Privatbanka, a.s.

Consolidated financial statements

Prepared in accordance with
International Financial Reporting Standards

Year ended 31 December 2007

Contents

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika
Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
www.ey.com/sk

Independent Auditor's Report

To the Shareholders of Privatbanka, a.s.:

We have audited the Banking consolidated financial statements of Privatbanka a.s. ('the Bank') and companies within the group ("the Group") which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

24 April 2008
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovský
SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B
a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

Consolidated balance sheet as of 31 December 2007

	Note	2007 SKK '000	2006 SKK '000
Assets			
Cash and balances with central banks	3.	2 566 150	3 021 329
Due from banks	4.	518 620	548 230
Due from customers	5.	4 821 757	1 958 433
Securities available for sale	7.	727 876	1 213 575
Securities at fair value through profit or loss	8.	929 934	594 368
Tangible and intangible fixed assets	9.	44 407	40 597
Deferred tax asset	10.	5 899	360
Other assets	11.	12 504	21 750
Total assets		**9 627 147**	**7 398 642**
Liabilities and equity			
Due to other banks	12.	177 063	264 399
Due to clients	13.	6 608 295	4 288 563
Debt securities issued	14.	1 950 183	2 015 974
Provisions	15.	22 277	19 430
Other liabilities	16.	112 778	92 955
Total liabilities		**8 870 596**	**6 681 321**
Equity			
Share capital	17.	756 874	756 874
Capital and profit funds		57 848	51 454
Revaluation differences on securities available for sale (including deferred tax)		(19 952)	(4 861)
Accumulated losses		(38 219)	(86 146)
Total equity		**756 551**	**717 321**
Total Liabilities and equity		**9 627 147**	**7 398 642**

The notes on pages 8 to 48 form an integral part of these financial statements.

Consolidated profit and loss account
for the year ended 31 December 2007

	Note	2007 SKK '000	2006 SKK '000
Interest income and similar income	23.	377 704	378 644
Interest expense and similar expense	24.	(215 953)	(227 526)
Net interest income		**161 751**	**151 118**
Fee and commission income	25.	45 296	24 764
Fee and commission expense	26.	(16 359)	(15 700)
Net fee income		**28 937**	**9 064**
Trading result	27.	12 893	23 123
Other income	28.	1 070	3 649
Operating income total		**204 651**	**186 954**
General operating expense	29.	(140 316)	(141 289)
Depreciation and amortization		(10 439)	(11 982)
Operating expense total		**(150 755)**	**(153 271)**
Profit before provisions, reserves and write-offs		**53 896**	**33 683**
Receivables provision movement / receivables write-off	30.	3 177	21 635
Net book value of fixed assets sold		(5 428)	(139 405)
Income from sale of fixed assets		642	78 683
Fixed assets provision movement		-	87 043
Reserves for liabilities from main activities movement		36	2 155
Pre-tax profit		**52 323**	**83 794**
Income tax revenue/(expense)	19.	1 998	(19 852)
Net profit		**54 321**	**63 942**

Mgr. Ing. Ľuboš Ševčík, CSc.
Chairman of the Board of Directors and
General Director

Ing. Vladimír Hrdina
Member of the Board of Directors and
Executive Director

These financial statements were authorized for issue by the Board of Directors on 23 April 2008.

The notes on pages 8 to 48 form an integral part of these financial statements.

Privatbanka

Consolidated statement of changes in shareholders‘ equity for the year ended 31 December 2007

	Share capital SKK '000	Accumulated losses SKK '000	Capital and profit funds SKK '000	Revaluation differences on securities available for sale (including deferred tax) SKK '000	Total SKK '000
At 1 January 2006	**756 874**	**(145 815)**	**47 180**	**25 698**	**683 937**
Securities available for sale – revaluation within 2006	-	-	-	(34 395)	**(34 395)**
Change in the deferred tax charged for the securities available for sale	-	-	-	3 836	**3 836**
Total income and expense recognised directly in equity	-	-	-	(30 559)	**(30 559)**
Creation of statutory reserve	-	(4 273)	4 273	-	**-**
Profit for 2006	-	63 942	-	-	**63 942**
At 31 December 2006	**756 874**	**(86 146)**	**51 454**	**(4 861)**	**717 321**
At 1 January 2007	**756 874**	**(86 146)**	**51 454**	**(4 861)**	**717 321**
Securities available for sale – revaluation within 2007	-	-	-	(18 631)	**(18 631)**
Change in the deferred tax charged for the securities available for sale	-	-	-	3 540	**3 540**
Total income and expense recognised directly in equity	-	-	-	(15 091)	**(15 091)**
Creation of statutory reserve	-	(6 394)	6 394	-	**-**
Profit for 2007	-	54 321	-	-	**54 321**
At 31 December 2007	**756 874**	**(38 219)**	**57 848**	**(19 952)**	**756 551**

The notes on pages 8 to 48 form an integral part of these financial statements.

	Note	2007 SKK '000	2006 SKK '000
Cash flow from operating activities			
Profit/loss before changes in operating assets and liabilities	31.	(97 416)	(105 453)
(Increase)/decrease in amounts due from customers		(2 873 176)	(687 125)
(Increase)/decrease in securities at fair value through profit or loss		58 720	(337 933)
(Increase)/decrease in securities available for sale		494 957	318 045
(Increase)/decrease in other assets		9 246	(13 251)
Increase/(decrease) in amounts due to banks		(87 493)	234 116
Increase/(decrease) in amounts due to clients		2 316 626	141 840
Increase/(decrease) in debt securities issued - promissory notes		(84 226)	993 433
Increase/(decrease) in other liabilities		20 130	16 476
Income tax paid		-	(1 653)
Interest received		368 339	384 374
Interest paid		(212 484)	(218 118)
Net cash flow from operating activities		**(86 777)**	**724 751**
Cash flow from investment activities			
Purchase of tangible and intangible fixed assets		(19 677)	(11 472)
Sale of tangible and intangible fixed assets		642	28 683
Net cash flow from investment activities		**(19 035)**	**17 211**
Cash flow from financial activities			
Proceeds from issuance of debt securities - bonds		18 229	506 800
Dividends paid		-	-
Net cash flow from financial activities		**18 229**	**506 800**
Net increase/(decrease) in cash and cash equivalents		**(87 583)**	**1 248 762**
Cash and cash equivalents at the beginning of the year		**3 569 559**	**2 320 797**
Cash and cash equivalents at the end of the year	32.	**3 481 976**	**3 569 559**

The notes on pages 8 to 48 form an integral part of these financial statements.

1. GENERAL INFORMATION

Incorporation
Privatbanka, a.s. ("the Bank") was established on 2 August 1995 and incorporated on 9 August 1995. It commenced activities on 22 May 1996. The Bank's registered office is at Suché mýto 1, 811 03 Bratislava. The Bank's identification number is 31 634 419 and its tax identification number is 2020461905.

Principal activities
The principal activities of the Bank include a wide range of banking and financial services provided to corporate and private customers in the Slovak Republic under a bank license.

The bank license was granted for the following activities:

1. receipt of deposits,
2. provision of loans,
3. domestic and cross-border transfers of funds (payment and settlement),
4. provision of investment services to customers within the scope of a special license,
5. investments into securities made on own account,
6. trading on own account,
    a) with money market financial instruments in Slovak crowns and foreign currency including foreign exchange activities,
    b) with capital market financial instruments in Slovak crowns and foreign currency,
    c) with coins made of precious metal, commemorative banknotes and coins, sheets of banknotes and sets of coins for circulation,
7. administration of customer's receivables on his account including advisory services,
8. finance lease,
9. provision of guarantees, opening and confirmation of letters of credit,
10. issue and administration of means of payment,
11. provision of business advisory services,
12. issue of securities, participation in issue of securities and provision of related services,
13. financial intermediation,
14. custody of valuables,
15. safe hire,
16. provision of bank information,
17. depository according to a special regulation,
18. treatment of banknotes, coins, commemorative banknotes and coins.

Shareholders' structure
The shareholders' structure is as follows:

%	2007	2006
Penta Investments Ltd., Limassol	93,10	-
BASL Beteiligungsverwaltungs GmbH, Vienna	-	49,58
Allianz-Slovenská poisťovňa, a.s., Bratislava	-	19,82
Other (less than 10%)	6,90	30,60
Total	**100,00**	**100,00**

The immediate consolidating entity is Penta Investments Limited with its registered office at Kanika Centre, Block B, 6 Panayiotis Simeou Street, Office 504, Limassol, Cyprus.

Penta Holding Limited with its registered office at 44 Griva Digeni Street, Salamis House, 3rd floor, Paphos, Cyprus prepares the consolidated financial statements for all groups of reporting entities in the Consolidation Group.

The consolidated financial statements are available at Penta Holding Limited. They are deposited with the Commercial Register administered by the Court of Record, Department of Registrar of Companies and Official Receiver, with its registered office at Makarios Avenue, Xenios Building, PC 1427 Nicosia, Cyprus.

Privatbanka, a.s. group
The consolidated financial statements for the year ended 31 December 2007 comprise the Bank and its subsidiaries (together referred to as "the Group") as follows:

At 31 December 2007, the Bank had the following subsidiary:

Name	Activity	Share (%)
Privatfin, s.r.o.	Factoring, forfeiting, business advisory services, leasing services	100

The Company Privatfin, s.r.o., with residence at Suché mýto 1, 811 03 Bratislava, Identification number: 36 037 869, registered in Commercial Register of the District Court, Bratislava I., section: Sro, No. 40865/B was renamed from the previous BS FIN, s.r.o., on 2 June 2006. The subsidiary does not perform activities in significant volumes. As of 31 December 2007 it had a loss of SKK 9 thousand for the year (2006: profit SKK 2 thousand).

Geographical network
In 2007, the Bank performed its activities through its network of four branches in Banská Bystrica, Brezno and Bratislava (2 branches).

Members of the Board of Directors
The members of the Bank's Board of Directors since 4 September 2007 are as follows:

1. Mgr. Ing. Ľuboš Ševčík, CSc. - Chairman - appointed 4.9.2007
2. Ing. Ľubomír Lorencovič - Vice-chairman - appointed 6.8.2003
3. Ing. Vladimír Hrdina - Member - appointed 6.8.2003

The members of the Bank's Board of Directors from 1 March 2007 to 3 September 2007:

1. Ing. Vladimír Hrdina - Chairman - appointed 6.8.2003
2. Ing. Ľubomír Lorencovič - Vice-chairman - appointed 6.8.2003

The members of the Bank's Board of Directors until 28 February 2007:

1. Ing. Viliam Ostrožlík - Chairman - appointed 6.8.2003
2. Ing. Ľubomír Lorencovič - Vice-chairman - appointed 6.8.2003
3. Ing. Vladimír Hrdina - Member - appointed 6.8.2003

Supervisory Board
The members of the Bank's Supervisory Board since 4 September 2007 were as follows:

Elected at the General Meeting:
1. Mgr. Jozef Oravkin - Chairman - appointed 4.9.2007
2. Ing. Peter Benedikt - Vice-chairman - appointed 4.9.2007
3. Mgr. Denisa Schultzová - Member - appointed 4.9.2007
4. Ing. Jaromír Babinec - Member - appointed 4.9.2007

Elected by employees:

5. RNDr. Miron Zelina	- Member	- appointed 23.8.2007
6. Ing. Richard Pohranc	- Member	- appointed 23.8.2007

The members of the Bank's Supervisory Board until 3 September 2007 were as follows:

Elected at the General Meeting:

1. MMag. Peter Weinzierl	- Chairman	- appointed 6.8.2003
2. Dr. Alexander Waldstein-Wartenberg	- Vice-chairman	- appointed 6.8.2003
3. Ing. Ladislav Márton	- Member	- appointed 19.9.2002
4. Dr. Carl Wolfgang Lafite	- Member	- appointed 6.8.2003

Elected by employees:

5. RNDr. Miron Zelina	- Member	- appointed 23.8.2007
6. Ing. Richard Pohranc	- Member	- appointed 23.8.2007

2. ACCOUNTING POLICIES

(2.1) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments and financial assets held at fair value through profit or loss, that have been measured at fair value.

The financial statements are presented in Slovak crowns, and all values are rounded to the nearest SKK thousand except when otherwise indicated. Amounts in brackets represent negative numbers.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

On 16 March 2007, the General Meeting approved the Bank's consolidated financial statements prepared in accordance with IFRS as at 31 December 2006.

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the companies shown in note 1.

The consolidated financial statements have been prepared using uniform accounting policies for similar transactions taking into account the following principles:

Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of the Bank and its subsidiaries are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses.

In order that the consolidated financial statements present financial information about the Group as that of a single enterprise, the following steps are taken:

- the carrying amount of the Bank's investment in each subsidiary and the Bank's portion of equity of each subsidiary are eliminated,
- intra-group balances, transactions and resulting profits are eliminated in full.

(2.2) Significant accounting judgements and estimates
In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments
Where the fair values of financial assets recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Impairment losses on loans and advances
The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

(2.3) Change in accounting policies
The accounting policies adopted are consistent with those of the previous financial year.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

IFRS 7 - Financial Instruments: Disclosures
IAS 1 Amendment - Presentation of Financial Statements
IFRIC 8 - Scope of IFRS 2
IFRIC 9 - Reassessment of Embedded Derivatives
IFRIC 10 - Interim Financial Reporting and Impairment

The Group has not early adopted the following IFRS and IFRIC interpretations.
IFRS 8 - Operating Segments
IFRIC 11 - Group and Treasury Share Transactions

The principal effects of these changes are as follows:

IFRS 7 - Financial Instruments: Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. While there has been no effect on the financial position or results, comparative information for 2006 has been revised where needed.

IAS 1 Amendment - Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. Comparative information for 2006 has been revised where needed.

IFRIC 10 - Interim Financial Reporting and Impairment
The Group adopted IFRIC Interpretation, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

Changes in IFRIC 8 - Scope of IFRS 2 and in IFRIC 9 - Reassessment of Embedded Derivatives are not relevant to the Group.

(2.4) Comparatives
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

(2.5) Summary of significant accounting policies

(1) Foreign currency translation
Transactions denominated in foreign currencies are translated to Slovak crowns at the official NBS rates of exchange or other commercial banks exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the NBS rates of exchange prevailing at the balance sheet date.

Difference between the contractual exchange rate of a transaction and the NBS exchange rate on the date of the transaction is included in "Trading result".

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the settlement date. Derivatives are recognised on trade date basis.

(ii) Initial recognition of financial instruments
The classification depends on the purpose for which the financial instruments were acquired. At initial recognition, the financial assets are measured at fair value including the transaction costs.

(iii) Held-to-maturity financial investments
Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest income and similar income" in the income statement. The losses arising from impairment of such investments are recognised in the income statement line "Receivables provision movement/receivables write off".

(iv) Due from banks and Due from customers
"Due from banks" and "Due from customers" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', or 'Financial investment – available-for-sale'. After initial measurement, amounts due from banks and due from customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income and similar income" in the income statement. The losses arising from impairment are recognised in the income statement in "Receivables provision movement/receivables write off".

(v) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss comprise financial derivatives and securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets held by the Company for the purpose of trading and generating profit from short-term fluctuations in prices.

Financial derivatives include currency and interest rate swaps, currency and interest rate forwards, FRA and currency options (call and put options) and other financial derivatives. Financial derivatives are measured at fair value. Unrealized gains and losses are recognized as "Other assets" or "Other liabilities". Realized and unrealized gains and losses are included in the profit and loss account within "Trading result".

Securities held for trading are measured at fair value. Gains and losses from revaluation to fair value are presented in income statement as ”Trading result“. Interest earned whilst holding securities held for trading is reported as interest income using the effective interest rate. Dividends earned whilst holding securities held for trading are recognised in the income statement as ”Other income” when the right of the payment has been established.

(vi) Securities available-for-sale
Securities available-for-sale are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

At initial measurement securities available-for-sale are measured at fair value. Unrealised gains and losses are recognised directly in equity in the ”Revaluation differences on securities available for sale (including deferred tax)”. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in ”Trading result”. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a weighted average basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate and is included in ”Interest income and similar income” in the income statement. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as ”Trading result”, when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in ”Receivables provision movement/receivables write off” and removed from the equity in the ”Revaluation differences on securities available for sale (including deferred tax)”.

(vii) Due to other banks, due to clients and debt securities issued
Due to other banks, due to clients and debt securities issued are financial instruments, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, due to other banks, due to clients and debt securities issued are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ”pass-through” arrangement; or
- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of a) the original carrying amount of the asset and b) the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an

exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(4) Repurchase and reverse repurchase agreements
Transactions where securities are sold under a commitment to repurchase (repos) at a predetermined price or purchased under a commitment to resell (reverse repos) are treated as collateralized borrowing and lending transactions. Securities transferred under a repurchase commitment are henceforth included in the relevant items of securities in the Group's balance sheet, while the borrowing is recorded in "Due to other banks" or "Due to clients". A loan granted under a resale commitment is recorded in the balance sheet as "Cash and balances from central banks", "Due from banks" or "Due from customers". Interest on debt securities transferred under a repurchase commitment is accrued while interest on debt securities received under a resale commitment is not accrued.

Income and expenses arising from repurchase and resale commitments, being the difference between the selling and the purchase price, are accrued over the period of the transaction and recorded in the profit and loss account as "Interest income and similar income" or "Interest expense and similar expense".

(5) Determination of fair value
The fair value for the financial instruments corresponds to their quoted price in active market as at the balance sheet date, without any deduction for transaction costs. If the quoted market price is not available or there is no active market for the applicable financial instrument, the fair value is determined by using appropriate valuation techniques (e.g. discounted cash flows).

Valuation techniques include input quantities based on market values valid for instruments with similar conditions effective as at the balance sheet date.

(6) Impairment of financial assets
The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Due from banks and due from customers
For amounts due from banks and due from customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the ''Receivables provision movement/receivables write off".

(iii) Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Interest and income similar income". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(iv) Renegotiated loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(7) Tangible and intangible fixed assets
Tangible and intangible fixed assets are recognized at historical cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis in order to write off the cost of each asset to its residual value over its estimated useful economic life.

Buildings	20 to 40 years, linear
Software	4 years, linear
Other fixed assets	4 to12 years, linear

(8) Guarantees issued
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities". Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in "Receivables provision movement/receivables write off". The premium received is recognised in the income statement in "Interest income and similar income" on a straight line basis over the life of the guarantee.

(9) Provisions
Provision is a liability of uncertain timing or amount. Reserve is recognized when the following criteria are met:

- an obligation (legal or constructive) exists as a result of past events,
- it is probable that the event will occur and that it will require a cash outflow representing economic benefits,
- the amount of the obligation can be reliably estimated.

(10) Recognition of income and expenses

(i) Interest expenses and interest income
Interest expenses and interest income are recorded in the income statement on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability, or a group of financial assets or financial liabilities, by allocating interest income and income expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument so that they correspond to the net carrying amount of the financial asset or financial liability.

Fees earned for the provision of loans and loan commitments which compensate activities performed to maintain the instrument are recorded on an accrual basis and recognized as effective interest rate adjustments.

Interest expenses and interest income also include transaction fees at the origin of the financial instrument.

(ii) Income and expenses from fees and commissions
Fees earned for the administration of loans and other received and paid fees are recorded in the income statement on an accrual basis.

(iii) Income tax
Income tax includes current tax and deferred tax.

Current tax represents the expected tax liability resulting from taxable income for the year calculated with tax rate as at the balance sheet date with any current tax adjustments from previous years.

Deferred tax is calculated using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated at the tax rates that are expected to apply to the period when the time differences are reversed.

Deferred tax assets are only recognized to the extent that it is probable that taxable profits will be available against which non-utilised tax losses and credits can be applied. Deferred tax assets are decreased to the extent that it is not probable that the related tax benefits can be realised.

(11) Transactions with securities for clients
Securities received by the Group into custody, administration or deposition are recognized at face values in the off-balance sheet. The securities taken over by the Group for management are recognized at fair value in the off-balance sheet. The Group's amounts due to clients are recognized under liabilities of the balance sheet due to cash received for the purchase of securities, cash to be returned to clients, etc.

3. CASH AND BALANCES WITH CENTRAL BANKS

SKK '000	2007	2006
Cash on hand	24 792	24 142
Current accounts in NBS	60	10 909
Minimal reserves at NBS	48 699	295 100
Loans provided to NBS (Repo transactions)	2 192 580	2 691 178
Term deposits in NBS	300 019	-
Cash and balances with central banks	**2 566 150**	**3 021 329**

Receivables from central banks except for receivables from repo operations are not collaterized. Repo operations with NBS are collaterized by NBS Bills of credit as at 31 December 2007 with fair value of SKK 2 193 081 thousand (2006: SKK 2 691 308 thousand).

4. DUE FROM BANKS

SKK '000	2007	2006
Current accounts	170 180	55 316
Term deposits	346 534	491 708
Other receivables due from banks	1 906	1 206
Amounts due from banks	**518 620**	**548 230**

The amounts due from banks have not been secured by any collateral.

5. DUE FROM CUSTOMERS

(a) Breakdown of the Amounts due from customers according to type

SKK '000	2007	2006
Loans and advances to		
entrepreneurs and legal entities	4 713 504	1 837 788
individuals	170 069	185 056
Receivables on finance lease	602	929
Due from customers brutto	**4 884 175**	**2 023 773**
Provisions for receivables from customers (Note 6)	(62 418)	(65 340)
Due from customers netto	**4 821 757**	**1 958 433**

The total due from customers is secured by pledge of immovable and movables assets, securities, receivables or other form of collateral.

Further information on significant credit concentrations are described in Note 38.

(b) Loans and advances were made to customers in the following sectors:

SKK '000	2007	2006
Residents		
Financial institutions	52 981	59 164
Non-financial institutions	4 064 160	1 664 609
Self-employed	1 031	280
Individuals	170 072	184 776
Non-residents		
Financial institutions	-	114 944
Non-financial institutions	595 931	-
Due from customers brutto	**4 884 175**	**2 023 773**
Impairment provisions for amounts due from customers (Note 6)	(62 418)	(65 340)
Due from customers netto	**4 821 757**	**1 958 433**

6. IMPAIRMENT LOSSES

SKK '000	1.1.2007	(Creation)	Reversal	Foreign exchange rates differences	31.12.2007
Due from customers (Note 5)	(65 340)	(43 672)	46 413	181	(62 418)
Securities available for sale (Note 7)	(2 119)	-	-	-	(2 119)
Other assets (Note 11)	(1 393)	-	577	-	(816)
Total impairment losses	**(68 852)**	**(43 672)**	**46 990**	**181**	**(65 353)**

SKK '000	1.1.2006	(Creation)	Reversal	Foreign exchange rates differences	Sale, assignment and write-off	31.12.2006
Due from customers (Note 5)	(84 672)	(92 641)	112 091	(118)	-	(65 340)
Securities available for sale (Note 7)	(2 119)	-	-	-	-	(2 119)
Other assets (Note 11)	(2 503)	(124)	1 234	-	-	(1 393)
Total impairment of receivables	(89 294)	(92 765)	113 325	(118)	-	(68 852)
Tangible and int. assets (Note 9)	(87 043)	-	2 239	-	84 804	-
Total impairment losses	**(176 337)**	**(92 765)**	**115 564**	**(118)**	**84 804**	**(68 852)**

7. SECURITIES AVAILABLE FOR SALE

SKK '000	2007	2006
State bonds domestic	162 516	342 283
Bank bonds domestic	178 299	472 290
Bank bonds foreign	134 966	134 620
Corporate bonds domestic	15 310	18 677
Corporate bonds foreign	173 014	179 792
Shares domestic	3 680	3 680
Shares foreign	1 117	1 976
Mutual fund certificates foreign	61 093	62 376
Total securities available for sale brutto	**729 995**	**1 215 694**
Impairment provisions (Note 6)	(2 119)	(2 119)
Total securities available for sale netto	**727 876**	**1 213 575**

8. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

SKK '000	2007	2006
Treasury bills domestic	397 206	-
State bonds domestic	234 063	121 884
State bonds foreign	-	7 874
Bank bonds domestic	95 308	90 561
Bank bonds foreign	134 961	294 522
Corporate bonds domestic	45 396	54 004
Corporate bonds foreign	23 000	25 523
Total securities at fair value through profit or loss	**929 934**	**594 368**

9. TANGIBLE AND INTANGIBLE FIXED ASSETS

(a) Changes in tangible and intangible fixed assets as at 31 December 2007

SKK '000	Buildings	Furniture, fittings and equipment	Motor vehicles	Software	Patents and license	Prepayment and acquisition of tangible assets	Prepayment and acquisition of intangible assets	**Total**
Cost								
At 1 January 2007	11 471	52 890	6 959	81 867	1 639	-	109	**154 935**
Additions	350	3 764	2 269	9 480	-	6 383	14 782	**37 028**
Disposals	(4 831)	(6 062)	(3 030)	(303)	(767)	(6 383)	(10 968)	**(32 344)**
At 31 December 2007	6 990	50 592	6 198	91 044	872	-	3 923	**159 619**
Depreciation and amortization								
At 1 January 2007	(1 506)	(33 319)	(5 316)	(72 768)	(1 429)	-	-	**(114 338)**
Depreciation and amortization	(294)	(5 810)	(956)	(3 324)	(55)	-	-	**(10 439)**
Disposals	725	5 046	2 724	303	767	-	-	**9 565**
At 31 December 2007	(1 075)	(34 083)	(3 548)	(75 789)	(717)	-	-	**(115 212)**
Net book value								
At 31 December 2007	**5 915**	**16 509**	**2 650**	**15 255**	**155**	**-**	**3 923**	**44 407**

(b) Changes in tangible and intangible fixed assets as at 31 December 2006

SKK '000	Land	Buildings	Furniture, fittings and equipment	Motor vehicles	Software	Patents and license	Prepayment and acquisition of tangible asstes	Prepayment and acquisition of intangible asstes	**Total**
Cost									
At 1 January 2006	1 984	177 962	100 161	8 119	96 203	1 460	2 007	810	**388 706**
Additions	-	980	7 670	-	5 809	179	6 951	5 804	**27 393**
Disposals	(1 984)	(167 471)	(54 941)	(1 160)	(20 145)	-	(8 958)	(6 505)	**(261 164)**
At 31 December 2006	-	11 471	52 890	6 959	81 867	1 639	-	109	**154 935**
Depreciation and amortization									
At 1 January 2006	-	(30 707)	(80 423)	(5 190)	(90 678)	(1 196)	-	-	**(208 194)**
Depreciation and amortization	-	(2 699)	(5 529)	(1 286)	(2 235)	(233)	-	-	**(11 982)**
Disposals	-	31 900	52 633	1 160	20 145	-	-	-	**105 838**
At 31 December 2006	-	(1 506)	(33 319)	(5 316)	(72 768)	(1 429)	-	-	**(114 338)**
Impairment losses (Note 6)									
At 1 January 2006	-	(87 043)	-	-	-	-	-	-	**(87 043)**
Disposals	-	87 043	-	-	-	-	-	-	**87 043**
At 31 December 2006	-	-	-	-	-	-	-	-	**-**
Net book value									
At 31 December 2006	**-**	**9 965**	**19 571**	**1 643**	**9 099**	**210**	**-**	**109**	**40 597**

(c) Sale of tangible assets

In 2007 the Group sold tangible assets in residual value of SKK 5 341 thousand (2006: SKK 139 365 thousand) (before creation of provisions). In 2007, the Group released no provisions for sold tangible assets (2006: SKK 84 804 thousand). Below is detail characteristics of land, buildings and equipment sold in 2006 (In 2007 there were no significant individual items):

SKK '000	Year of sale	Residual value of the building	Residual value of land	Residual value of equipment	Provision	**Net book value**	Selling price	**Total profi from sale**	**Settlement**
Banská Bystrica	2 006	85 268	1 020	1 421	(46 165)	**41 544**	55 000	**13 456**	The Group has financed the sale with a loan of SKK 50 000 thousand
Banská Bystrica	2 006	49 843	964	616	(38 639)	**12 784**	23 250	**10 466**	Purchasor has repaid full purchase price

(d) Insurance of assets

Tangible assets at the Headquarters and branches were insured against natural disaster up to their net realizable value.

10. DEFERRED TAX ASSET

Deferred tax asset and liabilities are attributable to the following:

SKK '000	Assets 2007	Assets 2006	Liabilities 2007	Liabilities 2006	Net 2007	Net 2006
Tangible and intangible fixed assets	-	-	(997)	(825)	(997)	(825)
Tax loss carried forward	2 500	-	-	-	2 500	-
Other assets	5	45	-	-	5	45
Securities - revaluation in equity	4 680	1 140	-	-	4 680	1 140
Other	-	-	(289)	-	(289)	-
Total	**7 185**	**1 185**	**(1 286)**	**(825)**	**5 899**	**360**

The deferred tax assets and liabilities have been calculated using the corporate income tax rate of 19% (2006: 19%)

As at 31 December 2007, the Group has not recognized deferred tax assets relating to tax losses from previous years amounting to SKK 1 499 thousand (2006: SKK 7 862 thousand) and a provision for lawsuits of SKK 1 603 thousand (2006: SKK 1 603 thousand) due to uncertainty over the future realization of the deferred tax assets.

11. OTHER ASSETS

SKK '000	2007	2006
Positive fair value of derivative	560	380
Other debtors	6 215	4 392
Advance payments made	120	272
Clearing with State budget	-	1 669
Inventory	1 132	1 146
Deferred expenses	1 030	956
Accrued revenues	1 047	1 229
Receivables from collection	2 732	1
Other receivables from customers	274	11 554
Other	210	1 544
Total other assets brutto	**13 320**	**23 143**
Provisions for impairment losses on other assets (Note 6)	(816)	(1 393)
Total other assets netto	**12 504**	**21 750**

12. DUE TO OTHER BANKS

SKK '000	2007	2006
Term deposits of banks	177 053	264 399
Other amounts due to banks	10	-
Total due to other banks	**177 063**	**264 399**

All payables due to banks are within maturity.

13. DUE TO CLIENTS

(a) Amounts due to clients by type

SKK '000	2007	2006
Current accounts	666 530	336 145
Term deposits	5 832 813	3 786 912
Saving deposits	103 577	161 424
Other	5 375	4 082
Total due to clients	**6 608 295**	**4 288 563**

Payables to clients as of the end of year 2007 of SKK 50 028 thousand (2006: SKK 150 227 thousand) are collaterized by securities with fair value of SKK 53 058 thousand (2006: SKK 160 691 thousand), are stated in balance sheet (item: “Securities available for sale”).

Further information on significant concentrations of creditors is described in Note 38.

All payables due to clients are within maturity.

(b) Amounts due to clients by sectors

SKK '000	2007	2006
Residents		
Financial institutions	244 170	281 708
Non-financial institutions	3 677 667	2 321 341
Mutual funds	46 259	25 578
Insurance companies	473 550	545 936
Government	1 043	23 895
Non-profit companies	35 861	69 669
Self-employed	120 417	32 083
Individuals	725 286	728 666
Non-residents		
Non-financial institutions	1 277 349	256 679
Non-profit companies	-	87
Individuals	6 693	2 921
Total due to clients	**6 608 295**	**4 288 563**

14. DEBT SECURITIES ISSUED

(a) Liabilities from debt securities by type

SKK '000	2007	2006
Bills of exchange	1 422 049	1 505 657
Bonds	528 134	510 317
Total liabilities from debt securities	**1 950 183**	**2 015 974**

All liabilities from debt securities are within maturity.

All of the bonds stated above were not issued based on public offer and are not quoted for trading on stock exchange.

(b) Liabilities from debt securities by sector

SKK '000	2007	2006
Residents		
Non-financial institutions	876 185	1 539 075
Government	6 626	6 629
Non-profit companies	80 073	58 663
Self-employed	100 074	45 377
Individuals	757 327	362 592
Non-residents		
Non-financial institutions	120 059	-
Individuals	9 839	3 638
Total liabilities from debt securities	**1 950 183**	**2 015 974**

15. PROVISIONS

SKK' 000	1.1.2007	Creation	(Use)	Reversal of unused part	31.12.2007
Provision for lawsuits	8 891	646	(1 100)	-	8 437
Provisions for bonuses	8 086	11 160	(5 794)	(2 292)	11 160
Provision for vacation not taken	2 389	2 651	(2 389)	-	2 651
Other	64	77	(112)	-	29
Total provisions	**19 430**	**14 534**	**(9 395)**	**(2 292)**	**22 277**

The major part of the provisions created at the 31 December 2007 will be used in 2008.

SKK' 000	1.1.2006	Creation	(Use)	Foreign exchange rate differences	31.12.2006
Provision for lawsuits	7 345	1 546	-	-	8 891
Provisions for revolving loans	2 071	358	(2 426)	(3)	-
Provisions for bonuses	3 000	8 086	(3 000)	-	8 086
Provision for vacation not taken	1 986	2 389	(1 986)	-	2 389
Other	151	203	(290)	-	64
Total provisions	**14 553**	**12 582**	**(7 702)**	**(3)**	**19 430**

16. OTHER LIABILITIES

SKK '000	2007	2006
Negative fair value of derivatives	-	1 461
Payables to creditors	10 339	3 290
Settlement with employees	4 417	3 465
Payables to employees	319	420
Clearing with State budget	2 776	4 843
Clearing with Social and Health Insurance companies	1 919	1 838
Advance payments received	-	61
Deferred revenues	219	10 138
Accrued expense	3 184	2 261
Clearing with capital market	42 293	54 193
Payables from collection	2 732	6
Other amounts due to customers	44 580	10 592
Other	-	387
Total other liabilities	**112 778**	**92 955**

17. SHARE CAPITAL

SKK '000	2007	2006
Issued and fully paid share capital:		
756 874 ordinary shares (ISIN SK1110001619 with nominal values of SKK 1 000 each	**756 874**	**756 874**

Shareholders of the Bank as at 31 December 2007:

Name	Registered office	No. of shares (in thousand)	Share in registered capital (%)	Share in voting rights (%)
Penta Investments Ltd.	Limassol	704 674	93,10	93,10
City of Banská Bystrica	Banská Bystrica	52 200	6,90	6,90
Total		**756 874**	**100,00**	**100,00**

Shareholders of the Bank as at 31 December 2006:

Name	Registered office	No. of shares (in thousand)	Share in registered capital (%)	Share in voting rights (%)
BASL Beteiligungsverwaltungs GmbH	Vienna	375 243	49,58	49,58
Allianz Slovenská poisťovňa, a.s.	Bratislava	150 000	19,82	19,82
City of Banská Bystrica	Banská Bystrica	52 200	6,90	6,90
Others		179 431	23,70	23,70
Total		**756 874**	**100,00**	**100,00**

18. PROPOSAL FOR DISTRIBUTION OF 2007 PROFIT

SKK '000	2007
Net profit/loss from current accounting period	54 321
Reserve fund	5 432
Accumulated losses from previous periods	48 889

19. TAX REVENUE/(EXPENSE)

SKK '000	2007	2006
Current income tax		
Adjusted income tax	9 740	1 202
Use of tax losses from previous years carried forward	(9 740)	(1 202)
Deferred tax		
Due to temporary non-taxable revenues and expense	(502)	(19 852)
Due to tax losess from previous years carried forward	2 500	-
Total	**1 998**	**(19 852)**

20. RECONCILIATION OF THEORETICAL AND RECORDED TAX

	2007		
	Balance (SKK '000)	Applicable rate	Impact on theoretical tax
Theoretical tax	52 323	19%	9 941
Permanent non deductible differences	6 524	19%	1 240
Permanent taxable differences	(4 940)	19%	(939)
Effect of use of tax losses carried forward- previously unrecognised deferred tax asset	(51 261)	19%	(9 740)
Recognition of deferred tax assets from temporary differences previously unrecognised	(13 158)	19%	(2 500)
Adjusted theoretical tax			(1 998)
Effective tax			(1 998)

	2006		
	Balance (SKK '000)	Applicable rate	Impact on theoretical tax
Theoretical tax	83 794	19%	15 921
Permanent non deductible differences	4 609	19%	876
Permanent taxable differences	(7 654)	19%	(1 454)
Effect of unrecognized deferred tax receivable	19 226	19%	3 653
Other unrecognized tax receivables	4 511	19%	857
Adjusted theoretical tax			19 852
Effective tax			19 852

21. OFF BALANCE SHEET ITEMS

SKK'000 Off balance sheet assets	2007	2006
1. Receivables from spot operations with	1 388 409	32 654
a) interest instruments	1 388 409	-
b) FX instruments	-	32 654
2. Receivables from term operations with FX instruments	112 022	27 543
3. Received collaterals	6 550 650	4 342 143
a) immovables	1 019 594	1 046 026
b) cash	2 306 322	3 667
c) securities	2 970 732	3 170 575
d) other	254 002	121 875

SKK '000	Off balance sheet liabilities	2007	2006
1. Future loans commitments		229 983	518 346
2. Provided guarantees		58 329	57 708
3. Spot operations with FX instruments		-	33 078
4. Term operations with FX instruments		111 462	28 623
5. Securities provided as collaterals		53 058	160 691
6. Consigned values		7 026 062	7 016 474

22. FINANCIAL DERIVATIVES

2007	Notional principal		Fair value		Net
SKK '000	Receivable	Payable	Positive	Negative	fair value
Currency forwards	103 377	103 125	195	-	195
Currency swaps	9 504	9 148	365	-	365
Total financial derivatives	**112 881**	**112 273**	**560**	**-**	**560**

2006	Notional principal		Fair value		Net
SKK '000	Receivable	Payable	Positive	Negative	fair value
Currency forwards	28 089	29 194	380	(1 461)	(1 081)
Total financial derivatives	**28 089**	**29 194**	**380**	**(1 461)**	**(1 081)**

All derivatives are classified as held for trading. The positive fair value of derivatives in the amount of SKK 560 thousand (2006: SKK 380 thousand) is reported in “Other assets“ (Note 11) and negative fair value of derivatives in year 2006 in the amount of SKK 1 461 thousand is recorded in “Other liabilities“ (Note 16).

23. INTEREST INCOME AND SIMILAR INCOME

SKK '000	2007	2006
Interest income from amounts due from banks and central bank	123 584	172 959
Interest income from clients’ current accounts	9 220	6 687
Interest income from clients’ loans	176 848	117 849
Interest income from rental	50	397
Interest income from debt securities at fair value through profit or loss	29 115	23 169
Interest income from debt securities available for sale	38 887	57 459
Other interest income	-	124
Total interest income and similar income	**377 704**	**378 644**

24. INTEREST EXPENSE AND SIMILAR EXPENSE

SKK '000	2007	2006
Interest expense from amounts due to banks	7 068	2 207
Interest expense from clients' current accounts	3 477	5 659
Interest expense from clients' term deposits	121 709	161 339
Interest expense from clients' savings deposits	1 626	3 136
Interest expense from certificates of deposits	-	7 652
Interest expense from received loans from clients	-	2 118
Interest expense from debt securities	82 073	45 195
Other interest expense	-	220
Total interest expense and similar expense	**215 953**	**227 526**

25. FEE AND COMMISSION INCOME

SKK '000	2007	2006
Income from fees and commissions:		
Loans	1 240	2 527
Guarantees	-	967
Payments	3 334	2 952
Itemised fees	2 654	2 370
Securities trading	24 014	7 465
Portfolio management	11 540	7 082
Other	2 514	1 401
Total fee and commission income	**45 296**	**24 764**

26. FEE AND COMMISSION EXPENSE

SKK '000	2007	2006
Expenses for fees and commissions:		
Payments	5 788	4 911
Interbank transactions	620	677
Securities trading	714	1 386
Intermediation	9 229	8 716
Other	8	10
Total fee and commission expense	**16 359**	**15 700**

27. TRADING RESULT

SKK '000	2007	2006
Realized profit/loss from debt securities transactions (available for sale)	1 803	14 612
Profit/loss from debt securities transactions (at fair value through profit or loss)	(10 048)	(11 455)
Profit/loss from shares and units (available for sale)	312	1 937
Profit/loss from shares and units (at fair value through profit or loss)	-	38
Profit/loss from derivative transactions	1 654	(1 514)
Profit/loss from forex transactions	19 172	19 505
Total trading result	**12 893**	**23 123**

28. OTHER INCOME

SKK '000	2007	2006
Operating lease	-	253
Other income	1 070	3 396
Total other income	**1 070**	**3 649**

29. GENERAL OPERATING EXPENSE

SKK '000	2007	2006
Personnel costs	66 354	67 905
Social insurance	16 342	14 819
Other general operating expenses	57 620	58 565
- audit and tax advisory	2 533	2 021
- contribution to Deposits protection fund	1 459	1 720
Total general operating expense	**140 316**	**141 289**

The average number of employees during the year 2007 was 94 (2006: 93). The average number of members of management during the year 2007 was 29 (2006: 28).

30. RECEIVABLES PROVISION MOVEMENT/RECEIVABLES WRITE-OFF

SKK '000	2007	2006
Creation of impairment losses (Note 6)	(43 672)	(92 765)
Reversal of impairment losses (Note 6)	46 990	113 325
Net book value of transferred receivable	-	(443)
Income from transferred receivables	-	1 645
Net book value of written-off receivables	(141)	(127)
Total	**3 177**	**21 635**

31. PROFIT/ (LOSS) BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

SKK '000	2007	2006
Profit/loss before tax	52 323	83 794
Adjustment for non-cash items:		
Interest income and similar income	(377 704)	(378 644)
Interest expense and similar expense	215 953	227 526
Depreciation and amortization	10 439	11 982
Receivables provision movement / receivables write-off	(3 177)	(21 635)
Net book value of fixed assets sold	5 428	139 405
Income from sale of fixed assets	(642)	(78 683)
Fixed assets provision movement	-	(87 043)
Reserves for liabilities from main activities movement	(36)	(2 155)
Total	**(97 416)**	**(105 453)**

32. CASH AND CASH EQUIVALENTS

SKK '000	2007	2006
Cash and balances with central banks (Note 3)	2 566 150	3 021 329
Due from banks (Note 4)	518 620	548 230
Treasury bills of NBS (Note 8)	397 206	-
Cash and cash equivalents	**3 481 976**	**3 569 559**

33. RELATED PARTY TRANSACTION

SKK '000	31.12.2007 balance	31.12.2007 accruals	Total	Interest income/ Interest expense 2007	Fee and commision income 2007	Trading result 2007
Receivables from parent company						
Other assets	864	-	864	-	1 945	6 082
Payables to parent company						
Due to clients	733 529	29	733 558	(14 088)	417	-
Debt securities issued	83 973	509	84 482	(413)	-	-
Receivables from other related parties (personally connected with the parent company)						
Amounts due from customers	96 212	-	96 212	15 741	-	-
Other assets	880	-	880	-	13 235	5 911
Payables to other related parties (personally connected with the parent company)						
Due to clients	930 710	112	930 822	(36 586)	979	-
Debt securities issued	279 546	1 729	281 275	(27 899)	-	-
Loan commitments	8 578	-	8 578	-	-	-
Receivables from fixed term transactions	15 632	-	15 632	-	-	-
Liabilities from fixed term transactions	15 530	-	15 530	-	-	-

SKK '000	31.12.2007 balance	31.12.2007 accruals	Total	Interest income/ Interest expense 2007	Fee and commision income 2007	Trading result 2007	General operating expense 2007
Receivables from management members and their related parties							
Receivables due from customers	13 927	-	13 927	955	-	-	-
Other assets	20	-	20	-	17	150	-
Payables due to management members and their related parties							
Payables due to clients	5 607	3	5 610	(129)	38	-	-
Debt securities issued	21 189	39	21 228	(866)	-	-	-
Provisions	5 192	-	5 192	-	-	-	(2 237)
Other liabilities	602	-	602	-	-	-	(10 861)
Loan commitments	3 468	-	3 468	-	-	-	-
Guarantees issued	720	-	720	23	-	-	-

SKK '000	31.12.2006 balance	31.12.2006 accruals	Total	Interest income/ Interest expense 2006	Fee and commision income 2006	Trading result 2006	General operating expense 2006
Receivables from parent company							
Due from banks	1 161	-	1 161	6	-	-	-
Receivables from other shareholders and related parties							
Securities available for sale	77 517	1 027	78 544	2 647	-	-	-
Securities at fair values through profit or loss	25 180	342	25 522	797	-	65	-
Payables to other shareholders and related parties							
Amounts due to clients	245 149	302	245 451	(9 185)	6	-	-
Payables due to management members and their related parties							
Due to clients	357	-	357	(7)	28	-	-
Debt securities issued	11 950	22	11 972	(486)	-	-	-
Provisions	6 825	-	6 825	-	-	-	(2 909)
Other liabilities	613	-	613	-	-	-	(24 561)

34. FINANCIAL INSTRUMENTS – MARKET RISK

In carrying out its activities, the Group is exposed to market risks, which depend on the extent of exposure to individual risk factors, mainly changes in interest rates, exchange rates and the price of capital and financial market instruments.

(a) Interest rate risk

Interest rate risk is the risk of a change in the value of the Group's portfolios as a result of changes in market interest rates. To measure the interest rate sensitivity of assets and liabilities, the Group uses interest gap analysis. Assets and liabilities are classified into time segments depending on the time of revaluation of the instrument or its reinvestment. The size of the interest gap represents the extent of the risk of potential loss resulting from changes in market interest rates, represented by the value of the theoretical change of the net interest income under exactly specified restrictive conditions of the model. The Group has set a limit for the maximum interest rate exposure defined by the maximum theoretical change of net interest income within one year starting from the moment of the valuation of the Bank's positions.

The Group measures its interest rate risk of Trading book using model VaR and interest sensibility. Maximal risk exposition is monitored a daily basis.

The average effective interest rates of assets and liabilities as at 31 December 2007 and the periods in which these rates are re-priced are as follows:

SKK '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	**Total**
Cash and balances with central banks	3,99%	2 541 358	-	-	-	-	24 792	**2 566 150**
Due from banks	2,75%	518 620	-	-	-	-	-	**518 620**
Due from customers	6,26%	724 702	1 696 602	2 330 115	80 000	-	(9 662)	**4 821 757**
Securities available for sale	4,03%	-	75 708	182 461	121 514	284 422	63 771	**727 876**
Securities at fair value through profit or loss	4,50%	3 451	595 940	10 962	177 646	141 935	-	**929 934**
Total assets		**3 788 131**	**2 368 250**	**2 523 538**	**379 160**	**426 357**	**78 901**	**9 564 337**
Due to other banks	4,02%	177 063	-	-	-	-	-	**177 063**
Due to clients	3,25%	3 864 393	185 318	2 406 261	150 071	-	2 252	**6 608 295**
Debt securities issued	4,02%	1 604 777	321 791	23 615	-	-	-	**1 950 183**
Total liabilities		**5 646 233**	**507 109**	**2 429 876**	**150 071**	**-**	**2 252**	**8 735 541**
Difference		**(1 858 102)**	**1 861 141**	**93 662**	**229 089**	**426 357**	**76 649**	**828 796**
Cumulative difference		**(1 858 102)**	**3 039**	**96 701**	**325 790**	**752 147**	**828 796**	

The average effective interest rates of assets and liabilities as at 31 December 2006 and the periods in which these rates are re-priced are as follows:

SKK '000	Effective interest rate	Up to 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Unspecified	**Total**
Cash and balances with central banks	4,47%	2 997 187	-	-	-	-	24 142	**3 021 329**
Due from banks	3,53%	548 230	-	-	-	-	-	**548 230**
Due from customers	7,97%	467 436	1 274 068	93 477	3	121 960	1 489	**1 958 433**
Securities available for sale	4,42%	99 858	220 553	417 677	179 248	230 326	65 913	**1 213 575**
Securities at fair value through profit or loss	4,57%	120 682	350 661	8 464	83 926	30 635	-	**594 368**
Total assets		**4 233 393**	**1 845 282**	**519 618**	**263 177**	**382 921**	**91 544**	**7 335 935**
Due to other banks	2,69%	264 399	-	-	-	-	-	**264 399**
Due to clients	3,53%	3 064 416	764 494	454 806	765	-	4 082	**4 288 563**
Debt securities issued	4,42%	1 761 622	225 875	28 477	-	-	-	**2 015 974**
Total liabilities		**5 090 437**	**990 369**	**483 283**	**765**	**-**	**4 082**	**6 568 936**
Difference		**(857 044)**	**854 913**	**36 335**	**262 412**	**382 921**	**87 462**	**766 999**
Cumulative difference		**(857 044)**	**(2 131)**	**34 204**	**296 616**	**679 537**	**766 999**	

The sensitivity analysis is based on the assumption of a parallel movement of the yield curve. The table below shows the change in net profit and equity of the Group due to reasonably possible changes in interest rates of the major currencies.

SKK '000	Impact on net profit	Impact on equity
2007		
+ 0,5% for all currencies	(656)	(11 278)
- 0,5% for all currencies	656	11 730
2006		
+ 0,5% for all currencies	(690)	(11 574)
- 0,5% for all currencies	690	11 991

(b) Currency risk

Currency risk is the risk of a change in the value of the Group's portfolios as a result of changes in the value of exchange rates and open unsecured positions. The Group manages currency risk by determining and daily monitoring of maximum limits of the open positions of banking book for individual currencies. Currency risk of trading book is limited by maximum exposure using Value at risk model. The following tables show the volumes of assets and liabilities according to the individual main currencies and the resulting unsecured open currency positions for the years 2007 and 2006.

The currency position of the Group as at 31 December 2007:

SKK '000	EUR	USD	CZK	Other FX	SKK	**Total**
Cash and balances with central banks	3 054	694	2 664	2 542	2 557 196	**2 566 150**
Due from banks	27 148	60 626	413 578	13 495	3 773	**518 620**
Due from customers	12 968	-	37 847	-	4 770 942	**4 821 757**
Securities available for sale	17 224	-	132 843	-	577 809	**727 876**
Securities at fair value through profit or loss	84 525	-	23 000	-	822 409	**929 934**
Total assets	**144 919**	**61 320**	**609 932**	**16 037**	**8 732 129**	**9 564 337**
Due to other banks	5	3	177 055	-	-	**177 063**
Due to clients	159 256	33 446	407 831	2 448	6 005 314	**6 608 295**
Debt securities issued	31 115	20 332	25 079	1 243	1 872 414	**1 950 183**
Total liabilities	**190 376**	**53 781**	**609 965**	**3 691**	**7 877 728**	**8 735 541**
Net FX position	**(45 457)**	**7 539**	**(33)**	**12 346**	**854 401**	**828 796**

The currency position of the Group as at 31 December 2006:

SKK '000	EUR	USD	CZK	Other FX	SKK	**Total**
Cash and balances with central banks	5 209	2 417	3 608	3 302	3 006 793	**3 021 329**
Due from banks	66 248	7 726	113 992	9 715	350 549	**548 230**
Due from customers	52 177	1	119 328	-	1 786 927	**1 958 433**
Securities available for sale	21 496	-	140 461	-	1 051 618	**1 213 575**
Securities at fair value through profit or loss	194	7 874	100 965	-	485 335	**594 368**
Total assets	**145 324**	**18 018**	**478 354**	**13 017**	**6 681 222**	**7 335 935**
Due to other banks	-	13 129	251 270	-	-	**264 399**
Due to clients	75 422	9 341	115 807	3 564	4 084 429	**4 288 563**
Debt securities issued	79 419	3 647	78 436	496	1 853 976	**2 015 974**
Total liabilities	**154 841**	**26 117**	**445 513**	**4 060**	**5 938 405**	**6 568 936**
Net FX position	**(9 517)**	**(8 099)**	**32 841**	**8 957**	**742 817**	**766 999**

The table below indicates the currency to which the Group had significant exposure at 31 December 2007 and 31 December 2006. The sensitivity analysis calculates the effect of possible changes of the currency rate against the EUR, USD and CZK on the income statement. Positive amount reflects net potential gain and negative amount reflects net potential loss on the income statement.

SKK '000	Change in exchange rate	Impact on net profit
2007		
Euro	+ 10,05%	(1 912)
US Dollar	+ 15,55%	321
Czech crown	+ 11,12%	699
2006		
Euro	+ 10,05%	(1 570)
US Dollar	+ 15,55%	462
Czech crown	+ 11,12%	90

Other than effect on profit before tax, the changes in FX rates have no impact on equity.

35. MANAGEMENT OF CAPITAL

The Bank's own funds are used to cover risks to which the Bank is exposed to in performing its activities. The amount of own funds and their adequacy is monitored on a regular basis, *inter alia,* by reference to and the compliance with the prudence principles set by the National Bank of Slovakia. The adequacy of own funds is determined by law up to a minimum of 8%. In the previous years, the Bank observed the legal minimum capital adequacy requirement as well as the other capital requirements established by the National Bank of Slovakia.

As per the prudence principles, own funds are used to cover risks arising from the Banking book, Trading book as well as to cover other risks, in particular foreign exchange risks and commodity risks. As per the new Basel II regulation effective from 31 December 2007, own funds are also used to cover operational risks.

The basic requirement of the own fund management process is to ensure that the Bank has fulfilled all requirements as established by the regulatory body under parallel observance of effective adequacy of own funds. The Bank manages the structure of its own funds and may apply changes in the structure of its own funds provided in case that there is a change in the economic terms and conditions or a change in the Bank's appetite for risk. The Bank may primarily manage its own funds based on the decision with regard to distribution of profit in a respective accounting period, or based on the decision about an issue of subordinated debt. No changes occurred in the policy on own fund management in the previous years.

The Bank's own funds comprise basic own funds and supplementary own funds as well as deductible items. The basic own funds comprise registered capital, reserve fund, retained earnings from previous years, accumulated losses from previous years and software value (as an item reducing basic own funds). Supplementary own funds include positive valuation differences from capital instruments from a portfolio for sale less income tax. Deductible items are represented by an investment to the subsidiary Privatfin, s.r.o.

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year or later than one year after 31 December 2007:

SKK '000	Up to 1 year	More than 1 year	Not specified	**Total**
Cash and balances with central banks	2 566 150	-	-	**2 566 150**
Due from banks	518 620	-	-	**518 620**
Due from customers	3 562 361	1 267 908	(8 512)	**4 821 757**
Securities available for sale	174 961	489 144	63 771	**727 876**
Securities at fair value through profit or loss	412 720	517 214	-	**929 934**
Total assets	**7 234 812**	**2 274 266**	**55 259**	**9 564 337**
Due to other banks	177 063	-	-	**177 063**
Due to clients	6 452 099	156 192	4	**6 608 295**
Debt securities issued	1 425 393	524 790	-	**1 950 183**
Total liabilities	**8 054 555**	**680 982**	**4**	**8 735 541**
Difference	**(819 743)**	**1 593 284**	**55 255**	**828 796**
Cummulative difference	**(819 743)**	**773 541**	**828 796**	

The table below shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year or later than one year after 31 December 2006:

SKK '000	Up to 1 year	More than 1 year	Not specified	Total
Cash and balances with central banks	3 021 329	-	-	**3 021 329**
Due from banks	548 230	-	-	**548 230**
Due from customers	806 866	1 108 390	43 177	**1 958 433**
Securities available for sale	577 267	570 395	65 913	**1 213 575**
Securities at fair value through profit or loss	117 641	476 727	-	**594 368**
Total assets	**5 071 333**	**2 155 512**	**109 090**	**7 335 935**
Due to other banks	264 399	-	-	**264 399**
Due to clients	4 274 106	10 428	4 029	**4 288 563**
Debt securities issued	1 509 413	506 561	-	**2 015 974**
Total liabilities	**6 047 918**	**516 989**	**4 029**	**6 568 936**
Difference	**(976 585)**	**1 638 523**	**105 061**	**766 999**
Cummulative difference	**(976 585)**	**661 938**	**766 999**	

37. FINANCIAL INSTRUMENTS – LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk in ability of the Group to fulfil its obligations towards its business partners as a result of a discrepancy in the maturity of the assets and the liabilities. The Group monitors and manages the liquidity on the basis of the expected cash flow on the assets and liabilities side of the balance sheet. To measure the liquidity exposure, the Group uses the liquidity gap method. The Group defines and manages the risk of the ability to fulfil one's obligations by means of specified limits of discrepancy in the maturity of the assets and the liabilities in individual time segments.

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2007:

SKK'000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not specified	Total
Due to other banks	-	177 092	-	-	-	-	**177 092**
Due to clients	666 530	3 350 398	2 532 061	166 100	-	-	**6 715 089**
Debt securities issued	-	1 400 087	24 230	579 463	-	-	**2 003 780**
Total liabilities	**666 530**	**4 927 577**	**2 556 291**	**745 563**	**-**	**-**	**8 895 961**

The remaining maturity of undiscounted amounts of financial liabilities as at 31 December 2006:

SKK'000	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not specified	Total
Due to other banks	-	264 576	-	-	-	-	**264 576**
Due to clients	336 144	3 447 755	513 682	4 199	-	-	**4 301 780**
Debt securities issued	-	1 478 078	29 155	595 851	-	-	**2 103 084**
Total liabilities	**336 144**	**5 190 409**	**542 837**	**600 050**	**-**	**-**	**6 669 440**

38. FINANCIAL INSTRUMENTS – CREDIT RISK

While conducting its activities, the Group is exposed to credit risk, i.e. the risk that the counterparty will not be able to repay the due amounts in full within the maturity period. The Group reduces the extent of credit risk by setting limits for exposures with respect to an individual debtor or a Bank of debtors. The actual exposure is regularly compared to the fixed limits. Credit risk is also managed by means of a regular analysis of the debtor's and the potential debtors' ability to pay the principal and interest and by securement of the debtor's credibility.

The Group is exposed to credit risk as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

The concentration of credit risk arises as a result of the accumulation of credits towards the counterparty or economically related Bank. An excessive concentration of credit exposure towards one entity has effect on the ability of the debtor to pay its obligations. The Group treats a receivable from a debtor or an economically related Bank of debtors that exceeds 5% of the Bank's capital as a significant exposure. The Group has created a system of internal reports on significant credit exposures exceeding the specified limit with respect to debtors.

The Group has defined in its internal instructions impairment indicators and procedures for determination of reduction of future cash flows and consequently discounts all estimated cash flows, including cash flows from realization of collateral to present value, using the effective interest rate.

Factors leading to creation of impairment provision for financial assets assessed individually in 2007 and 2006:

1. client was unable to realize business plan in agreed time,
2. client has negative equity,
3. the Group has identified serious risk of devaluation of collateral from objective reasons.

Credit exposure, collaterals

SKK '000	2007	2006
Total credit exposure	**4 900 505**	**2 024 669**
Value of received collaterals accepted by the Bank	5 353 240	2 121 252
Secured portion of credit exposure	4 307 043	1 452 732
Unsecured portion of credit exposure	593 462	571 937

The value and type of collateral required to secure the credit risk of the counterparty in credit transactions depend on the extent of the credit risk in a specific credit transaction as identified by the Group in the course of processing the transaction.

In its internal instructions, the Group has defined acceptance procedures as well as procedures for valuing individual collateral types depending on their liquidity.

The most frequently used collateral types:

- project funding: real estate, current and future receivables resulting from sale agreements and other contracts for sale or lease of developed real estate;
- operational funding: trade receivables;
- investment funding: clients' movable and immovable assets;
- acquisition funding: securities (in particular shares);
- credits granted to individuals: real estate, securities, personal guarantee.

Credit quality of assets recognised as neither past due nor impaired

Overview of the quality of financial assets resulting from credit transactions which are recognised as neither past due nor impaired:

Clients - transaction rating - 2007	Receivables (SKK '000)	Share (%)
Rating A - very good	465 856	9,98
Rating B - good	647 066	13,85
Rating C - below average	3 183 370	68,16
Rating D - bad	202 846	4,34
Retail	171 457	3,67
Total	**4 670 595**	**100,00**

Clients - transaction rating - 2006	Receivables (SKK '000)	Share (%)
Rating A - very good	285 862	16,97
Rating B - good	286 319	17,00
Rating C - below average	410 913	24,40
Rating D - bad	505 229	30,00
Retail	195 833	11,63
Total	**1 684 156**	**100,00**

Based on the balance as at 31 December 2007 and as at 31 December 2006, there are no clients with accredited external ratings in the Group's loan portfolio.

Method of determining transaction ratings

The Group determines internal rating of corporate clients on the basis of their financial analysis and non-financial analysis.

The financial analysis is based on an evaluation of individual items of clients' assets, liabilities, expenses and revenues, the realization of assets and equity and the subsequent calculation of basic financial ratios (indebtedness, liquidity, profitability, activity and cash flow). The financial situation of clients is denoted by letters: a (very good), b (good), c (below average) and d (bad).

The non-financial analysis is based on clients' payment discipline, use of Group's services, business sector, market position, sales commitments, management level and overall performance of companies. The non-financial analysis results in the classification of clients into four business risk classes:
1 (low risk), 2 (adequate risk), 3 (prevailing risk) or 4 (high risk).

The client's internal rating – A, B, C or D – results from a combination of the financial analysis and non-financial analysis.

The resulting value of the collateral to determine the extent of credit risk represents an actually achievable market price at the time of collateral realization, where the period to realize the collateral (representing its liquidity) should not exceed three months as from the commencement of the validity of the lien or the exertion of other rights securing the loan.

The resulting value of the collateral and the client's internal rating represents a transaction rating as an objective evaluation of the Group's financial asset quality.

The Group monitors the development of the financial and non-financial situations of clients and updates the respective ratings on a regular quarterly basis. The Group updates the value of the collateral on annual basis.

Financial assets past due but not impaired

As at 31 December 2007, the Group recognized as past due only the debt service relating to unimpaired loans of SKK 1 055 thousand (1 day overdue). The overall amount of interest overdue was paid within 15 days of maturity. The Group usually collects interest on a monthly basis, and exceptionally on quarterly basis.

As at the above date, the Group recognized no outstanding principal of loans that were accounted for as standard loans.

As at 31 December 2006, the Group recognized as past due only the debt service relating to unimpaired loans of SKK 837 thousand (1 day overdue). The overall amount of interest overdue was paid within 10 days of maturity.

As at the above date, the Group recognized outstanding principal on standard loans totalling SKK 1 thousand, that were subsequently repaid.

Major credit risk exposures

(a) Concentrations to national economy sectors

SKK '000	2007	2006
Agriculture, forestry and fishing	10 101	8 433
Industry and building industry	118 192	128 629
thereof: Industry	83 534	93 748
Building industry	34 658	34 881
Trade, hotels and restaurants	285 114	191 610
thereof: Trade	155 296	30 181
Hotels	129 818	161 429
Financial intermediation	181 802	94 011
Real-estate activities	3 211 929	712 460
thereof: Lease	2 678 648	107 893
Development	533 281	604 567
Other business services	581 673	417 966
thereof: Advertising	115 154	35 000
Purchase of securities	455 000	378 065
Other	341 783	276 100
thereof: Holding companies	335 703	274 767
Individuals	169 911	194 654
Total	**4 900 505**	**2 023 863**

(b) Concentrations to significant groups of debtors

In 2007, the Group granted a loan of SKK 2 300 000 thousand to a single debtor, which was fully secured by means of collateral in the form of a deposit in an account in the Group This loan met all the conditions required for the acceptance of collateral for the needs of reducing exposures, as set by the regulator in Decree No. 4 of the National Bank of Slovakia dated 13 March 2007.

The maximum level of exposure to a debtor or an economically related group is limited to SKK 175 855 thousand in respect of the Bank's capital.

In 2006 there was not a significant exposure to related groups.

Assumptions in estimates of realizable values of collateral

The value of collateral is to be determined as follows:

- immovable and movable assets: on the basis of a comparison between the general value of the assets in an expert's opinion and the fair value of the assets as identified by means of the expert's estimate. If there is a difference between these two values, whichever is the lower shall be considered as the value of the immovable asset;
- cash collateral: the value of the collateral equals the nominal value of a receivable from deposit; in respect of securities, market prices as at the date of valuation are used.
- receivables, promissory notes and adoption of a liability by a third party: on the basis of their nominal value, net of ratings of a sub-debtor, debtor from a promissory note or a bill holder.

The value accepted by the Group is the value which results from multiplying the collateral's value by the respective coefficient representing the degree of acceptance of a specific type of collateral. This value is concurrently the source value for calculating provisions.

The value of collaterals is regularly updated according to collateral types and any anticipated volatility in prices, and is performed at least an annual basis. In the case of collateral impairment, the Group will require additional security for the credit transaction or will realize other measures to reduce the credit risk.

Maximum credit exposure

SKK '000	2007	2006
Cash and balances with central bank	2 566 150	3 021 329
Due from banks	518 620	548 230
Due from customers	4 821 757	1 958 433
Securities available for sale	727 876	1 213 575
Securities at fair value through profit or loss	929 934	594 368
Other assets	12 504	21 750
Total	**9 576 841**	**7 357 685**
Loan commitments	229 983	518 346
Guarantees issued	58 329	57 708
Total	**288 312**	**576 054**
Maximum credit risk exposure	**9 865 153**	**7 933 739**

39. OPERATIONAL, LEGAL AND OTHER RISKS

The Group creates a database of operational losses and events with potential risk of loss. This database is created as it is Group's intention to transfer to more sophisticated techniques of quantification of operational risk.

Legal and other risks are monitored within the Group's internal control system in case of reviews made by the Department of Internal Control and Audit and by headquarters divisions.

40. FAIR VALUES

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of the Group's financial assets and financial liabilities at the year-end were as follows:

SKK '000	Book value 2007	Fair value 2007	Book value 2006	Fair value 2006
Financial assets				
Cash and balances with central banks	2 566 150	2 566 150	3 021 329	3 021 329
Due from banks	518 620	518 620	548 230	548 230
Due from customers	4 821 757	4 834 602	1 958 433	1 994 112
Securities available for sale	727 876	727 876	1 213 575	1 213 575
Securities at fair value through profit or loss	929 934	929 934	594 368	594 368
Other assets	12 504	12 504	21 750	21 750
Financial liabilites				
Due to other banks	177 063	177 063	264 399	264 399
Due to clients	6 608 295	6 607 457	4 288 563	4 264 383
Debt securities issued	1 950 183	1 949 640	2 015 974	1 952 620

Method of determining fair values of financial assets as at 31 December 2007:

SKK '000	Market value	Own model with reference to market rates	Own model without reference to market rates	**Total**
Due from customers	-	4 834 602	-	**4 834 602**
Securities available for sale	532 706	193 609	1 561	**727 876**
Securities at fair value through profit or loss	392 025	537 909	-	**929 934**
Financial derivatives	-	560	-	**560**

Method of determining fair values of financial assets as at 31 December 2006:

SKK '000	Market value	Own model with reference to market rates	Own model without reference to market rates	**Total**
Due from customers	-	1 994 112	-	**1 994 112**
Securities available for sale	779 994	432 020	1 561	**1 213 575**
Securities at fair value through profit or loss	441 928	152 440	-	**594 368**
Financial derivatives	-	380	-	**380**

The following methods and assumptions were used in estimating the fair values of the Group's financial assets and financial liabilities:

Cash and balances with central banks
The carrying value of cash and balances with central banks approximate to their fair value.

Due from banks
The fair value of current accounts with other banks approximates to their carrying value. For amounts with a remaining maturity of less than three months, it is also reasonable to use the carrying value as an approximation of their fair value. The fair values of other loans and advances to banks are calculated by discounting the future cash flows using current interbank rates.

Due from customers
Loans and advances to customers are measured net of provisions for loan losses. The fair values of loans and advances to customers are calculated by discounting the future cash flows using the current market rates increased by risk interest margin by loans with variable interest.

Securities
Securities available-for-sale and securities at fair value through profit or loss are stated at quoted market prices.

Other assets
Other assets are measured net of provisions for uncollectible amounts. As other assets are short-term, their carrying value approximates to the fair value.

Due to other banks
The fair value of current accounts with other banks approximates to their carrying value. For other amounts owed by banks with a remaining maturity of less than three months, it is also reasonable to use the carrying values as an approximation of their fair value. The fair values of other deposits by banks are calculated by discounting the future cash flows using the current interbank rates for equivalent period.

Due to clients
The fair values of customer accounts are calculated by discounting the future cash flows using the current market rates.

Debt securities issued
The fair values of liabilities from debt securities issued are calculated by discounting the future cash flows using the current market rates.

41. SIGNIFICANT POST BALANCE SHEET EVENTS

Loan of SKK 2 300 000 thousand mentioned in the note 38 “Financial instruments - Credit risk” was transferred and fully repaid on 22 April 2008 and the total assets amount of the Group has decreased by the same amount.

Except for the event described above, no other subsequent event occurred, which would have effect on the financial statements as at 31 December 2007.