**	**59**	**1 928**	**6 319**	**211**	**133**
31 December 2008	**5 542**	**953**	**98**	**620**	**7 213**	**253**	**81**

The original cost of property and equipment that is fully depreciated but still in use by the Group amounts to SKK 3.6 billion (2007: SKK 3.8 billion).

The Group has assessed the impairment of assets (buildings) that were unused or rented to other parties. Based on the estimated recoverable amounts the Group released total of SKK 239 million of impairment provisions into ‘Other operating result’ as of 31 December 2008 (2007: SKK 79 million). Provisions for impairment amounting to SKK 20 million as of 31 December 2008 (2007: SKK 260 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	2008 MSKK	2007 MSKK
Payable in period:		
- Less than 1 year	38	150
- From 1 year to 5 years	38	-
- Over 5 years	-	-
Operating leasing payments recognised as expense in the period	147	145

Assets held for rental income

The Group owns buildings rented to other parties of total net book value of SKK 253 million (net of the effect of impairment, SKK 10 million) as at 31 December 2008 (2007: SKK 211 million), and equipment under operating leasing at net book value of SKK 81 million as at 31 December 2008 (2007: SKK 133 million).The total rental income earned by the Bank amounted to SKK 70 million (2007: SKK 109 million) and is presented as 'Interest income and similar income' or 'Interest income'. The depreciation of assets held for rental income is presented under 'General administrative expenses' and amounted to SKK 25 million (2007: SKK 93 million).

Direct operating expenses (including repairs and maintenance) arising from assets held for rental income that generated rental income during 2008 amounted to SKK 3 million (2007: SKK 4 million) are presented under 'General administrative expenses'.

The estimated fair value of assets held for rental income as at 31 December 2008 was SKK 334 million (2007: SKK 344 million). The Group uses its own model for determining the fair value of assets held for rental income, 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 appraiser 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).

24. Non-current assets held for sale

SKK million	2008	2007
As at 1 January	**130**	**684**
Additions:		
Acquisitions	46	-
Reclassification from Property and Equipment	853	278
Revaluation	-	-
Total additions	**899**	**278**
Disposals:		
Sales	(40)	(62)
Reclassification to Property and Equipment	(106)	(808)
Revaluation	-	-
Provision for impairment	2	38
Total disposals	**(144)**	**(832)**
As at 31 December	**885**	**130**

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

The Bank 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 and software.

25. Income tax assets and liabilities

SKK million	2008	2007
Deferred income tax assets	907	14
Current Income tax assets	9	12
Total income tax assets	916	26
Deferred income tax liability	-	36
Current income tax liability	972	338
Total income tax liabilities	**972**	**374**

Deferred tax booked	**directly to equity**		**to Income statement**									
SKK million	**Securities available for sale**	**Cash flow hedges**	**Loans and advances to customers**	**Provisions for losses on loans and advances**	**Securities**	**Intangible assets**	**Property and equipment**	**Provisions**	**Associates and other inv.**	**Tax loss carried forward**	**Other**	**Total**
31 December 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)**
Charge / (credit) to equity for the year	150	(7)	-	-	-	-	-	-	-	-	-	143
Charge / (credit) to Income statement for the year	-	-	-	694	(2)	49	(59)	9	12	(21)	109	791
Recycled from equity to Income statement	(14)	9	-	-	-	-	-	-	-	-	-	(5)
31 December 2008	**101**	**(2)**	**-**	**694**	**18**	**50**	**(147)**	**33**	**38**	**12**	**110**	**907**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy.

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.

The release of deferred income tax liability of SKK 445 recorded in 2007 relates to reversal of expected tax obligation previously recognized in 2006, on the basis of then approved legislation which was subsequently revoked in 2007.

Effective from 1 January 2008, revisions to Income Tax Act were introduced which retrospectively limited tax deductibility of provisions for losses on loans. Its retrospective application resulted in additional current tax liability of SKK 466 million recognized in 2008. The Group expects to realize full benefits from tax non-deductible provisions in the future. Accordingly, it recognized deferred income tax asset of SKK 694 million, arising both from tax non-deductible provisions created in 2008 and those subject to additional tax assessment settled in 2008.

26. Amounts owed to financial institutions

SKK million	2008	2007
Amounts owed on demand	1 459	624
Repo trades with debt securities	34 396	-
Term deposits and clearing	32 467	23 980
Total	**68 322**	**24 604**

The liabilities at 31 December 2008 in the amount of SKK 34 396 million from repo trade are collateralised by state bonds and treasury bills in the whole amount (in 2007: SKK 0 million).

27. Amounts owed to customers

SKK million	2008	2007
Amounts owed on demand	86 378	78 508
Savings deposits	13 880	14 281
Term deposits	157 714	137 207
Total	**257 972**	**229 996**

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

SKK million	2008	2007
Savings deposits	13 880	14 281
Term deposits and amounts owed on demand:		
Corporate clients	48 721	49 885
Retail clients	179 212	135 116
Public sector	12 483	27 780
Other	3 676	2 934
Total	**257 972**	**229 996**

As at 31 December 2008 and 31 December 2007 no amounts owed to clients were collateralised by securities.

As at 31 December 2008, Amounts owed to customers includes special guaranteed deposits in the amount of SKK 14 599 million (2007: SKK 8 624 million). These contracts includes embedded currency, and commodity and equity derivatives in the amount of SKK 395 million (2007: SKK 356 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'.

28. Debt securities in issue

SKK million	**2008**	**2007**
Bonds in issue	13 784	14 878
less bonds held by the Group	(106)	(77)
Total bonds	13 678	14 801
Bonds in issue - Guaranteed deposit	582	599
Short term debt securities	-	94
Total	**14 260**	**15 494**

Bonds in issue are presented in the following table:

	Date of issue	Maturity date	Actual interest rate	Nominal value 2008 MSKK	Nominal value 2007 MSKK
Mortgage bonds	July 2003	July 2008	4.60%	-	1 000
Mortgage bonds	August 2003	August 2010	4.65%	500	500
Mortgage bonds	October 2003	October 2008	4.60%	-	1 000
Mortgage bonds	June 2004	June 2009	4.50%	1 000	1 000
Mortgage bonds	August 2004	August 2010	4.40%	500	500
Mortgage bonds	November 2004	November 2009	4.50%	1 100	1 100
Mortgage bonds	March 2005	March 2008	2.70%	-	400
Other bonds	May 2005	April 2009	2W REPO	60	2 000
Mortgage bonds	July 2005	July 2008	2.60%	-	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%	2 086	2500
Other bonds	June 2007	June 2011	4.48%	400	400
Mortgage bonds	July 2007	July 2027	4.95%	500	500
Mortgage bonds	September 2007	September 2012	6M BRIBOR + 0.02%	600	600
Other bonds	November 2007	November 2008	4.26%	-	500
Other bonds	December 2007	September 2008	3M SOFIBOR + 0.05%	-	343
Mortgage bonds	April 2008	April 2012	6M BRIBOR + 0.10%	200	-
Mortgage bonds	April 2008	April 2021	5.00%	500	-
Other bonds	May 2008	May 2012	4.52%	110	-
Other bonds	March 2008	March 2013	3M BRIBOR + 0.30%	500	-
Mortgage bonds	July 2008	July 2010	5.30%	1350	-
Mortgage bonds	July 2008	July 2011	6M BRIBOR + 0.20%	430	-
Other bonds	September 2008	September 2009	8.18%	462	-
Mortgage bonds	September 2008	September 2010	5.00%	155	-
Mortgage bonds	September 2008	September 2010	5.00%	293	-
Mortgage bonds	October 2008	October 2010	5.00%	250	-
Mortgage bonds	October 2008	October 2009	5.00%	250	-
Mortgage bonds	October 2008	April 2011	6M BRIBOR + 0.40%	250	-
Mortgage bonds	November 2008	November 2009	5.00%	250	-
Mortgage bonds	December 2008	December 2009	5.00%	208	-
Total nominal value				**13 554**	**14 743**
Accrued interest				230	135
Net debt securities in issue				**13 784**	**14 878**
less bonds held by the Group				(106)	(77)
Total				**13 678**	**14 801**

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 1 155 million (2007: SKK 2 233) million.

As at 31 December 2008, Debt securities in issue includes embedded commodity derivatives and shares in the amount of SKK 17.4 million (2007: SKK 17.4 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 Group set up a fair value hedge in July 2007 to hedge issued mortgages bonds in the amount of SKK 500 million with fixed rate. To protect interest rate risk, the Group entered into an interest rate swap. The notional and fair value of the aforementioned hedging derivative is reported in Note 45.

During the period, the hedge was effective in the hedging of fair value exposure to interest rate movements. For the year ended 31 December 2008, the Bank recognised a net gain of SKK 60 million (2007: gain of SKK 5 million), representing the gain on the hedging instruments. The total loss on hedged items attributable to hedged risk amounted to loss SKK (69) million (2007: gain of SKK 3 million).

29. Provisions for liabilities and other provisions

SKK million	2007	Additions	Use	Reversals	2008
Provision for off-balance sheet items	100	141	-	(105)	136
Interest bearing deposit products	27	27	(27)	-	27
Legal cases	281	167	-	(15)	433
Employee benefit provisions	70	22	(8)	(1)	83
Other provisions	177	-	(73)	(9)	95
Total	**655**	**357**	**(108)**	**(130)**	**774**

(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 Group conducted a review of legal proceedings outstanding against it as at 31 December 2008. These matters have arisen from normal banking activities. With reference to the update on the status of these matters in terms of the risk of losses and the amounts claimed, the Group has increased provision for these legal cases by SKK 152 million to SKK 433 million as of 31 December 2008.

The net expense from increase in the provisions for legal cases of SKK 152 million is reported under ‘Other operating result’ in the Income Statement (2007: release of SKK 213 million of provisions).

(d) 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 2008 there were 4 736 employees at the Bank covered by this program (2007: 4 688 employees).

During the year ending 31 December 2008, the actuarial calculation based on the projected unit credit method was performed resulting in the final employee benefit obligation in the amount of SKK 83 million (2007: SKK 70 million).

The amounts recognised in the balance sheet and Income Statement as at 31 December 2008 are as follows:

SKK million	Pension provisions	Jubilee provisions	Total long-term provisions
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 losses	(12)	(53)	(65)
Long-term employee provisions at 31 December 2007	**34**	**36**	**70**
New commitments from acquisitions of companies			
Service costs	4	5	9
Interest costs	2	2	4
Payments	(2)	(6)	(8)
Actuarial (gains)	9	(1)	8
Long-term employee provisions at 31 December 2008	**47**	**36**	**83**

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

SKK million	Pension provisions	Jubilee provisions	Total long-term provisions
31 December 2006	42	90	132
31 December 2007	34	36	70
31 December 2008	47	36	83

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.

	2008	2007
Real annual discount rate	4.79%	5.06%
Annual future real rate of salary increases	3.90%	2.50%
Annual employee turnover	0.00% – 21.05%	2.08 – 20.64%
Retirement age	based on valid law	based on valid law

(f) Other provisions

Other provisions are comprised of provisions for certain social benefit obligations amounting to SKK 95 million. Provisions relating to other contractual commitments where the Bank expected settlement to be probable in 2007 in the amount of SKK 72 million was released in 2008.

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.

30. Other liabilities

SKK million	**2008**	**2007**
Other short-term payables to customers related to money transfer	1 464	1 903
Accruals for general administrative expenses	306	1 565
Various creditors	1 301	1 429
Fair value of hedging instrument	77	71
Total	**3 148**	**4 968**

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

SKK million	**2008**	**2007**
As at 1 January	51	64
Additions	128	130
Drawings	(166)	(143)
As at 31 December	**13**	**51**

31. Subordinated debt

With the ultimate objective to strengthening the Bank's own funds, the Bank entered into subordinated loan contracts with its parent company Erste Group Bank on 21 December 2006 and 26 August 2008. Based on the first contract, the Bank drew EUR 100 million subordinated loan in February 2007 with a repayment date of 21 December 2016, with floating interest rate based on selected 3M or 6M EURIBOR. Based on the second contract, the Bank drew EUR 80 million subordinated loan in August 2008 with a maturity five years and floating interest rate 3M EURIBOR.

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

32. Equity

Share capital

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

Nominal value	Number of shares	2008 MSKK	Number of shares	2007 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	**2008***	**2007**
Dividends paid to shareholder from profit for the year (MSKK)	1 964	1 600
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)	**308**	**251**
Amount of dividends per SKK 100 million share (SKK)	**30 811 676**	**25 101 162**

* 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 2008 included only the Statutory fund amounting to SKK 1 178 million (2007: SKK 1 178 million).

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

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.

33. Earnings per share

SKK million	2008	2007
Net profit applicable to ordinary shares (MSKK)	4 283	4 167
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)	**672**	**654**
Basic and diluted profit per SKK 100 million share (SKK)	**67 194 854**	**65 374 961**

34. 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	2008	2007
Cash on hand (Note 14)	10 525	5 149
Nostro accounts with the NBS (Note 14)	5 450	864
Accounts with other financial institutions repayable on demand (Note 15)	71	171
Repo trades with the central bank treasury bills (Note 15)	76 901	20 846
Treasury Bills	-	9 932
Total cash and cash equivalents	**92 947**	**36 962**

Total interest received and (paid) during the year ended 31 December 2008 was SKK 16 442 million and SKK (5 738) million (in 2007: SKK 14 205 million and SKK (5 727) million) respectively.

35. 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 Group. The most significant risks the Group 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.
- fraud risk is the risk of financial or reputation losses originating from the intent to defraud the bank or its entities by falsifying information or by misrepresentation by employees, existing or potential customers, or any third parties.
- compliance is the risk of breaching regulatory rules and related litigation risk (with regulars or clients), financial risk (fines, compensation of damage), reputation risk and the risk of breaking of corporate culture.
- reputation risk is the risk of losses arising from failure to meet stakeholders' reasonable expectations of bank's performance and behavior.
- Strategic and business risks is the risks to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The ultimate risk management body is the Board of Directors. It may, however, delegate some of its authority for particular risk management areas to respective committees (ALCO, ORCO and CRC). The board also designates one of its members to serve as Chief Risk Officer (CRO).

Asset & Liability Committee (ALCO) has ultimate authority over market risk of both trading and banking books and over liquidity risk.

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

Operational Risk and Compliance Committee (ORCO) is the authorized body to make decisions on operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for operational risk, compliance, financial crime, and anti-money laundering issues.

ALCO, ORCO, and CRC are composed of members of the board and senior managers. Chief Risk Officer is a member of all three committees.

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.

Structure of risk management organization consists of five key 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 operative credit risk of corporate clients & Financial Institutions.
- Retail Credit Risk Management Division - responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, collection process, and portfolio management for retail segment.
- Strategic Risk Management (SRM) - responsible for operational risk, complete trading book market risk, banking book risk measurement and limit setting and credit risk control, provisioning, and credit risk statistical and rating models. In addition, SRM has an integration role in risk management that concerns all other risk areas. In

operational risk it coordinates activities of other relevant departments.
- Financial Crime & Compliance - responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program) and for fraud risk management (prevention, detection, investigation, deterrence, and recovery of financial fraud). The Compliance Officer has a direct reporting line to the CRO

The risk management function is completely 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
- design and oversight internal risk policies, processes, and structures for business units
- designing and reviewing processes of risk management
- risk reporting
- cost of risk identification, calculation, and measurement, and setting of risk premiums
- implementation, calibrating and periodical reviewing of models for risk measurement incl. RWA calculations
- to protect against losses from financial crime activities and compliance violations

36. Credit risk

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

Credit risk is the largest single risk in the Group. 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.

In the year 2008 the Group confirmed its local leading position in risk management with successful implementation of new Basel II rules. The Group reports capital adequacy using the “internal-ratings based” (IRB) approach to credit risk since July 2008 as the first bank in Slovakia. The approval by Financial Market Authority of Austria and National Bank of Slovakia certified that the Group’s credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation as well as into internal controls and reporting and that they play the essential role.

The cornerstone of the loan process in the Group is based on risk assessment using rating systems and the assignment of a rating grade. The final rating is a key factor for a loan decision, loan amount, and price. The rating systems are developed, implemented and regularly validated in cooperation within Erste Group Bank using common Group standards and tools. The IRB certification by the NBS confirms that the rating systems have high discriminatory power regarding credit quality of debtors, risk differentiation, and provide accurate and consistent quantitative risk measurement. The rating systems are used in production since the year 2006 and the Bank collects all data necessary for accurate and efficient risk control and management. The rating systems and their validation are properly documented.

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.
This division is also involved in credit approval process or taking direct credit decisions.

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 Group'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 Group'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 Group 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	**2008**	**2007**
Gross amount	**217 446**	**200 140**
Retail	105 708	83 724
Corporate and other classes	111 738	116 416
Provision for impairment	**(6 829)**	**(5 510)**
Retail	(4 836)	(3 830)
Corporate and other classes	(1 993)	(1 680)
Net amount	**210 616**	**194 630**
Retail	100 872	79 894
Corporate and other classes	109 744	114 736

Note: Retail loans include small loans to entrepreneurs.

Provisions for impairment are structured as follows:

SKK million	2008	2007
Provisions for losses on loans and advances (Note 17)	6 693	5 410
Provisions for off-balance sheet items (Note 29)	136	100
Total provision for impairment	**6 829**	**5 510**

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

Retail asset class

SKK million	2008	2007
Total exposure		
Investment grade (1-5)	84 565	60 649
Subinvestment grade (6)	9 091	9 665
Subinvestment grade (7)	2 284	5 166
Subinvestment grade (8)	3 521	3 178
Rating R: Defaulted	6 247	5 066
Gross amount	**105 708**	**83 724**
Provisions for impairment	(4 836)	(3 830)
Net amount	**100 872**	**79 894**
Ageing of loans rated 1 – 8 is as follows:		
0 days	94 182	73 625
1 – 30 days	4 028	3 837
31 – 60 days	814	783
61 – 90 days	437	413

Note: The increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Group considers the financial position and performance of the counterparty, qualitative factors, as well as general economic trends in the particular industry and country.
In case of private individuals the Group is using product definition of non-performing loans, i.e. if one loan of the client is more than 90 days overdue therefore all client's accounts within the same product must be reported in non-performing category. In case of other segments loans with rating R are reported as non-performing.

Individually impaired loans and irrevocable commitments
Impaired loans and irrevocable commitments are those for which the Group 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 Group's internal risk rating system.

Past due but not individually impaired loans
Loans where contractual interest or principal payments are past due but the Group 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 Group 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	2008	2007
Total exposure		
Investment grade (1-5)	90 375	80 216
Subinvestment grade (6)	14 645	21 069
Subinvestment grade (7)	1 138	8 227
Subinvestment grade (8)	3 551	3 953
Rating R: Defaulted	2 028	2 950
Gross amount	**111 738**	**116 416**
Provision for impairment	(1 993)	(1 680)
Net amount	**109 744**	**114 736**
Individually impaired		
Gross amount	2 028	2 950
Provision for impairment	(1 630)	(1 508)
Net amount	**398**	**1 442**
Past due (excluding individually impaired)		
Investment grade (1-5)	290	1 561
Subinvestment grade (6)	198	309
Subinvestment grade (7)	57	347
Subinvestment grade (8)	687	438
Rating R: Defaulted	-	-
Gross amount	**1 232**	**2 655**
Provision for impairment	(100)	(1)
Net amount	**1 132**	**2 654**
Past due but not impaired comprises:		
1-30 days	319	1 692
31-60 days	698	759
61-90 days	216	135
90 days+	-	69
Neither past due nor individually impaired		
Investment grade (1-5)	90 085	78 656
Subinvestment grade (6)	14 447	20 761
Subinvestment grade (7)	1 081	7 880
Subinvestment grade (8)	2 864	3 514
Rating R: Defaulted	-	-
Gross amount	**108 477**	**110 810**
Provision for impairment	(263)	(171)
Net amount	**108 214**	**110 639**

Note: The Increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Group 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 Group's internal rating are not considered to be individually impaired.

Default events

Part of the Group's reporting is the monitoring of defaults events behind defaulted individually significant loans. The Group 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 15). Collaterals against investment securities are described in Note 19 and 20.

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	2008	2007
Real estates	124 014	104 762
Securities	7 013	10 234
Bank guaranties	12 518	6 971
Other	3 603	4 690
Total	**147 148**	**126 656**

As at 31 December 2008, the Group took possession of assets with an estimated value of SKK 169 million, which the Group is in the process of selling. These amounts are included under 'Non-current assets held for sale'.

In the current economic environment real estate values are declining. Accordingly in the event loan defaults, realization of collaterals could be at values below the amounts assessed at the date of relevant loans were originated.

Concentration risk

Summary of concentrations of financial assets (including derivatives) as of 31 December 2008 and 2007 are presented below:

31 December 2008 SKK million	Loans and advances to customers		Loans and advances to financial institutions		investment securities	
	Gross	Net	Gross	Net	Gross	Net
Agriculture, forestry and fishing	1 586	1 498	-	-	-	-
Mining and quarrying	67	66	-	-	-	-
Manufacturing	27 403	26 903	-	-	747	747
Electricity, gas, steam and air conditioning supply	8 752	8 750	-	-	-	-
Water supply, sewerage, waste management	150	143	-	-	-	-
Construction	7 270	7 044	-	-	17	17
Wholesale and retail trade	22 510	21 725	-	-	-	-
Transportation and storage	9 750	9 533	-	-	1 615	1 615
Accommodation and food service activities	3 869	3 811	-	-	-	-
Information and communication	918	883	-	-	-	-
Financial and insurance activities	7 649	7 065	81 725	81 725	13 791	13 654
Real estate activities	21 747	21 668	-	-	-	-
Professional, scientific and technical activities	4 222	4 053	-	-	-	-
Administrative and support service activities	1 968	1 905	-	-	-	-
Public administration and defense	3 294	3 294	-	-	55321	55321
Education	78	74	-	-	-	-
Human health and social work activities	1 576	1 569	-	-	-	-
Arts, entertainment and recreation	531	523	-	-	-	-
Other service activities	287	278	-	-	-	-
Activities of households as employers	93 172	89 189	-	-	431	431
Other	647	642	-	-	356	356
Total	**217 446**	**210 616**	**81 725**	**81 725**	**72 278**	**72 141**

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, forestry and fishing	1 607	1 561	-	-	-	-
Mining and quarrying	84	76	-	-	-	-
Manufacturing	25 949	25 150	-	-	519	519
Electricity, gas, steam and air conditioning supply	9 004	9 003	-	-	-	-
Water supply, sewerage, waste management	148	148	-	-	-	-
Construction	8 232	8 099	-	-	19	19
Wholesale and retail trade	22 518	22 061	-	-	-	-
Transportation and storage	8 575	8 477	-	-	805	805
Accommodation and food service activities	3 225	3 212	-	-	-	-
Information and communication	748	743	-	-	905	905
Financial and insurance activities	10 799	10 515	34 111	34 111	21 156	21 021
Real estate activities	19 446	19 384	-	-	-	-
Professional, scientific and technical activities	3 532	3 346	-	-	-	-
Administrative and support service activities	2 111	2 072	-	-	-	-
Public administration and defense	1 483	1 483	-	-	70 255	70 255
Education	38	38	-	-	-	-
Human health and social work activities	942	937	-	-	-	-
Arts, entertainment and recreation	572	571	-	-	-	-
Other service activities	241	237	-	-	-	-
Activities of households as employers	76 886	73 520	-	-	109	109
Other	4 000	3 997	-	-	78	78
Total	**200 140**	**194 630**	**34 111**	**34 111**	**93 846**	**93 711**

A summary of concentrations of loans and advances to customers, loan commitments, and guarantees classified by asset classes (as of 31 December 2008 and 2007) are presented below:

SKK million	2008 Gross	2008 Net	2007 Gross	2007 Net
Retail	105 708	100 872	83 723	79 894
Corporate	107 994	106 000	112 386	110 705
Institution	312	311	308	308
Sovereigns	3 432	3 433	3 723	3 723
Carrying amount	**217 446**	**210 616**	**200 140**	**194 630**

As of 31 December 2008 and 2007 the following loans and off balance sheet exposures are related to property business activities. These loans were provided mainly to finance the acquisition, operation or construction of properties:

SKK million	2008 Maximum exposure	2008 On-balance	2007 Maximum exposure	2007 On-balance
Residential developments	9 096	3 167	6 795	2 095
Office schemes	5 939	4 583	6 619	5 215
Hotels, Pensions	5 379	3 266	3 030	1 730
Retail premises	4 380	3 588	3 280	2 575
Mixed schemes	3 814	1 888	3 072	1 658
Lands	3 707	2 714	3 074	2 619
Rental flats	953	836	696	653
Leisures	429	130	398	358
Logistics	312	254	22	16
Total	**34 009**	**20 426**	**26 986**	**16 919**

The following table presents a 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:

SKK million	2008 Suma SKK million	2008 Portion of total assets %	2007 Suma SKK million	2007 Portion of total assets %
Cash and balances at the central bank	32 458	8.58%	7 308	2.40%
Repo trades with NBS treasury bills	76 901	20.33%	21 946	7.22%
Loans and advances to customers	7 856	2.08%	7 083	2.33%
Securities portfolios	55 632	14.71%	70 509	23.20%
Total	**172 847**	**45.69%**	**106 846**	**35.16%**

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	**2008**	**2007**
Financial assets at fair value through profit or loss	**32**	**9 964**
Treasury bills	-	9 932
State bonds denominated in SKK	32	32
Securities available for sale	**18 218**	**13 377**
Treasury bills	5 150	-
State bonds denominated in SKK	9 485	9 543
Slovak government Eurobonds	3 489	3 740
Companies controlled by the Slovak government	94	94
Securities held to maturity	**37 382**	**48 417**
Treasury bills	352	-
Slovak government Eurobonds	1 568	1 249
State bonds denominated in SKK	34 750	46 456
Companies controlled by the Slovak government	712	712
Total	**55 632**	**71 758**

The rating of the Slovak Republic according to the international rating agency Standard & Poor's is A + (November 27th, 2008).

37. 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. In the current year, the financial market has been disrupted, resulting in higher volatility and significant uncertainty. 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 Group 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 changes 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 Group'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 Group 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.

A new Erste Bank holding structure is effective as of February 2008. As a part of this strategic decision only money market desk remains within the responsibility of SLSP, a.s. from interbank trading. In addition, no new derivatives are allowed on the desk and the eligible products are limited to deposits, treasury bills, FX swaps and repurchase agreements.

As of 31 December 2008, 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			**2008**			
Desk	**Interest**	**Currency**	**Price**	**Volatility**	**Total**	**Limit**
Foreign Exchange	-	0.1	-	-	0.1	2
Money Market	0.8	-	-	-	0.8	15
Fixed Income	-	-	-	-	-	2
Total	**0.8**	**0.1**	**-**	**-**	**0.8**	**16**

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**

Limit represents the Group'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 Group'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 39).
  - 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 39).
  - 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.

The recent financial crisis and changes in market conditions resulted in high market price volatility, decreased market liquidity for some securities, significant changes in interest rates, widening credit spreads and changes in ratings by rating agencies on many issuers. In response to this situation, the Group's management increased its monitoring of events and the impact and potential impact on the Group's portfolios and financial position. Methods used included monitoring of global, regional and local economic news, research on counterparties and markets, and scenario analysis.

38. 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	USD	Czech Crown	Other	Slovak Crown	Total
Cash and balances at the central bank	1 690	70	142	161	40 920	42 983
Loans and advances to financial institutions	372	140	10	209	80 994	81 725
Loans and advances to customers	28 510	263	2 045	272	140 971	172 061
Provisions for losses on loans and advances	(141)	(4)	(4)	-	(6 544)	(6 693)
Financial assets at fair value through profit or loss	500	363	-	-	3 824	4 687
Securities available for sale	7 167	72	335	202	17 438	25 214
Securities held to maturity	2 634	224	810	-	38 572	42 240
Total financial assets	**40 732**	**1 128**	**3 338**	**844**	**316 175**	**362 217**
Amounts owed to financial institutions	15 686	231	2 629	631	49 145	68 322
Amounts owed to customers	11 322	1 971	806	632	243 241	257 972
Debt securities in issue	-	-	-	472	13 788	14 260
Financial liabilities at fair value through profit or loss	-	-	-	-	3 234	3 234
Subordinated debt	5 443	-	-	-	-	5 443
Total financial liabilities	**32 451**	**2 202**	**3 435**	**1 735**	**309 408**	**349 231**
Total net FX position of financial assets and liabilities at 31 December 2008	**73 183**	**3 330**	**6 773**	**2 579**	**625 583**	**711 448**
Total financial assets at 31 December 2007	44 200	4 815	4 152	964	237 559	291 690
Total financial liabilities at 31 December 2007	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**

The following table details the Group's sensitivity to percentage movement of exchange rates. These changes represent 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)
USD	-	7.91%	-	(264)
CZK	8.11%	-	(549)	-

Effective 1 January 2009, the Slovak Crown was replaced by the Euro as the national currency of Slovakia at a fixed conversion rate of EUR 1 = SKK 30.126.

39. 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 Group's net interest income and market value of the Group'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 Group 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 Group.

The limit on the interest rate risk of the banking book's off-balance sheet contracts is in the amount of SKK 200 million. 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 2008, the +/- 200 bp change in interest rates would affect net interest income as at 31 December 2008 and 2007 as follows:

Net interest income risk limit	**2008**	**2007**
+ 200 bp	0.31%	2.05%
- 200 bp	(4.71%)	(2.82%)

Change in yield curve by + 200 bp would affect the market value of interest bearing assets and liabilities totaling to SKK (598) million as at 31 December 2008 (2007: SKK (216) million).

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 4 278 million as of 31 December 2008 (SKK 3 599 million as of 31 December 2007).

40. 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 fulfillment 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 Group 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 (2007: 0.7) as at 31 December 2008, in accordance with the requirements of the regulator (the NBS).

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 2008 **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	61 596	4 264	1 321	867	643	68 691
Amounts owed to customers	148 763	48 049	45 454	16 240	1 007	259 513
Debt securities in issue	9	435	3 555	9 699	2 166	15 864
Total	**210 368**	**52 748**	**50 330**	**26 806**	**3 816**	**344 068**

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**

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 2008 **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)	204 438	5 346	11 941	772	-	222 497
Foreign exchange contracts (without change of nominal)	9	215	437	136	14	811
Interest rate contracts	266	163	959	2 320	928	4 636
Negative						
Foreign exchange contracts (with change of nominal)	204 389	5 344	11 968	728	-	222 429
Foreign exchange contracts (without change of nominal)	9	371	414	132	14	940
Interest rate contracts	243	162	832	2 299	905	4 441

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 Spolu**	**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

In response to the recent financial crisis, the NBS implemented stricter liquidity requirements and introduced daily monitoring of liquidity compliance for a temporary period of time in 2008. The Bank maintained full compliance with these requirements.

41. 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 Group. 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 Strategic 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 Group-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 periodic 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 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 modeled, 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. On September 30, 2008, the group together with Erste Group, submitted an application to use Advanced Measurement Approach (AMA) defined by Basel II for operational risk capital charge to the regulators. Regulators are currently reviewing the application, conducting on- and off-site evaluations, and the decision is expected by end of Q1 2009.

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.

42. Capital management

The Group's lead regulator, the NBS, sets and monitors capital requirements. In implementing current capital requirements the NBS requires the Bank to maintain a prescribed ratio of total capital to total risk weighted assets (minimum 8%). The Bank calculates requirements for credit risk using the Basel II IRB approach and for market risk in its trading portfolios using internal VaR models. Basel II has also come 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 Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

As of 31 December 2008 and 2007, the Group has complied with all externally imposed capital requirements.

The Group's regulatory capital position at 31 December 2008 and 2007 was as follows:

SKK million	2008	2007
Tier 1 capital		
Ordinary share capital	6 374	6 374
Share premium	-	-
Perpetual bonds	-	-
Capital reserves	3 582	3 582
Retained earnings	10 297	7 730
Translation reserve	-	-
Minority interests	-	-
Less intangible assets	(3 300)	(2 339)
Other regulatory adjustments	-	-
Total	**16 953**	**15 347**
Tier 2 capital		
Fair value reserve for available-for-sale equity securities	58	74
Collective allowances for impairment	-	-
Qualifying subordinated liabilities	5 423	3 360
Total	**5 481**	**3 434**
Deductions from Tier I and Tier II capital	(1 043)	(140)
Total regulatory capital	**21 391**	**18 641**

43. 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 2008 was SKK 32 million (2007: SKK 444 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 trading result'.

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 (4) million (2007: SKK (89) thousand), paying a float rate and receiving a fixed rate. As at 31 December 2008 and 2007, the hedge was effective.

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

SKK million	2008	2007
Net interest income	44	48
Net trading result	4	17
Total	**48**	**65**

44. 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 29 (c).

45. 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 Group 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.

In 2003, the Bank provided a guarantee in the amount of EUR 17 million to Erste Group 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 no longer effective as at 31 December 2008.

(b) Derivatives

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

The following table contains off-balance sheet credit exposures (see Note 16) and also treasury commitments:

SKK million	2008	2007
Guarantees provided	9 033	8 310
Guarantees from letters of credit	-	110
Loan commitments and undrawn loans	36 352	34 944
Total	**45 385**	**43 364**

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 Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for the management of interest rate exposures and have been accounted for at mark to market fair value.

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

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

1. Derivatives in notional and fair value

2008 SKK million	Receivables Notional value	Fair value	Liabilities Notional value	Fair value
Hedging	**2 006**	**67**	**2 006**	**113**
Total hedging instruments	**2 006**	**67**	**2 006**	**113**
Trading derivatives				
Forward rate agreements (FRA)	14 393	69	14 393	18
Foreign currency forwards	204 940	879	204 900	838
Option contracts	49 017	811	48 980	940
Interest rate swaps (IRS)	64 452	1 238	64 452	1 209
Currency interest rate swaps (CIRS)	2 364	82	2 291	89
Currency swaps	17 557	127	17 529	100
Total trading derivatives	**352 723**	**3 206**	**352 545**	**3 194**
Total	**354 729**	**3 273**	**354 551**	**3 307**

Negative value of derivatives of 2008 SKK 3 234 million (2007: SKK 2 387 million) are presented as 'Financial liabilities at fair value through profit and loss'.

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**

2. Derivatives based on the trading place

2008	Receivables		Liabilities	
SKK million	**Notional value**	**Fair value**	**Notional value**	**Fair value**
Hedging				
OTC	2 006	67	2 006	113
Total hedging instruments	**2 006**	**67**	**2 006**	**113**
Trading derivatives				
Forward rate agreements (FRA)	14 393	69	14 393	18
Quoted				
OTC	14 393	69	14 393	18
Foreign currency forwards	204 940	879	204 900	838
Quoted				
OTC	204 940	879	204 900	838
Option contracts	49 017	811	48 980	940
Quoted				
OTC	49 017	811	48 980	940
Interest rate swaps	64 452	1 238	64 452	1 209
Quoted				
OTC	64 452	1 238	64 452	1 209
Currency interest rate swaps (CIRS)	2 364	82	2 291	89
Quoted				
OTC	2 364	106	2 291	112
Currency swaps	17 557	127	17 529	100
Quoted				
OTC	17 557	103	17 529	77
Total trading derivatives	**352 723**	**3 206**	**352 545**	**3 194**
Total	**354 729**	**3 273**	**354 551**	**3 307**

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**

3. Maturity analysis

SKK million	2008 Receivables	2008 Liabilities	2007 Receivables	2007 Liabilities
Hedging				
Up to 1 month	-	-	-	-
From 1 to 3 months	-	-	-	-
From 3 to 12 months	-	-	-	-
From 1 to 5 years	-	-	308	308
Over 5 years	2 006	2 006	1 672	1 672
Hedging – total	**2 006**	**2 006**	**1 980**	**1 980**
Trading derivatives				
Forward rate agreements (FRA)	14 393	14 393	16 766	16 766
Up to 1 month	3 807	3 807	2 500	2 500
From 1 to 3 months	-	-	4 500	4 500
From 3 to 12 months	10 586	10 586	9 766	9 766
From 1 to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Foreign currency forwards	204 940	204 900	18 748	19 086
Up to 1 month	187 927	187 861	3 383	3 431
From 1 to 3 months	5 292	5 290	3 532	3 603
From 3 to 12 months	11 596	11 624	11 824	12 042
From 1 to 5 years	125	125	9	10
Over 5 years	-	-	-	-
Option contracts	49 017	48 980	37 625	37 476
Up to 1 month	901	904	4 532	4 525
From 1 to 3 months	14 279	14 285	2 220	2 193
From 3 to 12 months	16 855	16 809	10 213	10 107
From 1 to 5 years	14 253	14 253	20 304	20 295
Over 5 years	2 729	2 729	356	356
Interest rate swaps (IRS)	64 452	64 452	74 887	74 887
Up to 1 month	8 000	8 000	2 150	2 150
From 1 to 3 months	1 278	1 278	1 800	1 800
From 3 to 12 months	12 396	12 396	21 555	21 555
From 1 to 5 years	32 191	32 191	37 946	37 946
Over 5 years	10 587	10 587	11 436	11 436

SKK million	2008 Receivables	2008 Liabilities	2007 Receivables	2007 Liabilities
Currency interest rate swaps (CIRS)	2 364	2 291	2 843	2 812
Up to 1 month	-	-	-	-
From 1 to 3 months	-	-	-	-
From 3 to 12 months	775	702	2 178	2 165
From 1 to 5 years	1 402	1 402	665	647
Over 5 years	187	187	-	-
Currency swaps	17 557	17 529	94 559	94 452
Up to 1 month	16 511	16 528	47 847	47 891
From 1 to 3 months	54	54	8 945	8 986
From 3 to 12 months	345	344	37 385	37 193
From 1 to 5 years	647	603	382	382
Over 5 years	-	-	-	-
Total trading derivatives	**352 723**	**352 545**	**245 428**	**245 479**
Total	**354 729**	**354 551**	**247 408**	**247 459**

46. Fair values of financial assets and liabilities

(a) Fair values of financial assets and liabilities measured at amortized cost

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 2008	Estimated fair value 2008	Carrying value 2007	Estimated fair value 2007
Financial assets				
Loans and advances to financial institutions	81 725	81 750	34 111	34 113
Loans and advances to customers	165 368	167 170	151 366	152 892
Held to maturity securities	42 240	42 596	52 584	53 266
Financial liabilities				
Amounts owed to financial institutions	68 322	68 322	24 604	24 637
Amounts owed to customers and debt securities in issue	272 232	272 783	245 490	241 699

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 4(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.

(b) Determination of fair values of residual financial assets and liabilities

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker. To this end, ultimate responsibility for the determination of fair values lies with SRM. SRM establishes the pricing policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant pricing sources.

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised. In less liquid markets, direct observation of a traded price may not be possible. In these circumstances, SRM source Erste Group Bank to validate the financial instrument's fair value. Greater weight is given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

The results of Erste Group Bank independent validation process are reported to SRM.

The best indicator of the fair value is the price which can be obtained in an active market. If prices from an active market are available they are used. For fair value valuation mainly external data sources (like quotes from exchanges or broker quotations) are used. In case no market prices are available, the fair value is derived via pricing models, which use observable inputs. In some cases it is not possible either to get prices from exchanges or using a pricing model which is based on observable inputs. In such cases inputs are estimated based on similar risk factors.

Erste Group Bank uses only common, market approved models for the evaluations. For linear derivatives (e.g., Interest Rate Swaps, Cross Currency Swaps, FX-Forwards, Forward Rate Agreements) market values are calculated by discounting the expected cash flows. Plain Vanilla-OTC-Options (Equity, Currency and Interest Options) are evaluated using option pricing models of the Black Scholes generation, complex interest derivatives using Hull White, BGM models.

Just models which went through an internal approval process and where the independent determination of the inputs (e.g. interest rates, volatilities) is ensured are used.

Models are applied only if an internal approval process and the independent determination of inputs (e.g. interest rates, volatilities) is ensured.

Financial instruments for which the fair value is based on market prices are for example: Exchange traded securities and derivatives, liquid government- and corporate bonds (Level 1).

For financial instruments in inactive markets with observable market data and market depth, the fair value is calculated based on similar transactions (OTC derivatives, bonds with low liquidity - Level 2).

Financial instruments where the market is inactive and the market depth is insufficient fair values are determined in a similar way (Level 3). For unobservable data an approximation is used which should be close to the market view of other market participants (private equity, complex derivative, illiquid structures).

47. 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.

48. 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 32 546 million and SKK 33 956 million of assets as at 31 December 2008 and 2007, 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.

49. 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.

	2008			2007		
SKK million	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Cash and balances at the central bank	42 983	-	42 983	12 502	-	12 502
Loans and advances to financial institutions	81 662	63	81 725	33 962	149	34 111
Loans and advances to customers	57 429	114 632	172 061	54 589	102 187	156 776
Provisions for losses on loans and advances	-	(6 693)	(6 693)	-	(5 410)	(5 410)
Financial assets at fair value through profit or loss	1 964	2 723	4 687	12 023	6 141	18 164
Securities available for sale	6 150	19 064	25 214	7 295	15 668	22 963
Securities held to maturity	7 250	34 990	42 240	16 300	36 284	52 584
Investments in associates and other investments	-	1 215	1 215	-	1 591	1 591
Intangible assets	-	3 320	3 320	-	2 359	2 359
Property and equipment	-	7 213	7 213	1 570	4 749	6 319
Assets held for rental income	-	334	334	-	344	344
Non-current assets held for sale	-	885	885	-	130	130
Current income tax asset	9	-	9	12	-	12
Deferred income tax asset	-	907	907	2	12	14
Other assets	1 080	1 102	2 182	680	774	1 454
Total assets	**198 527**	**179 755**	**378 282**	**138 935**	**164 978**	**303 913**
Amounts owed to financial institutions	67 042	1 280	68 322	17 136	7 468	24 604
Amounts owed to customers	241 608	16 364	257 972	216 033	13 963	229 996
Debt securities in issue	3 929	10 331	14 260	4 282	11 212	15 494
Provisions for liabilities and other provisions	-	774	774	-	655	655
Financial liabilities at fair value through profit or loss	1 922	1 312	3 234	1 129	1 258	2 387
Other liabilities	2 991	157	3 148	4 094	874	4 968
Current income tax	972	-	972	338	-	338
Deferred income tax liability	-	-	-	-	36	36
Subordinated debt	20	5 423	5 443	8	3 360	3 368
Equity	-	24 157	24 157	-	22 067	22 067
Total liabilities and equity	**318 484**	**59 798**	**378 282**	**243 020**	**60 893**	**303 913**

50. 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 Group 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 Group Bank group

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

	2008		**2007**	
SKK million	**Erste Group Bank**	**Companies under the control of Erste Group Bank**	**Erste Group Bank**	**Companies under the control of Erste Group Bank**
Assets				
Loans and advances to financial institutions	411	10	2 714	120
Loans and advances to customers	-	2 558	-	2 793
Trading assets	953	-	253	-
Available for sale portfolio	141	335	-	-
Securities held to maturity	-	-	-	-
Other assets	241	185	10	76
Total	**1 746**	**3 088**	**2 977**	**2 989**
Liabilities				
Amounts owed to financial institutions	54 693	2 648	13 376	88
Amounts owed to customers	-	100	-	455
Trading liabilities	1 135	-	-	-
Other liabilities	-	151	-	232
Subordinated debt	5 443	-	3 368	-
Total	**61 271**	**2 899**	**16 744**	**775**

The Group received a guarantee issued by its parent bank with a maximum value of SKK 1.5 billion (2007: SKK 8.4 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 50 million (2007: EUR 250 million).

In 2008 Slovenská sporiteľňa, a. s., received bank guarantee provided by its parent bank in amount of EUR 242 million covering exposures towards subsidiaries and other group members.

Exposures towards corporate clients covered by the parent's bank guarantees (excluding exposures towards ERSTE Group entities) are in the amount of SKK 3.0 billion (2007: SKK 5.2 billion).

The Group purchased software from companies under the control of Erste Group Bank in 2008 in the amount of SKK 596 million (2007: SKK 377 million).

The Bank entered into two loan contracts with its parent company Erste Group Bank in amount of EUR 180 million subordinated (2007: EUR 100 million).

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

	2008		2007	
SKK million	**Erste Group Bank**	**Companies under the control of Erste Group Bank**	**Erste Group Bank**	**Companies under the control of Erste Group Bank**
Interest income	173	231	43	156
Interest expense	(989)	(51)	(272)	(40)
Net fees and commissions	5	32	7	(9)
Net trading result	(162)	-	(28)	-
General administrative expenses	(3)	(460)	(5)	(461)
Other operating result	-	5	-	(55)
Total	**(976)**	**(243)**	**(255)**	**(409)**

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

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

SKK million	2008	2007
Assets		
Loans and advances to financial institutions	26	327
Loans and advances to customers	-	-
Financial assets at fair value through profit or loss	35	-
Securities available for sale	397	-
Other assets	-	-
Total	**458**	**327**
Liabilities		
Amounts owed to financial institutions	3	3
Amounts owed to customers	12	89
Total	**15**	**89**

Income and expenses from the associates include the following:

SKK million	2008	2007
Interest income	7	16
Interest expense	(1)	(2)
Total	**6**	**14**

The Group received dividends from its associates in the amount of SKK 90 million in 2008 (2007: SKK 103 million).

(d) Transactions with key management personnel

Loans and advances granted to members of the Board of Directors and Supervisory Board represent SKK 16.4 million and SKK 2.5 million, and liabilities SKK 67.8 million and SKK 71.1 million as at 31 December 2008 and 2007, respectively.

Remuneration of members of the Board of Directors and Supervisory Board paid during 2008 amounts to SKK 56.0 million (2007: SKK 62 million) which represents short-term employee benefits.

51. Post balance sheet events

Since 1 January 2009, Slovak Republic entered the Euro zone and Slovak crown (SKK) was replaced by new currency Euro (EUR). As a result, the Group has converted since that date its accounting to EUR and the financial statements for 2009 and onwards shall be prepared in EUR. Comparative financial information will be translated by the official conversion rate of 30.1260 SKK/EUR.

Based on the recently issued interpretation of Income Tax Act provisions related to deductibility of loan losses issued by the Ministry of Finance changes in the current and deferred tax are likely. It is expected that as a result of these changes, both current tax liability and deferred income tax asset will increase by the same amounts in year ended 31 December 2009, having no impact on the net tax income statement position. The Bank is presently quantifying the amounts of likely impacts.

From 31 December 2008 up to the date of issue of these financial statements there were no such events identified that would require adjustments to these financial statements.

The Bank posted the following results from the revaluation of its Fair value though profit and loss and Securities available for sale for one month period ended 31 January 2009:

mil. Sk	1 M ended 31 January 2009
Revaluation of securities at fair value, net	(38)
Revaluation on securities available-for-sale in equity	31

Note: Unaudited, presented in SKK using the conversion rate)