



UNITED IN TRUST.

ANNUAL REPORT 2007

	Austria
	Bosnia and Herzegovina
	Croatia
	Czech Republic
	Hungary
	Romania
	Serbia
	SLOVAKIA
	Slovenia
	Ukraine

Vysoká 9

SK-810 00 Bratislava

Tel.: +421/2/5965 1111

Fax: +421/2/5441 2453

VOLKSBANK Slovensko, a.s.

www.volksbank.sk

market@volksbank.sk

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BRIDGES THAT BRING US ALL CLOSER TOGETHER.

A hand outstretched towards another human being bridges the distance between people.
A direct and sincere look in other people's eyes spans the abyss between hearts.
An accommodating step makes a bridge to a better understanding.

We build bridges to be closer to one another. They are the evidence not only of the human building skills, historic milestones but also the eternal struggle of the man to be in touch with other human beings.

And actually, it is quite simple: we need one another. We need to sense the intimate confidence of other human beings. So the bridges and trust bring us all closer together.

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07

FOREWORD FROM THE MANAGING BOARD

Dear Clients, Shareholders and Friends,

In 2007, the Slovak Republic recorded the strongest economic growth in its history. The real GDP growth reached 9.2 %, the SKK exchange rate became much stronger against Euro and the registered unemployment rate decreased to the historical minimum of 7.76 %. Extraordinary results were also achieved in the balance of industrial production and exports, with Slovakia continuing to remain a very attractive country for major foreign investments. The above positive trends were reflected in the rise of domestic consumption and increase in living standards of the general population.

The favorable economic development of Slovakia was also reflected in the results of VOLKSBANK Slovensko, VOLKSBANK Slovensko made use of this opportunity and, in accordance with the International Financial Reporting Standards, it posted a pre-tax profit of SKK 392.5m, which compared with the same period of the last year represents an increase of 33 %. On a year-on-year comparison, the Bank's balance rose by 7 % and amounted to SKK 38.8bn at the end of 2007.

The positive trend of the Slovak economy also influenced the interest in credit financing both on the part of general population and entrepreneurs. In the area of retail credits we focused on providing housing loans, thereby responding to an increasing need of the Slovak population to secure financing of purchase or reconstruction of homes. And we were successful indeed, achieving a 60% year-on-year increase in the volume of housing loans in 2007.

Compared with the previous year, the volume of deposits rose by 9 %, whereas the greatest share of the growth could be attributed to deposit volumes on current and term accounts.

Along with the rapid growth of the Slovak economy, the segment of sole traders and small enterprises also dynamically develops in term of quantity and quality. For these clients, with the volume of loans was rising by 48 % on a year-on-year basis.

We are well aware of the fact that clients, either the current or potential ones become increasingly more demanding and require not only state-of-the-art products, but also a professional counseling and comfortable and expedient contact with the Bank. Throughout a year, we offered professional training courses to our employees not only to increase their capabilities, but also their communication and other sales skills.

In 2007, we proceeded to a marked redesign of our points of sale. Our point of sale in Aupark, Bratislava, the largest shopping center in Slovakia, was the first to gleam in new splendor. We tried to make sure that in the environment filled with light, pleasant colorfulness and modern austerity, the clients experience the Bank's professionalism as well as its „human dimension.“



From left to right:
Dipl.- Kfm. Manfred Gram, Mag. Dr. Kurt N. Kapeller, Dr.jur. Barbara Neiger, MBA

We offered a new e-banking interface which became more comprehensive and more attractive in terms of color to clients preferring a virtual contact with the Bank. We also extended the functionality of homebanking service, which was mainly appreciated by our corporate clients. We also introduced a new system of submitting applications for e-banking which means that our clients' requests are handled more rapidly and efficiently.

In the sector of corporate finance, VOLKSBANK Slovensko is traditionally focused on the segment of small-to-medium-sized enterprises. In 2007, due to its active acquisition effort, the loan and deposit volume increased by 32 % and 7.5 % respectively. In the segment of international clients (foreign companies operating in Slovakia), the Bank "booked" a 56 % increase in the volume of loans, while the volume of deposits rose by 49 %. These achievements, too, prove that VOLKSBANK Slovensko offers an exceptional care to clients coming from the countries of our shareholders, namely Austria, Germany, France and Italy. All the services are provided in their native languages, which means that their activities are not impeded by language barriers.

An important project of 2007 was the implementation of the EU MiFID (Markets in Financial Instruments Directive), regulating dealings in the financial instruments markets. Due to our extraordinary effort, all the challenges were met and so we managed to introduce the MiFID into business life within an extremely short period of time.

In real estate financing, VOLKSBANK Slovensko has become a reliable and experienced partner of major developers real estates. The Bank's results in this area are really impressive: a 241% and 200% year-on-year increase in loans and earnings respectively and a 75 % year-on-year increase in financed projects. The "youngest" area of our activities – as the Bank became intensively involved in project financing as recently as 2005 – has a great perspective of growth in the future period.

In the sector of Risk management, VOLKSBANK Slovensko successfully finished the centralization of back-office activities related to both, credit risk administration and mortgage banking. This resulted in a significant increase of efficiency in processes and in a higher data-quality as well.

During 2007, within the ongoing BASEL II project a special attention was paid to adapting the Bank's information systems to IRB approach, as well as to the preparation of ICAAP implementation. In the area of operational risk, VOLKSBANK Slovensko updated and drafted BCP (Business Continuity Plans) which included process analysis, risk mapping and risk assessment of selected processes. As a part of internal control system methodology was developed and implemented and subsequently Internal Control Systems for individual Bank's departments were developed.

FOREWORD FROM THE MANAGING BOARD

We also paid great attention to increasing automation of processes. In the course of 2007, we implemented the project of automated processing of credit documentation (scanning) and automated processing of payment orders in the MIDAS banking system. Both implementations mean acceleration and improvement of processes and, last but not least, a significant labor reduction.

One of the Bank's important activities is the preparation for EURO changeover, European common currency which should take place in Slovakia on January 1, 2009. As this change will affect all the Bank's activities, preparations started as early as 2007. A project team composed of representatives of all the Bank's units was established, a detailed, comprehensive project plan is being elaborated and some tasks started to be executed, especially in the area of IT. Although the greatest portion of the project will be implemented in 2008. For VOLKSBANK Slovensko, it provides a good basis to manage the EURO changeover smoothly.

For VOLKSBANK Slovensko the year 2007 was a turning point: on November 1, 2007, after 16 years of achievements in the Slovak market, ĽUDOVÁ BANKA changed its name to VOLKSBANK Slovensko. One of the reasons for the Bank's rebranding was a more transparent identification with the strong international financial group of VOLKSBANK. Another reason represented the effort to formalize the Bank's new strategic direction focused on modern, sophisticated products meeting the requirements of its customers and the market. VOLKSBANK Slovensko is small enough to have a personal relationship to its clients and big enough to meet all their requirements.

Dear customers, partners, friends and employees of our bank,

Let us extend our gratitude to all our employees that they took up the challenge of a new strategy of development of our financial institution and undertook to meet it with enthusiasm. We take pride in all employees of VOLKSBANK Slovensko who create values for our clients and shareholders while finding pleasure and self-assertion in their work. We would like to assure them that the Bank's Board of Directors supports every initiative, creativity and ideas leading to our Bank's prosperity. We are convinced that the journey we set out together in 2008 will lead us to further success and prosperity.

Board of Directors, VOLKSBANK Slovensko, a. s.

KEY FIGURES

in millions of SKK	2006	2007
Total Assets	36,274	38,779
Amounts Owed to Customers	27,048	29,590
Loans and Advances to Customers	21,503	26,306
Operating Income	1,553	1,725
Operating Expenses	1,075	1,230
Profit before Taxation	295	393
Number of Staff	654	648
Number of Branches	48	48

Data extracted from financial statements prepared in accordance with International Financial Reporting Standards where shares in associated companies are recognised using equity method.

SHAREHOLDERS

share in percent	
Volksbank International AG	91,0
Volksbank Donau-Weinland	0,1
Volksbank Ötscherland	1,7
Waldviertler Volksbank	0,1
EM.RO. POPOLARE S.P.A.	3,4
Banca Popolare di Vicenza	2,3
Small Shareholders	1,4
Total	100,0

December 31, 2007

INTERNATIONAL NETWORK

VOLKSBANK Slovensko, a.s. (till 1. November 2007 ĽUDOVÁ BANKA, a. s.) has prospered in the Slovak market since 1991. The bank's main shareholder is Volksbank International AG.

Founded in 1922 by commercial lending cooperatives Volksbank AG (VBAG) is majority-owned by more than 60 independent Austrian "Volksbanken" (cooperative banks). Today VBAG is the central institute of one of the most important banking groups in Austria and an international commercial bank. Leading the way into growing markets, VBAG was one of the first banking institutions to begin expanding into Central and Eastern Europe as early as 1991.

Volksbank International AG (VBI), located in Vienna, Austria, is majority-owned by VBAG (51 %), the remaining shares are equally held by the German DZ BANK / WGZ BANK and the French Banque Fédérale des Banques Populaires (both 24.5 %). VBI is managing a successful and steadily expanding network of more than 500 sales outlets in nine Central and Eastern European countries: Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia and Ukraine. As of 2007 their total assets amount more than EUR 9.5 billion. More than 5,000 employees offer a full range of modern banking products and services to both private and corporate clients.

In 2007 Volksbank International AG strengthened cooperation with its Austrian, German, French and Italian partners by intensifying CEE UNLIMITED. Aimed at promoting referred business this service provides bank officers with the necessary know-how and essential tools for starting and conducting business in Central and Eastern Europe. Customers – mainly SMEs – are still advised by their usual bank but gain access to banking services throughout the CEE network. The cooperation is convenient, professional and – of course – in the client's mother tongue.

One of the various services offered by CEE UNLIMITED is CEE ACCOUNT OPENING. Bilingual CEE CONTRACTS (in German, English, French or Italian and the respective local language) make opening accounts easy. Customers have immediate access to their account without the inconvenience of drawn-out formalities or unnecessary delays. Multilingual CEE SPECIALISTS facilitate cooperation between VBI banks and foreign customers. Highly specialised affiliates provide personalised services in the fields of leasing, real estate, fund management, insurance and investment banking.

However size isn't everything and we aim to provide more than simply an extensive network of banks. More importantly, VBI is committed to helping our customers achieve business success, which is why having personal contact with our clients, providing reliable service and building mutual trust and reliability are our primary objectives. Our highest values are the professional quality of our services and fostering long term relationships with our clients. Volksbank International and CEE UNLIMITED stand for unique services that ensure that international clients feel "at home" doing business abroad.

GOVERNING BODIES

SUPERVISORY BOARD

CHAIRMAN

Dr. Michael Oberhummer

VICE - CHAIRMAN

Mag. Walter Keindl

1st Vice-Chairman
till May 2007

Mag. Gerhard Wöber

2nd Vice-Chairman

MEMBERS

prof. Ing. Milan Buček, DrSc.

Dr. Fausto Maritan

Mag. Harald Beyer

from May 2007

Dr. Wolfgang Hofstetter

from August 2007

Mag. Hans Janeschitz

till May 2007

Bernard Huberdeau

till May 2007

Josef Preißl

till May 2007

Manfred Wiebogen

till May 2007

MANAGING BOARD

CHAIRMAN

Mag. Dr. Kurt Nikolaus Kapeller

Director

MEMBERS

Dr.jur. Barbara Neiger, MBA

Director

Dipl.- Kfm. Manfred Gram

Director

ECONOMIC DEVELOPMENT

SLOVAK ECONOMY IN 2007

2007 was another record-breaking year for Slovak economic growth. A strong impulse from industry, especially its export branches, translated into a pronounced year-on-year improvement in the foreign trade balance.

In late March 2007 the strengthened SKK stabilised at the level of 32.700 SKK/1 EUR following the extraordinary direct interventions by the National Bank of Slovakia (NBS). For the rest of the year, the SKK exchange rate remained within a broad but relatively stable band, with brief exceptions not moving beyond 33 to 34 SKK/EUR. The significant more than double strengthening of SKK, taken on the year-on-year basis, helped stave off the effect of last year's oil fever on Slovak inflation until October. Inflation measured by the harmonised index of consumer prices slowed down last year to the long-term August record of 1.2 % on a year-on-year basis. Also in August 2007, for the first time the 12-month average of this indicator dropped below the level representing the Maastricht reference criterion for adoption of EUR (the average of three EU member states with the lowest level of inflation increased by 1.5 percent points).

The NBS strove to cushion last year's New Year appreciation pressure with two 1/4-point reductions of its basic two-week rate at the end of March and April to 4.25 %. The decrease in interest rates on the inter-bank market was briefly even more pronounced, from the end of February to mid April (1-month BRIBOR plunged to 3.76 %), since the NBS strove to dampen the appreciation pressure on the SKK exchange rate by reducing the volume of regular two-week sterilized repo tenders accepted. This made the inter-bank rates plummet briefly even well below the 4 percent level. Along with the stabilisation of the NBS's key rate, the situation on the Slovak inter-bank monetary market cooled for the rest of the year.

Although, at the end of the year, the inflation dynamic again gathered pace, gradually all the way to the 2 percent level, the NBS failed to respond to the development by changing its key rate, arguing that rather than the domestic demand fuelling inflation the growth was driven by external factors – rising oil prices and price hikes on the agricultural commodity markets. The increase in fuel prices, as well as in groceries, was among the major inflationary influences at the end of the year, although in the case of oil prices the favourable effect of the year-on-year stronger SKK exchange rate could be felt until the end of October. The year-on-year increase in grocery prices accelerated to over 7 percent in December, although when compared with other CEE countries this was not all that high.

After adjustment for extraordinary one-off influences in 2007, real Slovak GDP increased by 10.4 %. It was the eighth successive year of an accelerated year-on-year actual rate for the Slovak economy. This was largely due to strong foreign demand, although the real growth in retail revenues (4.8 %), as well as household final consumption expenditure (7.5 %), attest that the improved economic situation was also felt by consumers. As opposed to other countries in the region, the more sober real increase in the average actual wage in industry (3.0 %) corresponded to the increase in work productivity. At the more than 2 % year-on-year growth of employment, the registered unemployment rate dropped to its historical minimum of 7.76 %.

The strength of export industries also contributed to last year's more than 15 % increase in Slovak industrial production. Production of rubber and plastic materials (12.3 %), metal and metal goods production (12 %) benefited from the boom on the international markets. The real drivers of Slovak industrial production, however, were the industries of machinery and equipment manufacture (17.2 %), manufacture of electrical and optical equipment (17.1 %), but, above all, production of transportation vehicles (+58.4 % compared with last year). The growth in the largest export industries was reflected in a significant year-on-year reduction in the passive foreign trade balance. With the year-on-year increase in export volumes by 15,2 percent, and the 10.2 percent increase in imports, last year's foreign trade deficit was reduced to approx. 1 % of GDP. In comparison with 2006, the foreign trade deficit amounted to SKK - 21,4bn approx. less than a third of the prior year's value.

ECONOMIC DEVELOPMENT

EXPECTED DEVELOPMENT IN 2008

The 2008 highlight will be the decision to adopt the common European currency – the Euro. The report assessing fulfilment of the five entry criteria should be released in May. The definitive go-ahead for adopting the Euro in Slovakia should be sealed by the EU Council of Finance Ministers in June or July.

Meeting three of the criteria for adoption of the common European currency has long been beyond doubt: Slovak interest rates have been approaching the level of rates in the Eurozone; also safely below the required level are not just the level of public debt, but also the public finance deficit. The two remaining criteria infuse the process of adopting the Euro with a touch of uncertainty. Since entering the exchange rate mechanism (ERM II) in November 2005, by March 2008, the SKK had gained over 16 percent.

Due to revaluation of the fluctuation band central parity in March 2007, even such an appreciation or the NBS's recurrent interventions against the stronger SKK should not jeopardise the assessment of Euro-readiness. Despite the vague definition of the exchange rate criterion, this is also supported by the fact that all the measures in the FX market were discussed with the European Central Bank.

In spring 2008, the greatest uncertainty was linked with the inflation criterion which proved an obstacle in the route of the Baltic countries towards the common currency zone. Not even Slovakia managed to steer clear of the adverse impact of rising groceries and fuel prices on the growth of inflation. Despite the fact that, in March 2008, inflation as measured by the Harmonised Index of Consumer Prices (HICP) exceeded the 2.2 % level, its 12-month average (2.2 % in March) should easily suffice to meet the inflation criterion.

Although Slovakia is unlikely to exceed the record-breaking 2007, with its 10.4 % dynamic of real GDP growth any time soon, 2008 should not afford any reasons for scepticism. In particular, the multi-year upgrading of capacities and trend towards export-building in the automotive and electrical industries, and their gradual progress towards attaining full capacity, should contribute to the expected approx. 7 % increase in real GDP, as well as to further improvement in the foreign trade balance.

In addition to an extraordinary contribution to the growth of the real economy, the new investments also contribute to an increase in Slovakia's labour productivity. It, too, belongs among the reasons underpinning the expectation that, when the conversion exchange rate at which Slovakia should adopt the Euro as of January 2009 is announced in mid 2008, Slovak savers can look forward to it being not the revalued central parity (35.442 SKK/1 EUR) but a markedly stronger rate approaching 32 SKK/1 EUR.

BUSINESS ACTIVITIES

RETAIL BANKING

In accordance with the determined strategy in the area of retail products, in 2007 VOLKSBANK Slovensko focused on housing loans, whereby we responded to the increased need on the part of general population of financing purchase or renovation of property in three marketing-communication campaigns we offered our clients mortgages with special benefits mostly related to interests and fees.

The credit portfolio was extended by new products from the segment: we launched a retail credit combined with investment life insurance provided by UNIQA and the retail housing loan in EURO.

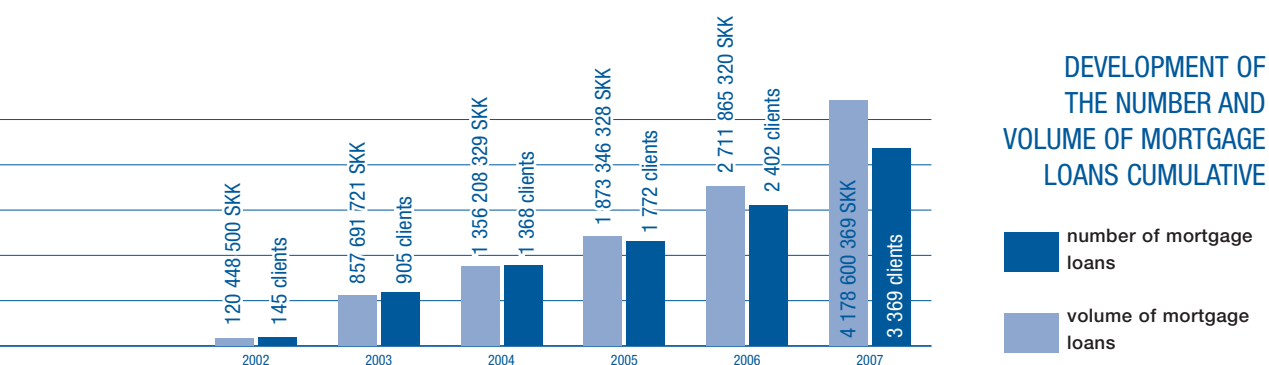
In the area of deposit products we strategically concentrated on structured guaranteed products LUBA Garant. In the course of the year we issued 3 issues amounting to SKK 305m which were within a short period of time sold to the Bank's clients, as well as non-clients.

Very successful, from the business point of view, became the 12-month term deposit combined with the insurance product of our sister insurance company VICTORIA-VOLKSBANKEN Poistovňa, a.s., with the client gaining bonus of 0.50 % p.a. compared with the standard interest rate.

In the segment of sole traders and small enterprises we took into consideration the dynamic development in this business area and changed the conditions of Mikrouver, which is a complex credit product including, according to clients' needs a current, operational or investment credits.

We achieved significant business success with the housing renewal credit. It is a long-term investment credit for housing renewal (especially for the so called prefabricated panel houses), which are provided to associations of flat owners, caretaker companies and housing cooperatives.

Throughout the year, we concentrated on updating and extending the external distribution network as our great expectations for the future rest with this sales channel. The Bank provides its external resellers with full support, including training programs.



We are well aware that despite the fast advancing automation, the banking business is eventually „about people“. Therefore, in the previous period, too, we emphasized continuous education of retail staff. We introduced a coaching program which will lead to a higher quality of professional as well as communication skills.

We believe that an important point in the client care is the new concept of design of our points of sale which not only involves a visual effect but was also focused on increasing comprehensiveness, orientation in space, while allowing a more immediate contact between the client and reseller. The first branch executed under this new design concept is the office in the Bratislavian shopping center in Aupark. In the future period, all points of sale will be renewed in the same vein across Slovakia.

In the Private banking area, which includes financial counseling, our employees owing to cooperation with the Department of Structured Products of Volksbank Wien, managed to extend their product portfolio and thereby offer their clients more extended opportunities of profitable investments combined with improved investment counseling.

The offering of shares funds was enriched by two products of caretaker company Volksbank Invest. The bond fund VB-GoEast-Bond and the shares fund VB-GoEast-Invest are focused on perspective CEE markets.

ALTERNATIVE SALES CHANNELS

In the area of the use of payment cards, 2007 confirmed that clients, to an increasingly greater extent, use payment cards for cashless transactions and that the use of cards for ATM cash withdrawals is diminishing in frequency. This trend can also be corroborated by statistical data from VOLKSBANK Slovensko: whereas the volume of payments on POS terminals rose on a year-on-year basis by 89 %, the volume of cash withdrawn by clients from ATM's rose by „only“ 25 %.

An interesting trend is also apparent in the issuing of payment cards: although the overall number of payment cards issued rose by 6 %, the number of credit cards issued rose by 37 % on a year-on-year basis. Thus clients increasingly frequently appreciate the main benefit of using a credit card – to have „extra“ money without having to be concerned about possible unchecked spending on cards.

Last year we became the first bank in Slovakia to offer companies an innovation –a Diners Club Business charge card, a new card product from the Diners Club Company.

BUSINESS ACTIVITIES

In the area of e-banking, we revised the graphic interface of the system and adapted it so that the clients find it easier to navigate and with greater facility of use. Corporate clients were no doubt satisfied with the homebanking upgrade with its functionality extended to include the option of checking the current balance on accounts. Due to the new system of submitting applications for e-banking, the process of dealing with clients' requests was made more rapid and more efficient.

CORPORATE BANKING

Corporate banking in VOLKSBANK Slovensko consists of three target segments: small to medium-sized enterprises, International Clients and Large Tier Corporates.

In 2007, VOLKSBANK Slovensko strengthened its position in Corporate Banking in the target segment of small- to medium-sized enterprises, not only Slovak but also foreign companies established in Slovakia, primarily Austrian, German, French and Italian.

The developments in the Slovak economy have brought increased requirements on the part of customers with regard to financial products and related professional counselling. As part of our effort to provide high-quality services in all regions across Slovakia, last year we carried out a personnel upgrade of all five Corporate Centres (i.e. Bratislava, Trenčín, Nitra, Banská Bystrica and Košice) to ensure that, in addition to a high level of professional skills, our staff are able to provide our customers with information in foreign languages.

By the end of the year, we enriched the product portfolio by including new service programs for corporate clients. The Corporate Active and Corporate Complete programs comprehensively meet the requirements of small- to medium-sized businesses in respect of banking services which they use virtually on a daily basis in performing their business.

In 2007, also, we engaged in an active acquisition initiative aimed at acquiring new business clients in all parts of the country. This effort has borne the desired fruit in the form of a significant increase in both the volume of loans and deposits within the segment of small-to medium-sized enterprises, as well as in the segment of International Clients.

3) 000

2) 000

1) 000

0

2005

2006

2007

18 546

21 503

26 306

DEVELOPMENT OF LOAN VOLUME (NETTO) IN 2005 - 2007

(in SKK million)

We are very gratified that, last year, VOLKSBANK Slovensko, as a part of international companies, took part in multiple syndicated credits.

Last year, as a result of an enthusiastic and responsible work effort on the part of all our employees, we initiated dynamic growth in all of our target segments and we are convinced that this trend will be attested in the coming year by increased profit in all sectors.

TREASURY

One of the most important activities of the Treasury Unit was the implementation of the EU MiFID (Markets in Financial Instruments Directive), regulating activities on the financial instruments markets. Although the introduction of these principles into real life within the period required by the law seemed initially impossible, by means of increased efforts on the part of the work team (comprising employees from virtually all units), the deadline was met. VOLKSBANK Slovensko became one of the first banks to start to employ the MiFID regulations in daily contact with customers.

The answer to the demand from retail but also from institutional customers for structured products with investment guarantees, interest and the option of acquiring a complementary benefit lay in the issue of underlying equity amounting to EUR 9m.

In 2007, pursuant to the Banking Law, VOLKSBANK Slovensko released another issue of mortgage bonds amounting to SKK 1.31bn.

In the second half of the year we were busy implementing the new Back-Office and partially a Front-Office system Spectrum. These activities will be completed in 2008.

In 2007 also, customer interest was concentrated on hedging transactions which both importers and exporters used to cover their interest risk. Besides that, clients also made use of the option of hedging interest risks with Slovak crowns and foreign currencies by means of derivative products.

As far as dealing with customers was concerned, an important introduction was that of relationship management, intended to maximise profitability, profit and, above all, to satisfy demanding customers. Part of this new approach consisted of sponsoring customer workshops in Bratislava and Kosice where our business partners could gain information on Euro-adoption in Slovakia, changes concerning investment trades related to MiFID regulations, as well as an ample selection of Treasury products.

BUSINESS ACTIVITIES

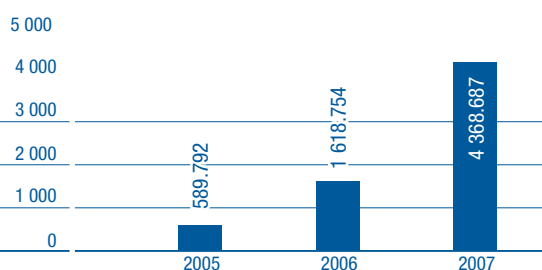
PROJECT FINANCING

In recent years, the Slovak Republic, in tandem with the rapid growth of its economy, has recorded an unprecedented increase in real estate developments not just of the residential type, but also multi-functional buildings and business premises. Despite the fact that it is only three years since VOLKSBANK Slovensko became closely involved in these activities, over this brief period it has become an experienced, trusted and creative partner of the major development companies, not only from Slovakia, but also from abroad (half the new clients of the Project Financing Unit have foreign backgrounds).

In Project Financing, VOLKSBANK Slovensko concentrates mainly on properties intended for housing. Last year the portfolio of such projects almost doubled. Thus we became a traditional partner in financing fun-shopping centers with the business area financed doubling on 2006. In the area of project financing, during the period just ended, VOLKSBANK Slovensko, also implemented its first construction of a logistics park.

In former years the intensive construction development related mainly to the capital city of Bratislava and, to a certain extent, some of the larger Slovak cities. With the increasing standard of living in the Slovak regions, development outside these locations also got under way. VOLKSBANK Slovensko was quick to respond to the situation and succeeded in extending its business beyond Bratislava. Over half of last year's new projects were implemented in regions outside of Bratislava.

Currently the clients – both large as well as small companies – expect more than just loan financing from the banks collaborating with them. They also require high levels of professional counselling from experienced bank staff throughout the phases of project-implementation. VOLKSBANK Slovensko is able to offer them a “well orchestrated” team of employees who are well versed in the business and work with great enthusiasm and commitment. And that is the best guarantee of further positive development of project financing in our bank.



VOLUME OF LOANS AWARDED UNDER THE PROJECT FINANCING IN 2005 - 2007

(in SKK million)

PAYMENT SYSTEM

One of the most important services VOLKSBANK Slovensko provides for its customers across all segments is, of course, the domestic and international payment system. Last year, even in this area, the bank concentrated on increasing the use of electronic channels, including e-banking, in all customer segments. The customers can choose, according to charges, from multiple options how to execute their domestic and international payments via Internet which, in practice, is not only more comfortable and secure, but also cheaper. This strategy is successful which is borne out by the fact that the proportion of foreign transfer orders submitted electronically at the end of 2007 amounted to 71 % and the proportion of domestic orders was almost 79 %.

The last year once again carried under the sign of foreign payments: in the year-on-year comparison, foreign payments of VOLKSBANK Slovensko customers increased by 17 %, the number of incoming foreign payments increased by 8 %.

The transition to the unified Euro currency, Slovakia will probably complete in January 2009, will also significantly affect the payment system of VOLKSBANK Slovensko. We believe that all the preparations we started as early as 2007 will continue throughout the next year and will result in a seamless transition to the unified Euro currency, fully satisfying all our customers.

MARKETING AND COMMUNICATION

The most important event in the area of marketing and communication as well as the entire bank in 2007, became the change of the bank's name. On November 1, 2007 ĽUDOVÁ BANKA, a. s. became part of the Slovak banking market history, and was replaced by VOLKSBANK Slovensko, a.s.

One of the reasons for the bank's rebranding was the bank's more unequivocal unification with the strong financial group of VOLKSBANK. Another reason was the effort to express even formally the new strategic heading of the bank focused on the modern and sophisticated products, corresponding with the present requirements of customers and market. VOLKSBANK Slovensko has no ambition to become one of the "big" banks. It intends to convince its customers that it is small enough to have a personal relationship with each of its customers and big enough to meet all their requirements.

We believe that the new brand will impart a creative impetus to us all, in order to implement all the changes posed by the strategy of the bank's development as quickly as possible.

BUSINESS ACTIVITIES

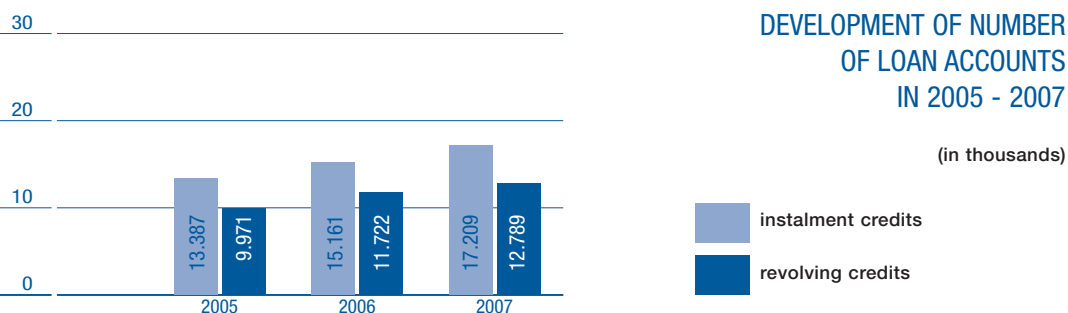
And, of course, as these changes are intended to improve our products, services, acceleration and improvement of processes, we believe that through these positive changes, our new brand will be positively perceived by both our current and future customers.

In addition to demanding activities connected with rebranding, in the area of communication, we paid a systematic attention to the sales of key retail products. A great commercial success was achieved mainly by the complex campaigns aimed at the sales of house loans and deposit structured products. In the area of support of sales for the segment of small-to-medium-sized enterprises we achieved an extraordinary efficiency due to the synergic effect of above-the-line communication and the direct mail addressing combined with telephonic addressing through the Call-Centre.

For some years now, VOLKSBANK Slovensko has had a working partnership with multiple Slovak universities and issues the MULTIPAS - a multi-purpose student card with a payment application. By the end of 2007, this state-of-the-art banking product combined with an account incorporating a program of services, was carried by more than 7,000 university students. Throughout the year, we communicated with this significant target group on the Internet employing competitive games which contained information about the bank's products and their use.

VOLKSBANK Slovensko is well aware that the care for corporate customers and Treasury or Private banking customers requires a special approach. Therefore, we were in touch with these sophisticated customers throughout the year not only through professional workshops and product promotions but also at social, cultural and sporting events.

In the past year, too, VOLKSBANK Slovensko continued to sponsor projects and events in the area of health-care, social care, culture and sports. Once again, we became the main partner of the nationwide charity project of Biela Pastelka (White Crayon), which is held by the Slovak Blind and Partially Sighted Union to support the blind and visually impaired. In addition to that, we offered financial and moral support to a great number of regional activities from the above mentioned activities across Slovakia.



INFORMATION TECHNOLOGY

In 2007, VOLKSBANK Slovensko made sustained efforts to implement the Front Office System project which is intended primarily for branch office staff, affording them a readily accessible 360-degree view of the client. Following its introduction into the live environment (in early 2008) employees will gain a useful instrument to assist in relationship management and an individual approach to every client. The implementation of the Front Office system should be reflected in rendering sales more efficient and ultimately in increasing profitability of every single client.

IT was one of the areas intensively involved in the process of the Bank's rebranding. With the "standard" workload and without any increase in the workforce, we managed within an extraordinarily short period of time to modify a multitude of systems so that from November 1, 2007 all systems were able to start operating using the new brand. This was accomplished due to the loyal and accommodating attitude on the part of IT employees for which they deserve much thanks.

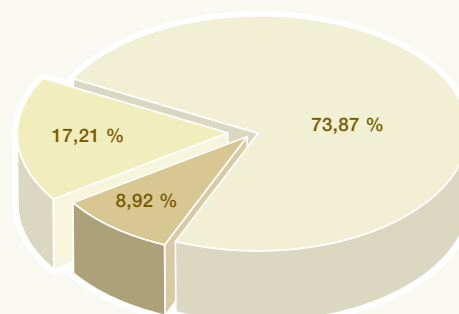
Other projects successfully implemented in the past period were aimed at making processes quicker and more efficient and, last but not least, at reducing labour. They were the automated processing of loan documentation (scanning) and the automated processing of payment orders in the central bank system MIDAS (Straight-Through Processing).

2008 will be extraordinarily demanding with regard to the inevitable modification to all the bank's systems due to transition to EUR as of January 1, 2009. If Slovakia is given the "go ahead" to join the European Monetary Union, the systems will have to be ready for dual pricing by mid-year. There is a tremendous challenge ahead of us but, in view of our previous achievements, we are positive that these demanding tasks can also be managed successfully.

STRUCTURE OF CREDIT PORTFOLIO BY CLIENT SEGMENTS AS AT DECEMBER 2007

in %

Corporate clients	73,87 %
Entrepreneurs and small business (micros)	8,92 %
Private clients	17,21 %



INDEPENDENT AUDITORS' REPORT



KPMG Slovensko spol. s r. o.
Mostová 2
P. O. Box 7
820 04 Bratislava 24
Slovakia

Telephone +421 2 59984 111
Fax +421 2 59984 222
Internet www.kpmg.sk

Translation of the Independent Auditors' Report originally prepared in Slovak

Independent Auditors' Report

To the Shareholders, Supervisory Board and Board of Directors of VOLKSBANK Slovensko, a.s.:

We have audited the accompanying financial statements of VOLKSBANK Slovensko, a.s. ('the Bank'), which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and the notes to the financial statements.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

1 April 2008

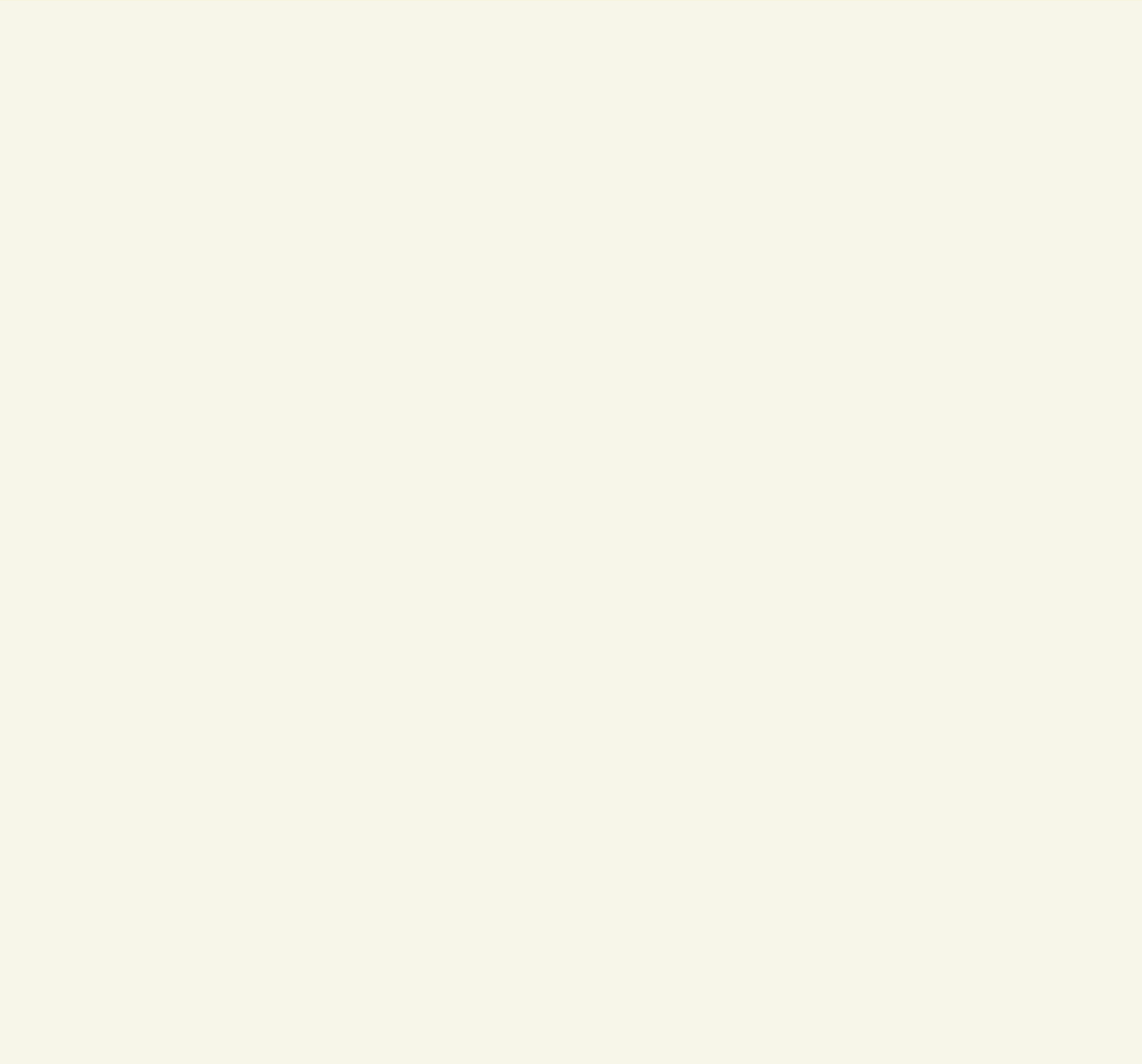
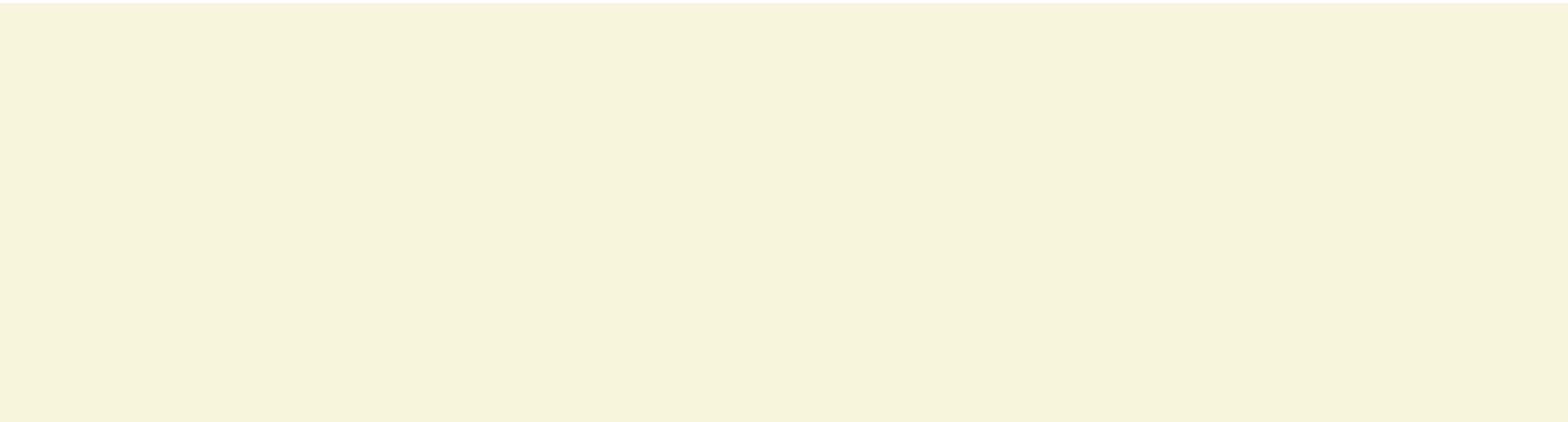
Audit company:
KPMG Slovensko spol. s r. o.
SKAU licence No. 96

Responsible auditor:
Ing. Richard Farkas PhD
SKAU licence No. 406

KPMG Slovensko spol. s r. o., a Slovak limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Obchodný register Okresného súdu Bratislava I, oddiel Sro, vložka E-4864/B
Commercial register of District court Bratislava I, section Sro, file No. 4864/B

ICD/Registration number
31 348 238
Evidenčné číslo licencie
auditora: 96
Licence number
of statutory auditor: 96



BALANCE SHEET AT 31 DECEMBER 2007

Sk '000	Notes	2007	2006
ASSETS			
Cash and cash equivalents	7	6,540,510	8,129,750
Trading assets	9	23,371	4,791
Derivative assets held for risk management	10	165,685	487,337
Loans and advances to banks	11	619,549	857,400
Loans and advances to customers	12	26,306,203	21,502,853
Investment securities	13	3,815,475	3,948,827
Investments in associates	14	241,889	213,090
Investment property	15	27,000	27,000
Property and equipment	16	935,995	1,016,854
Corporate income tax receivable	17	-	19,740
Other assets		103,284	66,596
		38,778,961	36,274,238

BALANCE SHEET AT 31 DECEMBER 2007 (CONTINUED)

Sk '000	Notes	2007	2006
LIABILITIES			
Derivative liabilities held for risk management	10	140,949	462,398
Deposits by banks	18	1,573,974	2,707,365
Loans received	19	118,732	199,312
Customer accounts	20	29,589,565	27,047,808
Debt securities issued	21	3,000,713	1,674,588
Provisions	22	44,513	36,824
Corporate income tax payable	17	54,722	-
Deferred tax liability	23	2,605	17,306
Other liabilities	24	201,129	155,473
		34,726,902	32,301,074
SHARE CAPITAL AND RESERVES			
Share capital	25	1,000,000	1,000,000
Share premium		1,170,300	1,170,300
Reserves	26	1,881,759	1,802,864
		4,052,059	3,973,164
		38,778,961	36,274,238

The financial statements, which include the notes on the pages 34 to 120, were approved on April 1, 2008 by:

Dipl.-Kfm. Manfred Gram
Member of the Board



Ing. Peter Jung
Person responsible for financial statements



Ing. Igor Kováč
Director of Finance Department



Ing. Marta Ráčová
Person responsible for accounting



INCOME STATEMENT YEAR ENDED 31 DECEMBER 2007

Sk '000	Notes	2007	2006
Interest income	28	1,856,471	1,514,194
Interest expense	29	(691,893)	(520,481)
Net interest income		1,164,578	993,713
Fee and commission income		548,941	504,641
Fee and commission expense		(92,670)	(84,702)
Net fee and commission income	30	456,271	419,939
Net trading income	31	91,502	141,127
Income from associates	14	29,777	26,279
Other expenses	32	(16,806)	(27,639)
		104,473	139,767
Operating income		1,725,322	1,553,419
Administrative expenses	33	(1,010,733)	(879,689)
Depreciation and impairment losses	16	(219,242)	(195,793)
Operating expenses		(1,229,975)	(1,075,482)
Operating profit before impairment losses on loans and advances		495,347	477,937
Impairment losses on loans and advances to customers	34	(102,785)	(182,956)
Profit before taxation		392,562	294,981
Income tax expense	35	(78,553)	(57,319)
Profit for the year		314,009	237,662
Basic and diluted earnings per share (expressed in Sk per share)	36	2,504	1,833

The notes on pages 34 to 120 form part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY YEAR ENDED 31 DECEMBER 2007

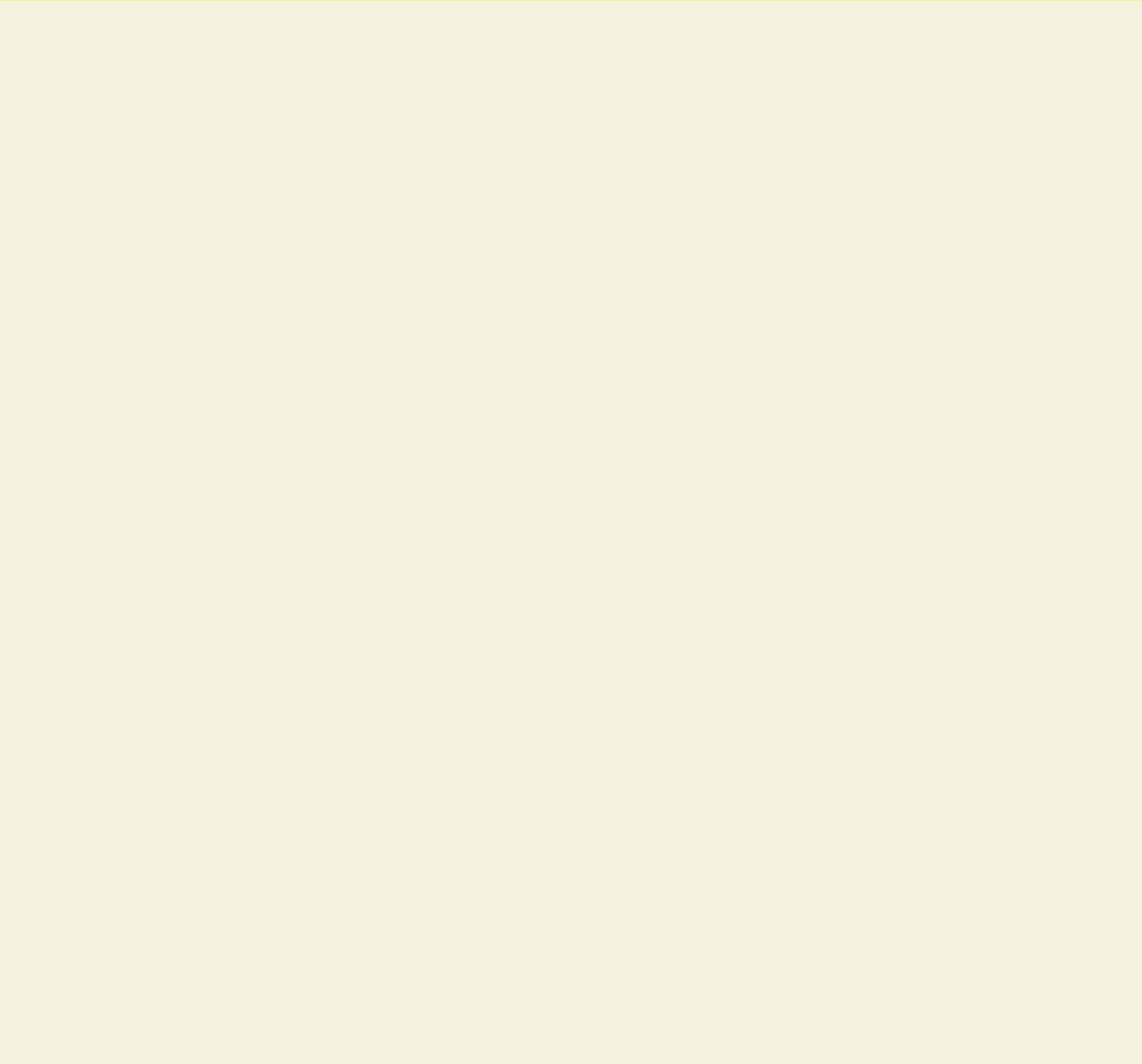
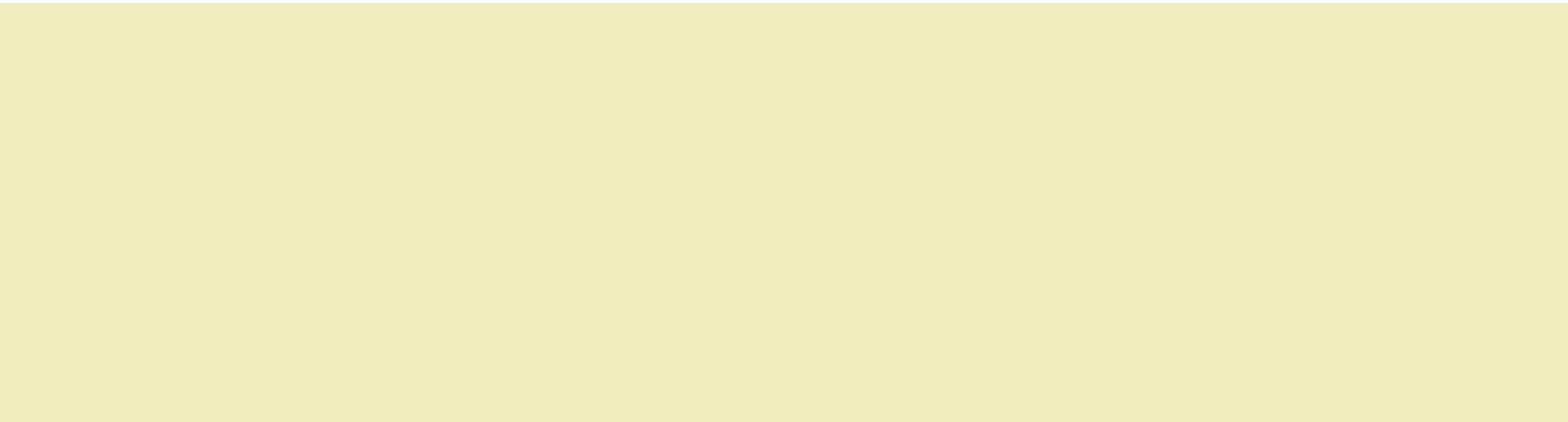
Sk '000	Share capital	Share premium account	Retained earnings	Legal reserve fund	Revaluation reserve	Hedging reserve	Other reserves	Total
At 1 January 2006	1,000,000	1,170,300	1,547,972	180,504	133,072	-	34,506	4,066,354
Dividends	-	-	(224,985)	-	-	-	-	(224,985)
Transfers	-	-	(22,455)	22,455	-	-	-	-
Net loss from available-for-sale assets, net of tax	-	-	-	-	(105,867)	-	-	(105,867)
Profit for 2006	-	-	237,662	-	-	-	-	237,662
At 31 December 2006	1,000,000	1,170,300	1,538,194	202,959	27,205	-	34,506	3,973,164
Dividends	-	-	(194,986)	-	-	-	-	(194,986)
Net loss from available-for-sale assets, net of tax	-	-	-	-	(39,302)	-	-	(39,302)
Net profit from revaluation of hedge derivatives, net of tax	-	-	-	-	-	628	-	628
Share of hedging reserves of associates	-	-	-	-	-	(1,454)	-	(1,454)
Profit for 2007	-	-	314,009	-	-	-	-	314,009
At 31 December 2007	1,000,000	1,170,300	1,657,217	202,959	(12,097)	(826)	34,506	4,052,059

The notes on pages 34 to 120 form part of these financial statements.

CASH FLOW STATEMENT YEAR ENDED 31 DECEMBER 2007

Sk '000	Notes	2007	2006
Cash flows from operating activities			
Profit before changes in operating assets and liabilities	37	697,889	693,883
Decrease/(increase) in trading assets		(18,580)	163,918
Decrease/(increase) in derivative assets held for risk management		321,652	(337,143)
Decrease/(increase) in loans and advances to banks		237,851	(367,144)
Increase in loans and advances to customers		(4,910,995)	(3,172,033)
(Increase)/decrease in other assets		(36,688)	11,525
(Decrease)/increase in derivative liabilities held for risk management		(320,673)	343,752
(Decrease)/increase in deposits by banks		(1,133,391)	456,006
Decrease in loans received		(80,580)	(55,614)
Increase in customer accounts		2,543,921	3,082,667
Increase/(decrease) in other liabilities		45,656	(59,351)
Corporate income tax paid		(9,720)	(58,857)
Net cash (used in)/from operating activities		(2,663,658)	701,609
Cash flows from investing activities			
Redemption of investment securities		83,639	77,706
Purchase of property and equipment		(140,788)	(149,328)
Proceeds on sale of property and equipment		904	815
Investments in associates		(476)	(960)
Net cash used in investing activities		(56,721)	(71,767)
Cash flows from financing activities			
Dividends paid		(194,986)	(224,505)
Issue of debt securities		1,326,125	435,416
Net cash from financing activities		1,131,139	210,911
Net (decrease)/increase in cash and cash equivalents		(1,589,240)	840,753
Cash and cash equivalents at beginning of year		8,129,750	7,288,997
Cash and cash equivalents at end of year	7	6,540,510	8,129,750

The notes on pages 34 to 120 form part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007

1. GENERAL INFORMATION

VOLKSBANK Slovensko, a.s. ('the Bank'), known as ĽUDOVÁ BANKA, a.s. until the name was changed on 1 November 2007, was incorporated and commenced trading in 1991. Volksbank International AG, a company with its registered office at Peregringasse 3, A - 1090 Wien, Austria, owns 91 % of the Bank's shares and other member companies of the Volksbank Group own a further 2 %. The ultimate parent company is Volksbank AG, also with a registered office at Peregringasse 3, A - 1090 Wien, Austria.

The principal activities of the Bank are the provision of banking and financial services to commercial and private customers in the Slovak Republic.

The Bank operates through 31 branches and 17 sub-branches in the Slovak Republic.

Other statutory information:

Registered office: Vysoká 9, 810 00 Bratislava

Income tax number: 17 321 123

VAT registration number: 2020412460

Associates

The Bank owns 24 % of the registered capital of VB LEASING SK, spol. s r.o., Bratislava, a company incorporated in the Slovak Republic which is engaged in equipment and vehicle leasing. In addition, the Bank owns 22.8 % of the registered capital of Team Nový Dom s.r.o., a company incorporated in the Slovak Republic which is engaged in real estate development.

In March 2006, the Bank acquired 24 % of the registered capital of IMMO-CONTRACT Slovakia, s.r.o., a company incorporated in the Slovak Republic and engaged in real estate activities. In December 2007, the Bank increased its share of the registered capital to 34 %.

Board of Directors

Mag. Dr. Kurt Nikolaus Kapeller

Dipl.-Kfm. Manfred Gram

Dr.jur. Barbara Neiger

1. GENERAL INFORMATION (CONTINUED)

Supervisory Board

Dr. Michael Oberhummer
Mag. Gerhard Wöber
Prof. Milan Buček
Dr. Fausto Maritan
Mag. Harald Beyer (from May 2007)
Dr. Wolfgang Hofstetter (from August 2007)
Mag. Walter Keindl (till May 2007)
Prok. Mag. Hans Janeschitz (till May 2007)
Mr. Bernard Huberdeau (till May 2007)
Mr. Josef Preissl (till May 2007)
Mr. Manfred Wiebogen (till May 2007)

The financial statements for the year ended 31 December 2006, prepared in accordance with Slovak accounting regulations, were approved on 10 April 2007.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

2. BASIS OF PREPARATION

(a) Statement of compliance

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

These financial statements are prepared as the financial statements required by Section 17 (a) of the Slovak Act on Accounting 431/2002, as amended.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- investment properties are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Slovak crowns, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Slovak crowns has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in notes 4 and 5.

(e) Comparative figures

The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to both periods presented in these financial statements.

(a) Foreign currency

Transactions denominated in foreign currencies are translated into Slovak crowns at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date. All resulting gains and losses are recorded in the income statement in Net trading income.

(b) Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(c) Fees and commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawn-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(f) Lease payments made

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(g) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(h) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits by banks, customer accounts, loans received and debt securities in issue on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

The Bank also derecognises certain assets when it writes off balances pertaining to assets deemed to be uncollectible.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market-observable prices exist and valuation models. The Bank uses widely recognised valuation models for determining the fair value of the more common financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

(vi) Identification and measurement of impairment

At each balance sheet date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are also collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including shares) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as deterioration in economic conditions or adverse changes in the payment status of borrowers or issuers in that group.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

Impairment losses on available-for-sale securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the income statement.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment losses attributable to time value are reflected as a component of interest income.

(vii) Designation at fair value through profit or loss

The Bank has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash, unrestricted balances held with the National Bank of Slovakia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to income. All changes in fair value are recognised as part of Net trading income in the income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(k) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same income statement line item as the hedged item).

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in income in the same period as the hedged cash flows affect income under the same income statement line item as the hedged item.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

If the derivative expires or is sold, terminated or exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in equity is recognised immediately in the income statement.

(iii) Other non-trading derivatives

When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in income as a component of net income on the other financial instruments carried at fair value.

(iv) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a 'host contract'). The Bank accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through income and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification and are presented in the balance sheet together with the host contract.

(I) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the agreement is presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo or stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

(m) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held to maturity or available for sale.

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit and loss or available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale and prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

(ii) Investments at fair value through profit or loss

The Bank carries some investment securities at fair value, with fair value changes recognised immediately in the income statement as described in accounting policy 3 (h) (vii).

(iii) Available-for-sale investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in income using the effective interest method. Dividend income is recognised in income when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in income.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is then recognised in income.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

(n) Investments in associates

Associates are companies in which the Bank has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 % of the voting rights of the enterprise. Investments in associated companies are accounted for using the equity method. Initially, investments are recognised at cost, including any goodwill identified on acquisition. The Bank's share of subsequent profits or losses of the associates is recognised in the income statement, and any share in post-acquisition changes in equity reserves is recognised in the relevant reserve of the Bank. When the Bank's share of losses exceeds the carrying amount on an investment in an associate, the carrying amount is reduced to nil and recognition of future losses is discontinued.

(o) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in income as incurred.

(iii) Depreciation

Depreciation is recognised in income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Years	Method
Buildings	20	straight-line
Furniture, fittings and equipment	4 - 12	straight-line
Motor vehicles	5	straight-line
Software	4	straight-line

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(p) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership, are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

All other leases are operating leases and the leased assets are not recognised on the Bank's balance sheet.

(q) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Properties are valued annually by an internal valuer, having a recognised professional qualification and appropriate experience.

Any gain or loss arising from a change in fair value is recognised in the income statement.

When an item of property and equipment is transferred to investment property following a change in its use, any gain arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity. On disposal of the item, the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

If an investment property becomes owner-occupied it is reclassified as property and equipment and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

(r) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised directly in income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(s) Deposits, customer accounts, debt securities issued and loans received

Deposits, customer accounts, debt securities issued and loans received are the Bank's sources of debt funding.

Deposits, customer accounts, debt securities issued and loans received are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost, including accrued interest.

When the Bank sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' agreement to repurchase the asset (or a similar asset) at a fixed price on future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

(t) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

A contingent liability is disclosed if, as a result of a past event, the Bank has a probable liability and its existence will only be confirmed by one or more events in the future over which the Bank has no control, or if the Bank has a present obligation as a result of past event but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

(u) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as they become due.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

(iii) Short-term benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(v) Earnings per share

The Bank presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of any dilutive potential ordinary shares.

(w) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on business segments.

(x) New standards and interpretations not yet adopted

The following recently issued standards, amendments to standards and interpretations are not effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 Operating Segments requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. IFRS 8 will become mandatory from 1 January 2009 and the Bank expects the new Standard not to significantly alter the presentation and disclosure of its operating segments in the financial statements.

- Revised IAS 23 Borrowing Costs. The revised Standard will require the capitalisation of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Revised IAS 23 will become effective from 1 January 2009, but is not relevant to the Bank's operations as the Bank does not have any qualifying assets for which borrowing costs would be capitalised.
- Revised IAS 1 Presentation of Financial Statements will require information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). Revised IAS 1 will become effective from 1 January 2009. The Bank is currently evaluating the impact.
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions will require a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements. It becomes mandatory for the Bank's 2008 financial statements but is not expected to have any impact on those statements.
- IFRIC 12 Service Concession Arrangements. The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 will become mandatory from 1 January 2008 and is currently not relevant to the Bank's operations as the Bank has not entered into any service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes. The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

only when they have fulfilled their obligations. The Interpretation will become effective from 1 July 2008 and the Bank does not expect the Interpretation to have any impact on the financial statements.

- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions will be effective for annual periods beginning on or after 1 January 2008. The Bank does not have any defined benefit assets and therefore this Interpretation should have no impact on the Bank's financial statements.

4. USE OF ESTIMATES AND JUDGEMENTS

These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for impairment

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3 (h) (vi).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by credit risk management.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters based on historical experience and current economic conditions.

The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3 (h) (v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as 'trading', management has determined that the Bank meets the description of trading assets and liabilities set out in accounting policy 3 (j).
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy 3 (h) (vii).
- In classifying financial assets as held to maturity, management has determined that the Bank has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3 (m) (i).

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT

(a) Introduction

The Bank has defined principles for handling the risks, processes and technical-organisational structures, risk objectives and limits. The Bank identifies on a regular basis, and subsequently manages, monitors, minimises and reports all risks relating to its use of financial instruments, as well as the risks arising from carrying on its activities. The Bank has exposure to the following main risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Information on monitoring, measurement, management and reporting of the above risks and on the management of the Bank's capital is set out below.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk Controlling Staff Unit and the Asset and Liability Committee (ALCO), which are responsible for developing and monitoring risk management policies in their specific areas.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, based on the annual plan which reflects changes in market conditions, products and services offered, processes and systems in the Bank. The Bank, through process standardisation, continuous trainings, management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Supervisory Board is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Supervisory Board is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to both the Supervisory Board and the Board of Directors.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit Risk Management sets the acceptable level of credit risk exposure, ensures the minimisation of potential losses that can arise from the credit transaction concluded with a client. This is ensured by organisation of credit risk management in the Bank, i.e. by procedures set out in the system of internal guidelines governing credit risk management, and supported by credit risk management systems.

The basis for credit risk management is the credit risk strategy, which reflects the business policy of the Bank. The credit risk strategy sets out the general framework, principles for handling risks, design of procedures, technical and organisational structures, operational management parameters, such as the business focus, risk objectives and limits. Credit risk management staff units have direct control over the internal guidelines governing the provision of credit and are involved in their design.

These guidelines define:

- Authorisation of a credit trade,
- Assessment of credit risk arising from a credit trade,
- Authorisation competences,
- Risk measurement methods,
- Limits,
- Monitoring and evaluation of loan portfolio performance,
- Projection of changes in the loan portfolio in relation to change in conditions for loan Provision or launch of new loan products,
- Backward and stress testing of rating and scoring models,
- Methods for the calculation and creation of loan loss allowances.

The monitoring of credit risk is the responsibility of the Credit Risk Management Division, the Credit Committee, the Board of Directors and the executive committee of the parent company.

Methods for credit risk measurement

The Bank assesses each client/trade at the moment of provision and subsequently using a rating tool with parameters specific for each client segment with the aim to eliminate (minimise) credit risk. The rating level relating to a client/trade reflects the level of security/type of collateral, maturity, assets funded by a credit trade and the type and validity of the contractual relationship. The Bank sorts clients/trades according to their rating from the best to the worst, where the

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

worst level represents the highest probability of loss. Risk arising from mortgage loans is monitored and managed separately. The Bank has defined the rating and controlling processes in its internal guidelines. The Bank continuously monitors, evaluates and considers whether limits on segment, exposure, rating level, concern and industry group are met.

Limit system

The Bank has a defined limit system in its guidelines governing credit risk management. Credit appraisal procedures include assessment of individual borrowers, establishing counterparty credit limits and obtaining collateral with the aim to mitigate credit risk. The Bank also continually monitors performance of the portfolio to ensure that prompt action can be taken to minimise potential losses.

To mitigate credit risk, the Bank uses the following types of limits on:

- a. clients according to segments and rating,
- b. groups of clients and interconnected clients,
- c. countries,
- d. banks,
- e. industry groups.

The gross amounts of individually impaired loans and advances to customers by risk grade are as follows:

Sk '000	2007	2006
Individually impaired		
Rating classification:		
grade 1	-	-
grade 2	-	-
grade 3	-	-
grade 4	-	-
grade 5	157,175	176,568
Without rating	-	-
Gross amount	157,175	176,568
Allowance for impairment	(122,014)	(155,124)
Carrying amount	35,161	21,444
Collectively impaired		
Rating classification:		
grade 1	-	-
grade 2	3,225	251
grade 3	412,026	195,025
grade 4	120,070	119,245
grade 5	538,896	429,734
Without rating	10,043	23,532
Gross amount	1,084,260	767,787
Allowance for impairment	(478,300)	(385,061)
Carrying amount	605,960	382,726

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sk '000	2007	2006
Neither past due nor impaired		
Rating classification:		
grade 1	4,966,751	6,774,574
grade 2	1,825,708	2,078,300
grade 3	16,666,568	10,590,098
grade 4	1,875,095	1,219,751
grade 5	26,146	36,637
Without rating	304,814	399,323
Gross amount	25,665,082	21,098,683
Allowance for impairment	-	-
Carrying amount	25,665,082	21,098,683
Total gross amount	26,906,517	22,043,038
Total allowance for impairment	(600,314)	(540,185)
Total carrying amount	26,306,203	21,502,853

Impaired loans and securities

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. These loans are classified into particular categories of the Bank's internal credit risk rating system.

Rating grades 1-5 reflect the degree of risk of financial loss from a borrower determined by probability of default ('PD'), where grade 1 represents the lowest risk and grade 5, default. The classification of borrower into rating category is determined by a combination of Hard Facts (i.e. financial ratios based on Balance Sheet and Income Statement) and Soft Facts (i.e. non-financial information relating to a borrower's business and its risk characteristics).

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The Bank has established a methodology, which defines triggers of impairment, receivables in default, their identification, evaluation and subsequent method of calculation of allowances for impairment in compliance with IFRS. The Bank creates portfolio allowances on non-significant receivables, where calculation parameters are revalidated regularly, based on the methodology. Allowances on significant items are created on an individual basis through discounting expected future cash flows using the effective interest rate.

The Bank assesses impairment on off-balance sheet items on an individual basis.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Recovery of delinquent receivables

Receivables whose repayment is threatened are administrated by the Legal Department. The Legal Department takes the necessary legal steps to obtain the maximum recovery from default receivables, including realisation of collateral, and acts as a representative of the Bank in creditor committees when the debtor is in bankruptcy.

Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when it determines that the loans/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/ issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller-balance standardised loans, charge off decisions generally are based on a product-specific past due status.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered security over assets, and guarantees. Estimates of fair values are based on the value of collateral assessed at the time of granting the loan and generally are not updated except when a loan is individually assessed as impaired.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Collateral, generally, is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Usually, collateral is not held against investment securities, and no such collateral was held at 31 December 2007 or 2006.

An estimate of the fair value of collateral and other security enhancement held against financial assets is shown below:

Sk '000	2007	2006
Loans and advances to customers		
Against individually impaired loans		
Real estate	50,556	44,880
Moveables	-	-
Pledged accounts, term deposits	-	-
Guarantees (bank, state)	-	-
Securities	-	-
Against collectively impaired loans		
Real estate	369,937	278,553
Moveables	262	404
Pledged accounts, term deposits	211	1,192
Guarantees (bank, state)	13,396	1,773
Securities	-	774
Against neither past due nor impaired loans		
Real estate	10,561,147	6,906,134
Moveables	20,621	104,965
Pledged accounts, term deposits	62,988	103,614
Guarantees (bank, state)	1,381,754	4,263,161
Securities	1,174,397	814,731
	13,635,269	12,520,181

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross) is shown below:

Sk '000	Loans and advances to customers		Investment securities	
	2007	2006	2007	2006
Services (financial)	10,218,554	8,261,304	3,189,764	3,727,060
Building industry	1,107,436	424,294	-	-
Consumer goods	2,077,536	1,521,071	30,813	31,207
Manufacturing companies	459,949	194,059	-	-
Mass media	421,780	224,867	-	-
Mining industry and power engineering	117,884	77,364	-	-
Private individuals	4,704,118	3,476,920	-	-
Retail and wholesale distribution	5,643,615	3,935,524	-	-
Wood processing industry	549,531	544,681	-	-
Tourism	110,217	109,226	-	-
Transport	752,324	2,444,257	-	-
Other	743,573	829,471	594,898	190,560
	26,906,517	22,043,038	3,815,475	3,948,827

Concentration by location for loans and advances is measured based on the location of the entity holding the assets, which has a high correlation with the location of the borrower. Concentration by location of the investment securities is measured based on the location of the issuer of the security.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sk '000	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2007	2006	2007	2006	2007	2006
Austria	1,835	5,596	-	-	443,017	38,244
Belgium	60,038	111,970	-	-	504	518
Croatia	-	18,990	-	-	-	-
Czech Republic	2,073	10,073	-	-	-	-
France	18,270	20,662	-	-	-	-
Germany	561	27	-	-	147,380	147,816
Italy	2,040	4	-	-	-	-
Canada	5,619	5,722	-	-	-	-
Russia	1,406	103	-	-	-	-
Slovakia	26,806,443	21,869,295	619,549	857,400	3,222,424	3,759,781
USA	4	2	-	-	2,150	2,468
Other	8,228	594	-	-	-	-
	26,906,517	22,043,038	619,549	857,400	3,815,475	3,948,827

Collateral

Before providing loans to commercial clients, the Bank generally requires collateral. The following collateral types are used:

- Securities
- Real estate
- State and bank guarantees
- Pledge over moveables
- Guarantees provided by third parties

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank's assessment of the net realisable value of the collateral is based on independent expert appraisals revised by Bank's specialists or internal evaluations prepared by the Bank. The net realisable value of collateral is derived from this appraisal using a correction coefficient to reflect the Bank's ability to realise the collateral when needed.

The exposure to the various business segments according to main product types is as follows:

Sk '000	31 December 2007			31 December 2006		
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Mortgage lending	3,706,877	21,671	3,685,206	2,381,596	13,035	2,368,561
Loans to individuals	919,632	236,281	683,351	1,053,840	223,063	830,777
Small business						
loans (Micro)	2,383,914	121,844	2,262,070	1,605,499	92,338	1,513,161
Large loans						
(Corporate)	19,896,094	220,518	19,675,576	17,002,103	211,749	16,790,354
	26,906,517	600,314	26,306,203	22,043,038	540,185	21,502,853

(c) Liquidity risk

Liquidity risk is the risk that the Bank will not have sufficient sources necessary for its operating activities.

Management of liquidity risk

The management of liquidity risk is included in the Bank's procedures for managing its assets and liabilities. Procedures include the regular projection and matching of future cash flows according to currencies. The management of the structure of assets and liabilities is the responsibility of the Treasury Division.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Information on cash flows is obtained from the Bank's reporting system, as well as from regular monitoring of cash flows from realised transactions which have an impact on the Bank's liquidity. Liquidity is monitored and managed according to currencies; the most common are the Slovak crown ('SKK'), Euro, ('EUR'), Czech crown ('CZK') and United States dollar ('USD'). The Treasury Division ensures optimal coverage of the compulsory minimum reserves account, and in the case of foreign currencies, optimal coverage of the Bank's nostro accounts. This is performed on a daily basis.

Other responsible organisational units participate in the Assets and Liabilities Committee, which discusses expected future trends in the Bank's assets and liabilities. Committee members provide information on matters, which could have an impact on the Bank's liquidity. Reports on the liquidity position of the Bank are produced regularly by the Risk Controlling Staff Unit, which is responsible for risk management.

The basic parameter used for liquidity risk management is an assets/liabilities ratio, which takes into account assets and liabilities realisable within 7 days in accordance with a basic scenario. The basic scenario assumes that movements in assets and liabilities will correspond with their historical trend. This is based on the current remaining period to maturity of assets and liabilities, or on statistical estimates of their further development.

Details of the reported Bank's liquidity ratio (its maximum/minimum values) at the reporting date and during the reporting period were as follows:

	31 December 2007 yearly	31 December 2006 yearly
End of period	0.52	0.82
Average for the period	0.68	0.68
Maximum for the period	0.94	0.82
Minimum for the period	0.52	0.55

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The remaining period to maturity of financial assets and liabilities at 31 December 2007 was as follows:

Sk '000	Within 1 year	1-5 years	Viac ako 5 years	Not specified	Total
Assets					
Cash and cash equivalents	6,540,510	-	-	-	6,540,510
Trading assets	-	23,371	-	-	23,371
Derivative assets held for risk management	165,685	-	-	-	165,685
Loans and advances to banks	619,549	-	-	-	619,549
Loans and advances to customers	11,537,572	8,354,733	6,312,566	101,332	26,306,203
Investment securities	386,425	2,647,018	749,655	32,377	3,815,475
Investments in associates	-	-	-	241,889	241,889
Other assets	103,284	-	-	-	103,284
	19,353,025	11,025,122	7,062,221	375,598	37,815,966
Liabilities					
Derivative liabilities held for risk management	140,949	-	-	-	140,949
Deposits by banks	1,573,974	-	-	-	1,573,974
Loans received	75,025	43,534	173	-	118,732
Customer accounts	29,339,858	249,707	-	-	29,589,565
Debt securities issued	20,615	2,980,098	-	-	3,000,713
Corporate income tax payable	54,722	-	-	-	54,722
Deferred tax liability	2,605	-	-	-	2,605
Other liabilities	201,129	-	-	-	201,129
	31,408,877	3,273,339	173	-	34,682,389

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The remaining period to maturity of financial assets and liabilities at 31 December 2006 was as follows:

Sk '000	Within 1 year	1-5 years	More than 5 years	Not specified	Total
Monetary assets					
Cash and cash equivalents	8,129,750	-	-	-	8,129,750
Trading assets	4,791	-	-	-	4,791
Derivative assets held for risk management	487,337	-	-	-	487,337
Loans and advances to banks	857,400	-	-	-	857,400
Loans and advances to customers	10,466,990	7,184,271	3,750,422	101,170	21,502,853
Investment securities	583,748	1,879,319	1,458,274	27,486	3,948,827
Investments in associates	-	-	-	213,090	213,090
Corporate income tax receivable	19,740	-	-	-	19,740
Other assets	66,596	-	-	-	66,596
	20,616,352	9,063,590	5,208,696	341,746	35,230,384
Monetary liabilities					
Derivative liabilities held for risk management	462,398	-	-	-	462,398
Deposits by banks	2,707,365	-	-	-	2,707,365
Loans received	303	191,779	7,230	-	199,312
Customer accounts	26,943,290	104,518	-	-	27,047,808
Debt securities issued	5,833	1,668,755	-	-	1,674,588
Deferred tax liability	17,306	-	-	-	17,306
Other liabilities	155,473	-	-	-	155,473
	30,291,968	1,965,052	7,230	-	32,264,250

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The remaining period to maturity of off-balance sheet items at 31 December 2007 was as follows:

Sk '000	Within 1 year	1-5 years	More than 5 years	Not specified	Total
Off-balance sheet					
Guarantees issued to banks	1,233	374,236	1,354	-	376,823
Guarantees issued to customers	432,024	126,002	38,309	-	596,335
Irrevocable letters of credit	1,372	107,619	-	-	108,991
Confirmed credit lines	5,839,498	2,119,276	-	-	7,958,774
	6,274,127	2,727,133	39,663	-	9,040,923
Notional amount of derivatives					
Currency swaps	2,199,547	-	-	-	2,199,547
Foreign exchange forwards	5,798,602	-	-	-	5,798,602
Options	2,423,247	-	-	-	2,423,247
	10,421,396	-	-	-	10,421,396

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The remaining period to maturity of off-balance sheet items at 31 December 2006 was as follows:

Sk '000	Within 1 year	1-5 years	More than 5 years	Not specified	Total
Off-balance sheet					
Guarantees issued to banks	1,403	-	-	-	1,403
Guarantees issued to customers	411,092	123,597	48,408	-	583,097
Irrevocable letters of credit	2,678	919	-	-	3,597
Confirmed credit lines	4,461,174	-	-	-	4,461,174
	4,876,347	124,516	48,408	-	5,049,271
Notional amount of derivatives					
Currency swaps	1,100,107	-	-	-	1,100,107
Foreign exchange forwards	2,828,779	-	-	-	2,828,779
Options	9,509,969	-	-	-	9,509,969
	13,438,855	-	-	-	13,438,855

(d) Market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, as defined by the parent company. The Risk Controlling Staff Unit ensures regular control over meeting the parameters set out in Bank's internal guidelines.

The Treasury Division's activities include complying with statutory requirements, liquidity management, covering customer orders (payments, refinancing) and, primarily, the sale of products to Treasury clients. Traded instruments include all transactions traded through OTC or on a stock exchange, such as foreign currency trades and transactions on the money and capital markets. These are categorised by the Bank as either trading or banking book transactions. Transactions in the trading book cannot exceed an internally set limit.

Management of market risk

Foreign exchange risk

Foreign exchange risk arises as a consequence of changes in foreign exchange rates, affecting the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to monitor market risk exposures within acceptable parameters.

The Bank's policy is to maintain an open net foreign currency position within limits accepted by the parent company. Limits are set for each individual currency, basket of currencies, as well as for the total foreign currency position of the Bank.

Interest rate risk

The main source of the Bank's interest rate risk results from revaluation risk, which is due to timing differences in maturity dates (fixed rate positions) and in revaluation (variable rate positions) of banking assets and liabilities and off-balance sheet positions. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is monitored continuously by the Treasury Division, which uses for this purpose various instruments, such as investment securities, advances to banks, deposits from banks and derivative instruments, including gap reporting. The Bank's interest rate position is managed by limits set in relation to the Bank's own sources. For positions in individual time periods, weights representing a modified duration for a parallel fall or rise in interest curves by 200 bp are used. This approach was implemented after approval by the parent company in 2007. The final exposure of the Bank is represented by a summary of the weighted positions. For long term positions (over 1 year), a maximum volume of positions is defined. The Bank uses both an internal system and a separate reporting system for continuous monitoring and checking of market risks.

2007	200 BP parallel shift
At 31 December	10.18 %
Average for the period	9.27 %
Maximum for the period	10.18 %
Minimum for the period	7.65 %

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The quantification of Value at Risk (VaR) for positions managed by the Treasury Division is performed daily by the parent company. The calculation is performed for both foreign exchange and interest rate risk, and the limit system is defined for both the individual areas and for the total position.

In the case of any excess, the Bank is required to analyse the situation and, subsequently, send a written report to the parent company.

For verification of the model in use, backward testing is performed. This includes comparison of VaR values calculated on a daily basis to the trading results achieved within a defined monitoring period.

The model is considered reliable when actual results do not exceed VaR values. Assuming 99 % confidence level excesses are not expected to occur more than 2-3 times on a yearly basis.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The average effective interest rates at 31 December 2007 and the periods in which interest-bearing assets and liabilities denominated in Slovak crowns repriced were as follows:

	Effective interest rate %	3 months or less Sk '000	1 year or less but over 3 months Sk '000	1-5 years Sk '000	Over 5 years Sk '000	Total Sk '000
Interest-bearing assets						
Cash and cash equivalents	3.82	6,084,281	-	-	-	6,084,281
Trading assets	4.80	-	10	23,361	-	23,371
Loans and advances						
to banks	3.86	414,813	204,736	-	-	619,549
Loans and advances						
to customers	5.87	11,865,060	5,654,993	2,786,220	683,203	20,989,476
Investment securities	3.36	140,978	245,447	2,647,018	749,655	3,783,098
		18,505,132	6,105,186	5,456,599	1,432,858	31,499,775
Interest-bearing liabilities						
Deposits by banks	3.23	1,211,966	-	-	-	1,211,966
Loans received	3.47	1,519	2,587	8,251	173	12,530
Customer accounts	1.74	22,390,377	1,714,401	159,498	-	24,264,276
Debt securities issued	4.23	851,485	477,763	1,671,465	-	3,000,713
		24,455,347	2,194,751	1,839,214	173	28,489,485
Off-balance sheet items		1,480,543	(187,053)	(1,268,349)	(25,141)	-
Interest rate repricing gap		(4,469,672)	3,723,382	2,349,036	1,407,544	3,010,290
Cumulative interest rate repricing gap		(4,469,672)	(746,290)	1,602,746	3,010,290	-

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The average effective interest rates at 31 December 2007 and the periods in which interest-bearing assets and liabilities denominated in Euro repriced were as follows:

	Effective interest rate %	3 months or less Sk '000	1 year or less but over 3 months Sk '000	1-5 years Sk '000	Over 5 years Sk '000	Total Sk '000
Interest-bearing assets						
Cash and cash equivalents	4.21	212,692	-	-	-	212,692
Loans and advances to customers	5.51	2,940,021	1,472,931	620,828	25,207	5,058,987
		3,152,713	1,472,931	620,828	25,207	5,271,679
Interest-bearing liabilities						
Deposits by banks	3.37	42,448	-	-	-	42,448
Customer accounts	1.60	3,950,109	198,529	-	-	4,148,638
Loans received	5.45	35,283	35,283	35,636	-	106,202
		4,027,840	233,812	35,636	-	4,297,288
Off-balance sheet items		245,112	342,429	(564,583)	(22,958)	-
Interest rate repricing gap		(630,015)	1,581,548	20,609	2,249	974,391
Cumulative interest rate repricing gap		(630,015)	951,533	972,142	974,391	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The average effective interest rates at 31 December 2006 and the periods in which interest-bearing assets and liabilities denominated in Slovak crowns repriced were as follows:

	Effective interest rate %	3 months or less Sk '000	1 year or less but over 3 months Sk '000	1-5 years Sk '000	Over 5 years Sk '000	Total Sk '000
Interest-bearing assets						
Cash and cash equivalents	3.57	6,875,449	-	-	-	6,875,449
Trading assets	4.85	96	79	2,327	2,289	4,791
Loans and advances to banks	2.60	449,484	407,916	-	-	857,400
Loans and advances to customers	5.50	8,997,194	5,175,402	1,671,910	596,466	16,440,972
Investment securities	4.38	547,680	36,068	1,879,319	1,458,274	3,921,341
	4.78	16,869,903	5,619,465	3,553,556	2,057,029	28,099,953
Interest-bearing liabilities						
Deposits by banks	3.34	2,166,423	447,223	-	-	2,613,646
Loans received	3.77	303	-	9,805	7,230	17,338
Customer accounts	1.72	20,051,022	1,349,813	49,003	-	21,449,838
Debt securities issued	4.13	-	5,833	1,668,755	-	1,674,588
	2.05	22,217,748	1,802,869	1,727,563	7,230	25,755,410
Off-balance sheet items		870,350	(68,333)	(784,605)	(17,412)	-
Interest rate repricing gap		(4,477,495)	3,748,263	1,041,388	2,032,387	2,344,543
Cumulative interest rate repricing gap		(4,477,495)	(729,232)	312,156	2,344,543	-

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The average effective interest rates at 31 December 2006 and the periods in which interest-bearing assets and liabilities denominated in Euro repriced were as follows:

	Effective interest rate %	3 months or less Sk '000	1 year or less but over 3 months Sk '000	1-5 years Sk '000	Over 5 years Sk '000	Total Sk '000
Interest-bearing assets						
Cash and cash equivalents	2.70	188,140	-	-	-	188,140
Loans and advances to customers	3.69	3,359,926	868,851	613,441	35,554	4,877,772
	3.65	3,548,066	868,851	613,441	35,554	5,065,912
Interest-bearing liabilities						
Deposits by banks	2.70	63,225	-	-	-	63,225
Loans received	4.40	-	-	181,974	-	181,974
Customer accounts	1.05	3,242,113	114,816	-	-	3,356,929
	1.16	3,305,338	114,816	181,974	-	3,602,128
Off balance sheet items		393,832	234,109	(577,589)	(50,352)	-
Interest rate repricing gap		636,560	988,144	(146,122)	(14,798)	1,463,784
Cumulative interest rate repricing gap		636,560	1,624,704	1,478,582	1,463,784	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement/ clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual obligations. Settlement limits form part of the credit approval/limit monitoring process.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank had the following foreign currency positions at 31 December 2007:

Sk '000	EUR	USD	Other	SKK	Total
Monetary assets					
Cash and cash equivalents	212,692	175,071	68,466	6,084,281	6,540,510
Trading assets	-	-	-	23,371	23,371
Derivative assets held for risk management	-	-	-	165,685	165,685
Loans and advances to banks	-	-	-	619,549	619,549
Loans and advances to customers	5,058,987	75,034	182,705	20,989,477	26,306,203
Investment securities	504	2,150	-	3,812,821	3,815,475
Investments in associates	-	-	-	241,889	241,889
Other assets	4,525	740	153	97,866	103,284
	5,276,708	252,995	251,324	32,034,939	37,815,966
Monetary liabilities					
Derivative liabilities held for risk management	-	-	-	140,949	140,949
Deposits by banks	42,448	309,623	9,937	1,211,966	1,573,974
Loans received	106,202	-	-	12,530	118,732
Customer accounts	4,148,638	756,851	419,800	24,264,276	29,589,565
Debt securities issued	-	-	-	3,000,713	3,000,713
Corporate income tax payable	-	-	-	54,722	54,722
Deferred tax liability	-	-	-	2,605	2,605
Other liabilities	47,656	1,256	607	151,610	201,129
	4,344,944	1,067,730	430,344	28,839,371	34,682,389

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank had the following foreign currency positions at 31 December 2006:

Sk '000	EUR	USD	Other	SKK	Total
Monetary assets					
Cash and cash equivalents	322,795	53,456	164,140	7,589,359	8,129,750
Trading assets	-	-	-	4,791	4,791
Derivative assets held for risk management	-	-	-	487,337	487,337
Loans and advances to banks	-	-	-	857,400	857,400
Loans and advances to customers	4,877,410	139,899	1,987	16,483,557	21,502,853
Investment securities	519	2,467	-	3,945,841	3,948,827
Investments in associates	-	-	-	213,090	213,090
Corporate income tax receivable	-	-	-	19,740	19,740
Other assets	2,155	7,586	248	56,607	66,596
	5,202,879	203,408	166,375	29,657,722	35,230,384
Monetary liabilities					
Derivative liabilities held for risk management	-	-	-	462,398	462,398
Deposits by banks	63,406	1,843	2,788	2,639,328	2,707,365
Loans received	181,974	-	-	17,338	199,312
Customer accounts	3,568,932	943,119	343,908	22,191,849	27,047,808
Debt securities issued	-	-	-	1,674,588	1,674,588
Deferred tax liability	-	-	-	17,306	17,306
Other liabilities	46,082	4,614	1,167	103,610	155,473
	3,860,394	949,576	347,863	27,106,417	32,264,250

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk

The principal objective of operational risk management set by the Bank is to create a continuous and transparent environment and to monitor the potential losses that could arise from weaknesses in procedures, systems or human errors, as well as from external impacts on all of the Bank's operations.

The Bank's management of operational risks aims to implement a standardised approach for the calculation of capital adequacy requirements as established by the national regulator. The use of this approach requires the following criteria to be met:

- operational risk of the Bank is covered by the Bank's own resources,
- development and implementation of procedures for operational risk management.

The overall responsibility for the management of operational risks, including the continuous definition of systems and instruments required for this purpose, is assigned to the Risk Controlling Staff Unit, which reports directly to the Board of Directors.

The Bank uses the following methods in the process of risk management:

1. identification, monitoring and management of the risk

- a. collection of data relating to loss-making situations
- b. risk analysis
- c. procedures and strategy for maintaining business operations
- d. information security
- e. system of internal control
- f. evaluation of contracts, cooperation with third parties (outsourcing)
- g. insurance analysis
- h. education and training within the Bank.

2. reporting:

- a. internal reporting
- b. external reporting.

Specialised units, so-called risk owners, are primarily responsible for:

1. identification and documentation of operational risk relevant situations.
2. risk analysis – identification and documentation of relevant procedures, and risk assessment.
3. incentives for documentation of latent risks.
4. risk management
 - a. development of regulations governing management of identified operational risks
 - b. implementation of provisions resulting from procedures for maintaining business operations
 - c. ensuring that all actions resulting from directives, guidelines and instructions are taken
 - d. initiation and implementation of selected provisions.
5. supervision over the results
 - a. implementation supervision
 - b. efficiency supervision.

Retrospective supervision over operational risk management procedures is performed by Internal Control and the Internal Audit Staff Unit.

(f) Capital management

The Bank's regulator, the National Bank of Slovakia ('NBS'), sets and monitors capital requirements.

In implementing current capital requirements, the NBS requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculated requirements for market risk in its trading portfolios based on the requirements of NBS regulation No 4/2004 on adequacy of own funds. Although a new NBS regulation, No 4/2007, on own funds and requirements on own funds has been effective since 30 March 2007, the Bank has taken an option permitted by Section 122 (f) Art. 3 of the Act on Banks 483/2001 to report in 2007 accordance with regulations effective as at 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital includes ordinary share capital, share premium, revaluation reserves and reserve funds and other funds created from profit after deduction of losses of the current year, intangible assets and other specified deductible items.
- Tier 2 capital includes items such as additional own funds of high quality (e.g. revaluation reserves not included in Tier 1), equity funds transferred to additional own funds, revaluation funds, perpetual debt securities, excess reserves and specific additional own funds of higher quality and additional own funds of lower quality (e.g. subordinated debt and other specific additional own funds of lower quality) after deduction of items specified in the NBS regulation.

As noted above, banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain shareholder, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is taken into account as the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the period.

In the course of 2007, final preparations were made in the Bank in relation to the calculation of risk-weighted assets using a standardised approach in accordance with Basel II. The process relates to the transfer of data to a central datapool, data processing at the parent company level, data availability (all Volksbank Group subsidiaries are able to access their own data), and creation of reports in Common Solvency Ratio Reporting (COREP) format for the individual banks in the Volksbank Group.

There were no significant changes in the Bank's capital management processes, systems, measurement and reporting during the year.

The Bank's regulatory capital position based on requirements of NBS regulations No 4/2004 on adequacy of own funds was as follows:

Sk '000	2007	2006
Regulatory capital		
Tier 1 capital		
Ordinary share capital (note 25)	1,000,000	1,000,000
Share premium	1,170,300	1,170,300
Reserve funds and other funds created from profit (note 26)	237,465	237,465
Retained earnings less current year profit (separate financial statements)	1,161,197	1,144,800
Less: certain intangible assets	(87,012)	(71,205)
Total	3,481,950	3,481,360
Tier 2 capital		
Subordinated debt	-	-
Other reserves	-	-
Total	-	-
Items deductible from the regulatory capital		
Net book value of the Bank's investment in other bank or financial institutions, greater than 10 % ownership	(30,005)	(30,005)
	3,451,945	3,451,355

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sk '000	2007	2006
Risk-weighted assets (RWA)		
RWA - weight 20 %	780,386	1,326,136
RWA - weight 50 %	1,711,257	1,337,617
RWA - weight 100 %	22,188,274	15,655,128
Risk weighted assets in the banking book	24,679,917	18,318,881
Risk weighted assets in the trading book	5,093	5,442
Other risk weighted assets	148,750	75,425
	24,833,760	18,399,748
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	13.90 %	18.76 %
Total tier 1 capital expressed as a percentage of risk weighted assets	14.02 %	18.92 %

6. SEGMENT REPORTING

Segment reporting is presented in respect of the Bank's business segments. The Bank principally operates in Slovakia and operations outside Slovakia are not significant.

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in accounting policy note 3.

Transactions between segments are conducted at arm's length.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise cash, taxes, other assets and prepayments, provisions and other liabilities.

Business segments

- a) Corporate banking – incorporating direct debit facilities, current account deposits, overdrafts, loans and other credit facilities foreign currency and derivative products.
- b) Retail and Private banking – incorporating private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.
- c) Treasury – incorporating T-bills, repo trades with NBS, receivables and commitments with commercial banks, securities, foreign currency and derivative products.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

6. SEGMENT REPORTING (CONTINUED)

Sk '000	Corporate banking 2007	Retail banking 2007	Treasury 2007	Unallocated 2007	Bank 2007
Net interest income	369,503	556,070	238,972	33	1,164,578
Net fee and commission income	176,675	279,298	298	-	456,271
Net trading income	-	-	91,502	-	91,502
Income from associates	-	-	-	29,777	29,777
Other expenses	(614)	(513)	(142)	(15,537)	(16,806)
Operating income	545,564	834,855	330,630	14,273	1,725,322
Administrative expenses	(273,408)	(636,569)	(100,756)	-	(1,010,733)
Depreciation and impairment losses	(51,906)	(150,196)	(17,140)	-	(219,242)
Operating expenditure	(325,314)	(786,765)	(117,896)	-	(1,229,975)
Operating profit before impairment losses on loans and advances	220,250	48,090	212,734	14,273	495,347
Impairment losses on loans and advances to customers	(35,464)	(67,321)	-	-	(102,785)
Profit before taxation	184,786	(19,231)	212,734	14,273	392,562
Income tax expense					(78,553)
Profit after taxation					314,009
Other information:					
Assets	19,628,569	7,921,726	10,362,796	865,870	38,778,961
Liabilities	8,877,595	19,902,786	1,833,655	4,112,866	34,726,902
Property and equipment additions	-	878	-	139,910	140,788

6. SEGMENT REPORTING (CONTINUED)

Sk '000	Corporate banking 2006	Retail banking 2006	Treasury 2006	Unallocated 2006	Bank 2006
Net interest income	285,353	519,641	188,712	7	993,713
Net fees and commissions	65,224	353,662	1,053	-	419,939
Net trading income	-	-	141,127	-	141,127
Income from associates	-	-	-	26,279	26,279
Other expenses	(10,514)	(8,507)	(2,260)	(6,358)	(27,639)
Operating income	340,063	864,796	328,632	19,928	1,553,419
Administrative expenses	(273,867)	(547,694)	(101,301)	43,173	(879,689)
Depreciation and impairment losses	(36,358)	(145,657)	(13,778)	-	(195,793)
Operating expenditure	(310,225)	(693,351)	(115,079)	43,173	(1,075,482)
Operating profit before impairment losses on loans and advances	29,838	171,445	213,553	63,101	477,937
Impairment losses on loans and advances to customers	19,110	(202,066)	-	-	(182,956)
Profit before taxation	48,948	(30,621)	213,553	63,101	294,981
Income tax expense					(57,319)
Profit after taxation					237,662
Other information:					
Assets	17,016,311	6,241,116	12,151,187	865,624	36,274,238
Liabilities	8,144,629	17,921,213	3,369,075	2,866,157	32,301,074
Property and equipment additions	-	73	-	149,255	149,328

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

7. CASH AND CASH EQUIVALENTS

Sk '000	2007	2006
Cash and balances at the central bank (note 8)	6,201,023	6,272,080
Loans and advances to banks with contractual maturity up to 3 months (note 11)	339,487	1,857,670
	6,540,510	8,129,750

8. CASH AND BALANCES AT THE CENTRAL BANK

Sk '000	2007	2006
Balances with the National Bank of Slovakia:		
Compulsory minimum reserve	311,091	449,484
Loans provided to central bank	5,273,177	5,387,101
Other	123,960	55,080
	5,708,228	5,891,665
Less compulsory minimum reserve (note 11)	(311,091)	(449,484)
	5,397,137	5,442,181
Cash in hand	803,886	829,899
	6,201,023	6,272,080

The compulsory minimum reserve balance is maintained in accordance with the requirements of the National Bank of Slovakia and is not available for day-to-day use.

9. TRADING ASSETS

Sk '000	2007	2006
Trading assets		
Securities – Government bonds	23,371	4,791

10. DERIVATIVES HELD FOR RISK MANAGEMENT

Sk '000	2007	2006
Derivative assets held for risk management		
Non-trading derivative instruments (a)	165,685	487,337

Sk '000	2007	2006
Derivative liabilities held for risk management		
Non-trading derivative instruments (a)	131,518	462,398
Cash flow hedge Interest rate swaps (b)	9,431	-
	140,949	462,398

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

10. DERIVATIVES HELD FOR RISK MANAGEMENT (CONTINUED)

(a) Non-trading derivative instruments

Sk '000	Contract/ notional amount	2007 Fair value		Contract/ notional amount	2006 Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives:						
Interest rate swaps	1,961,534	12,262	3,877	2,374,431	16,482	5,290
Currency derivatives:						
Currency forwards	8,108,551	40,856	63,579	4,655,464	137,031	177,700
Currency swaps	13,437,783	103,212	54,704	9,688,167	252,140	197,716
Foreign currency options	2,423,247	9,355	9,358	9,505,969	81,684	81,692
		165,685	131,518		487,337	462,398

(b) Cash flow hedge

During 2007, the Bank entered into interest rate swap agreements with a notional value of Sk 840 million in order to hedge the variable interest rate exposure on issued mortgage bonds (see note 21).

The cash flows on the interest rate swaps substantially match the cash flow profile of the related mortgage bonds.

The transfer from hedging reserve to the income statement during the year ended 31 December 2007 was Sk 184 thousand (2006: Sk nil).

11. LOANS AND ADVANCES TO BANKS

Sk '000	2007	2006
Repayable on demand	187,707	223,372
Other loans and advances by remaining maturity:		
- 3 months or less	255,502	1,634,298
- 1 year or less but over 3 months	204,736	407,916
Compulsory minimum reserves (note 8)	311,091	449,484
	959,036	2,715,070
Out of which:		
Amounts with original contractual maturity		
up to 3 months (note 7)	(339,487)	(1,857,670)
	619,549	857,400

12. LOANS AND ADVANCES TO CUSTOMERS

Sk '000	2007	2006
Loans and advances to customers	26,906,517	22,043,038
Allowances for impairment	(600,314)	(540,185)
	26,306,203	21,502,853

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

12. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Impairment on loans and advances

The movements on the impairment losses on loans and advances to customers were as follows:

Sk '000	2007	2006
Specific allowances for impairment:		
At 1 January	155,124	378,706
Exchange rate movement	(347)	-
(Credit)/charge for the year	(19,333)	161,986
Release of impairment losses on loans written-off	(40,308)	(85,066)
Re-classification	26,878	(300,502)
At 31 December	122,014	155,124
Collective allowances for impairment:		
At 1 January	385,061	44,867
Exchange rate movement	(385)	(1,481)
Charge for the year	125,183	41,173
Release of impairment losses on loans written-off	(4,681)	-
Re-classification	(26,878)	300,502
At 31 December	478,300	385,061
	600,314	540,185

13. INVESTMENT SECURITIES

Sk '000	2007	2006
Available-for-sale securities		
Equity shares (a)	32,377	27,486
Debt securities (b)	3,439,149	3,883,097
	3,471,526	3,910,583
Investment securities at fair value through profit or loss		
Debt securities – index linked (see note 20)	343,949	38,244
	3,815,475	3,948,827

(a) Equity shares

Name	Activity	2007 Sk '000	2006 Sk '000
RVS, a.s.	Leisure and training centre	4,500	4,500
S.W.I.F.T.	International funds transfer	504	518
Victoria Volksbanken Poist'ovňa, a.s.	Insurance	25,223	20,000
Mastercard	Credit cards	2,150	2,468
		32,377	27,486

The Bank owns 10 % (2006: 10 %) of the issued capital of Victoria Volksbanken Poist'ovňa, a.s. and the holdings in the other companies are all less than 5 %. Except for S.W.I.F.T. and Mastercard, which are registered in Belgium and the U.S.A., respectively, all companies are incorporated in the Slovak Republic.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

13. INVESTMENT SECURITIES (CONTINUED)

(b) Debt securities

Sk '000	2007	2006
Slovak government	2,165,883	2,707,767
Slovak corporates	30,813	31,207
Slovak banks	996,005	996,307
Foreign banks	246,448	147,816
	3,439,149	3,883,097

14. INVESTMENTS IN ASSOCIATES

Sk '000	2007	2006
Shares at cost (unlisted)	31,555	31,079
Share of post-acquisition results and reserves	210,334	182,011
	241,889	213,090

14. INVESTMENTS IN ASSOCIATES (CONTINUED)

The movements on investments in associates during the year were as follows:

Sk '000	2007	2006
At 1 January	213,090	185,851
Increase in investment in		
IMMO-CONTRACT Slovakia s.r.o.	476	960
Share of profits for the year	29,777	26,279
Share of hedging reserve of		
VB LEASING SK, spol. s r.o.	(1,454)	-
At 31 December	241,889	213,090

Investments in associates comprises 24 % of the issued capital of VB LEASING SK, spol. s r.o., a company incorporated in the Slovak Republic with its registered office at Nám. 1. mája 11, 810 00 Bratislava. VB LEASING SK, spol. s r.o. is engaged in equipment and vehicle leasing.

The Bank also owns 22.8 % of the issued capital of Team Nový Dom s.r.o., a company incorporated in the Slovak Republic with its registered office at Nám. 1. mája 14, 811 06 Bratislava, which is engaged in real estate management.

In March 2006, the Bank acquired 24 % of the registered capital of IMMO-CONTRACT Slovakia, s.r.o., a company incorporated in the Slovak Republic with its registered office at Košická 38, 821 08 Bratislava, which is engaged in real estate activities. In December 2007, the Bank increased its share on the registered capital in IMMO - CONTRACT Slovakia, s.r.o. to 34 %.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

14. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summary total financial information of the associates (not adjusted for the Bank's percentage ownerships):

Sk '000	Assets	Liabilities	Equity	Revenues	Profit for the year
At 31 December 2007	10,784,911	9,787,366	997,545	347,957	114,193
At 31 December 2006	9,630,184	8,742,173	888,011	376,254	113,605

15. INVESTMENT PROPERTY

Sk '000	Land	Building	Total
At 1 January 2006	1,486	25,928	27,414
Fair value adjustment	-	(414)	(414)
At 31 December 2006	1,486	25,514	27,000
Fair value adjustment	-	-	-
At 31 December 2007	1,486	25,514	27,000

The carrying amount of the investment property is the fair value of the property as determined by a registered appraiser. The appraisal was made having regard to recent market transactions for similar properties in the same location as the Bank's investment property.

Sk '000	2007	2006
Revenues from investment property rental	1,028	995

The investment property is an office building which is substantially leased to third parties. Leases are entered into for indefinite periods and no contingent rents are charged.

16. PROPERTY AND EQUIPMENT

Sk '000	Land and buildings	Furniture, fittings and equipment	Motor vehicles	Software	Assets not yet in use	Total
Cost						
At 1 January 2006	792,667	989,561	44,040	261,801	38,696	2,126,765
Additions	-	-	-	-	149,328	149,328
Transfers	18,081	87,379	4,640	53,126	(163,226)	-
Disposals	(9,457)	(95,506)	(2,534)	(2,078)	-	(109,575)
At 31 December 2006	801,291	981,434	46,146	312,849	24,798	2,166,518
At 1 January 2007	801,291	981,434	46,146	312,849	24,798	2,166,518
Additions	-	-	-	-	140,788	140,788
Transfers	6,502	40,202	5,672	44,514	(96,890)	-
Disposals	(3,211)	(34,907)	(7,517)	(87)	-	(45,722)
At 31 December 2007	804,582	986,729	44,301	357,276	68,696	2,261,584
Accumulated depreciation and impairment losses						
At 1 January 2006	163,294	698,610	29,062	163,375	-	1,054,341
Charge for the year	38,267	110,121	5,290	42,115	-	195,793
Disposals	(1,410)	(94,500)	(2,535)	(2,025)	-	(100,470)
At 31 December 2006	200,151	714,231	31,817	203,465	-	1,149,664
At 1 January 2007	200,151	714,231	31,817	203,465	-	1,149,664
Charge for the year	38,414	106,264	5,645	51,538	-	201,861
Net impairment losses	8,125	8,895	-	361	-	17,381
Disposals	(1,261)	(34,452)	(7,517)	(87)	-	(43,317)
At 31 December 2007	245,429	794,938	29,945	255,277	-	1,325,589
Net book value						
At 31 December 2006	601,140	267,203	14,329	109,384	24,798	1,016,854
At 31 December 2007	559,153	191,791	14,356	101,999	68,696	935,995

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

16. PROPERTY AND EQUIPMENT (CONTINUED)

The Bank's buildings and equipment are insured against fire, burglary, floods and storms and are insured for the replacement value as at 31 December of that period. The insurance premium is calculated based on the acquisition price as at 31 December of the previous period.

The Bank has motor insurance for fire, theft and other risks to motor vehicles („KASKO“) as well as compulsory car insurance.

The Bank's software is not insured.

17. CORPORATE INCOME TAX

Sk '000	2007	2006
Tax for the current period (note 35)	83,926	28,948
Tax prepayments	(29,204)	(48,688)
Corporate income tax payable/(receivable)	54,722	(19,740)

18. DEPOSITS BY BANKS

Sk '000	2007	2006
Repayable on demand	162,009	1,828,849
Deposits by banks with remaining maturity:		
- 3 months or less	1,411,965	431,292
- 1 year or less but over 3 months	-	447,224
	1,573,974	2,707,365

19. LOANS RECEIVED

Sk '000	2007	2006
European Bank for Reconstruction and Development	106,202	181,974
Slovenská záručná a rozvojová banka, a.s.	12,530	17,338
	118,732	199,312

20. CUSTOMER ACCOUNTS

Sk '000	2007	2006
Customer accounts at fair value through profit or loss	343,063	38,247
Customer accounts at amortised cost	29,246,502	27,009,561
	29,589,565	27,047,808

Customer accounts are designated at fair value through profit or loss when the future cash flows are linked to equity indices (see also note 13).

The remaining maturity of customer accounts was as follows:

Sk '000	2007	2006
Repayable on demand	15,979,532	14 124 292
Other deposits with contractual maturity dates or periods of notice, by remaining maturity:		
- 3 months or less	10,854,135	10,583,000
- 1 year or less but over 3 months	2,506,191	2,235,998
- 5 years or less but over 1 year	249,707	104,518
	29,589,565	27,047,808

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

21. DEBT SECURITIES ISSUED

Sk '000	2007	2006
Mortgage bonds		
Issue 1	754,231	754,890
Issue 2	490,713	487,155
Issue 3	432,353	432,543
Issue 4	463,940	-
Issue 5	387,546	-
Issue 6	471,930	-
	3,000,713	1,674,588

Issue 1 comprises 7,500 mortgage bonds with a nominal value of Sk 100 thousand each, which were issued on 30 November 2004, at an issue price at 100.439 % of nominal value with a coupon of 4.6 % per annum. The mortgage bonds will be redeemed on 30 November 2009 from repayments of mortgage loans provided to customers.

Issue 2 comprises 5,000 mortgage bonds with a nominal value of Sk 100 thousand each, which were issued on 1 December 2005, at an issue price at 96.418% of nominal value with a coupon of 3.00 % per annum. The mortgage bonds will be redeemed on 1 December 2010 from repayments of mortgage loans provided to customers.

Issue 3 comprises 4,300 mortgage bonds with a nominal value of Sk 100 thousand each, which were issued on 1 December 2006, at an issue price at 100.22 % of nominal value with a coupon of 4.50 % per annum. The mortgage bonds will be redeemed on 1 December 2011 from repayments of mortgage loans provided to customers.

Issue 4 comprises 4,600 mortgage bonds with a nominal value of Sk 100 thousand each, which were issued on 28 March 2007, at an issue price at 99.65 % of nominal value with a floating rate coupon (as of 31 December 2007: 4.37 % per annum). The mortgage bonds will be redeemed on 28 March 2012 from repayments of mortgage loans provided to customers.

21. DEBT SECURITIES ISSUED (CONTINUED)

Issue 5 comprises 3,800 mortgage bonds with a nominal value of Sk 100 thousand each, which were issued on 20 July 2007, at nominal value with a floating rate coupon (as of 31 December 2007: 4.44 % per annum). The mortgage bonds will be redeemed on 20 July 2012 from repayments of mortgage loans provided to customers.

Issue 6 comprises 4,700 mortgage bonds with a nominal value of Sk 100 thousand each, which were issued on 28 November 2007, at nominal value with a floating rate coupon (as of 31 December 2007: 4.48 % per annum). The mortgage bonds will be redeemed on 28 November 2010 from repayments of mortgage loans provided to customers.

22. PROVISIONS

Sk '000	At 1 Jan 2007	Charge for the year	At 31 Dec 2007
Litigations and claims (note 32)	32,498	7,621	40,119
Severance obligation (note 33)	4,326	68	4,394
	36,824	7,689	44,513

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

23. DEFERRED TAX LIABILITY

The net deferred tax liability related to the following items:

Sk '000	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Loans and advances to customers	-	-	(2,861)	(5,723)	(2,861)	(5,723)
Investment securities	2,838	-	(148)	(6,382)	2,690	(6,382)
Investment property	-	-	(216)	(140)	(216)	(140)
Property and equipment	-	-	(3,238)	(6,026)	(3,238)	(6,026)
Other liabilities	887	860	-	-	887	860
Other assets	133	105	-	-	133	105
Deferred tax assets / (liability)	3,858	965	(6,463)	(18,271)	(2,605)	(17,306)

Deferred tax was calculated using a corporate income tax rate of 19 % for the year ended 31 December 2007 (2006: 19 %).

The movements on deferred tax were as follows:

Sk '000	2007	2006
At 1 January	(17,306)	(13,999)
Charge to income statement (note 35)	5,629	(28,139)
Charge to revaluation reserve in equity	9,072	24,832
At 31 December	(2,605)	(17,306)

24. OTHER LIABILITIES

Sk '000	2007	2006
Liabilities to employees	58,833	16,782
Other taxes	23,943	22,630
Social and health insurance	9,736	8,678
Other creditors	92,240	73,369
Accrued expenses and deferred income	12,817	24,941
Other	3,560	9,073
	201,129	155,473

Social fund:

Sk '000	2007	2006
At 1 January	1,655	968
Creation	4,162	3,661
Withdrawals	(3,665)	(2,974)
At 31 December	2,152	1,655

25. SHARE CAPITAL

Sk '000	2007	2006
Issued and fully paid:		
89,550 ordinary shares of 5,600 Sk each	501,480	501,480
99,704 preference shares of 5,000 Sk each	498,520	498,520
	1,000,000	1,000,000

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

25. SHARE CAPITAL (CONTINUED)

The rights of ordinary shareholders are as described in the Slovak Commercial Code. Preference shareholders have priority claims in relation to dividends but are not entitled to vote at the General Meeting of shareholders unless no preference dividends are declared or the dividends are overdue. These voting rights commence from either the day following the General Meeting or from when the dividends are overdue until preference dividends are declared or paid. When entitled, the preference shareholders may vote on declaration of the preference dividend.

On approval of the payment of dividends by the General Meeting, the profit must be divided among the shareholders according to the ratio of the nominal value of shares to total share capital. The preference dividend should be at least 1 % higher, expressed as a percentage of the nominal value of the preference shares, compared to the ordinary dividend expressed as a percentage of the nominal value of the ordinary shares.

26. RESERVES

Sk '000	Retained earnings	Legal reserve fund	Revaluation reserve	Hedging reserve	Other reserves	Total
At 1 January 2007	1,538,194	202,959	27,205	-	34,506	1,802,864
Net loss from available-for-sale assets (a)	-	-	(39,302)	-	-	(39,302)
Net profit from hedge derivatives	-	-	-	628	-	628
Transfers (b)	-	-	-	-	-	-
Dividends (c)	(194,986)	-	-	-	-	(194,986)
Share of hedging reserve in associate	-	-	-	(1,454)	-	(1,454)
Profit for 2007 (d)	314,009	-	-	-	-	314,009
At 31 December 2007	1,657,217	202,959	(12,097)	(826)	34,506	1,881,759

(a) Revaluation reserve

The revaluation reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

(b) Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Bank is obliged to contribute an amount to the fund each year which is not less than 10 % of its annual net profit until the aggregate amount reaches a minimum level equal to 20 % of the registered share capital. The legal reserve fund reached the required amount in 2006. The legal reserve fund is not readily distributable to shareholders.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

26. RESERVES (CONTINUED)

(c) Dividends

The General Meeting of shareholders held on 18 June 2007 approved the payment of the following dividends:

Sk '000	From profit for the year 2006:
Ordinary shares:	
Dividend of Sk 1,064 per share	95,282
Preference shares:	
Dividend of Sk 1,000 per share	99,704
	194,986

(d) Proposed allocation of profit

The Directors will propose the following allocation of the statutory profit of the Bank for the year ended 31 December 2007:

Sk '000	
Dividends	174,985
Transfer to retained earnings	109,247
	284,232

(e) Other reserves

These reserves are not distributable to shareholders.

27. OFF BALANCE SHEET ITEMS

Sk '000	2007	2006
Guarantees and irrevocable letters of credit	1,082,149	588,097
Loan commitments	7,958,774	4,461,174
	9,040,923	5,049,271

28. INTEREST INCOME

Sk '000	2007	2006
Loans and advances to banks	304,192	273,594
Loans and advances to customers	1,392,581	1,062,652
Debt securities	159,698	177,948
	1,856,471	1,514,194

Interest income for the year ended 31 December 2007 includes interest of Sk 22,354 thousand accrued on impaired financial assets (2006: Sk 12,381 thousand).

Interest income from financial assets which are not carried at fair value through profit or loss amounted to Sk 1,852,624 thousand for the year ended 31 December 2007 (2006: Sk 1,514,194 thousand).

29. INTEREST EXPENSE

Sk '000	2007	2006
Deposits by banks	69,346	72,397
Customer accounts	525,754	394,114
Debt securities	96,793	53,970
	691,893	520,481

Interest expense on financial liabilities, which are not carried at fair value through profit or loss, amounted to Sk 688,695 thousand for the year ended as at 31 December 2007 (2006: Sk 520,481 thousand).

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

30. NET FEE AND COMMISSION INCOME

Sk '000	2007	2006
Fee and commission income		
Loans	42,019	59,714
Securities and custody business	17,089	9,450
Payment transactions	380,370	351,262
Foreign exchange	37,085	29,605
Other	72,378	54,610
	548,941	504,641
Fee and commission expense		
Lending business	(8,626)	(10,607)
Securities and custody business	(9,780)	(4,111)
Payment transactions	(15,771)	(13,302)
Foreign exchange	(739)	-
Other	(57,754)	(56,682)
	(92,670)	(84,702)
Net fee and commission income	456,271	419,939

31. NET TRADING INCOME

Sk '000	2007	2006
Trading securities	(490)	(1,894)
Foreign currency derivatives	85,720	126,015
Interest rate derivatives	5,298	15,096
Financial assets at fair value through profit or loss	974	1,910
	91,502	141,127

32. OTHER EXPENSES

Sk '000	2007	2006
Gain on disposal of property and equipment	904	801
Other taxes and fees	(2,614)	(1,123)
Other cost	(15,826)	(37,133)
Other income	8,351	15,473
Litigations and claims (note 22)	(7,621)	(5,657)
	(16,806)	(27,639)

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

33. ADMINISTRATIVE EXPENSES

Sk '000	2007	2006
Personnel expenses:		
Wages and salaries	386,223	307,115
Other employee benefits	8,550	8,158
Social insurance, social fund	91,526	83,266
Provision for severance obligation (note 22)	68	1,643
	486,367	400,182
Other administrative expenses:		
Services related to buildings	105,448	102,391
Cost of materials and communication	45,826	38,050
Marketing and representation	52,384	53,945
Training	13,996	9,152
Professional services	55,724	43,691
IT services	100,323	89,079
Other costs	150,665	143,199
	524,366	479,507
	1,010,733	879,689

The average number of employees during the year was 648 (2006: 654), of which 18 were members of management (2006: 16).

34. IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Sk '000	2007	2006
Charge for the year (note 12)	(105,850)	(203,159)
Losses on sold receivables and write-offs	(1,795)	(12,110)
Income from sold receivables and recoveries	4,860	32,313
	(102,785)	(182,956)

35. INCOME TAX EXPENSE

Sk '000	2007	2006
Current tax expense:		
Current year (note 17)	83,926	28,948
Underprovision in respect of previous year	256	232
	84,182	29,180
Deferred tax:		
Deferred tax (note 23)	(5,629)	28,139
	78,553	57,319

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

35. INCOME TAX EXPENSE (CONTINUED)

The accounting profit before taxation at tax rate is reconciled to the tax expense as follows:

Sk '000	Tax base 2007	Tax at 19 % 2007	Tax base 2006	Tax at 19 % 2006
Profit before taxation	392,562	74,587	294,981	56,046
Non-taxable income:				
Tax adjustments due to transformation to IFRS	(13,882)	(2,638)	(28,177)	(5,354)
Allowances for impairment	-	-	(3,443)	(654)
Tax exempt income from equity interests	(39)	(7)	(6)	(1)
Other	(5,912)	(1,123)	(5,426)	(1,031)
		(3,768)		(7,040)
Tax non-deductible expenses:				
Representation expenses	7,715	1,466	8,213	1,560
Litigations and claims	7,621	1,448	9,100	1,729
Losses on write-offs and sold receivables	1,530	291	3,164	601
Gifts	539	102	1,022	194
Penalties	140	26	251	48
Tax non-deductible expenses - cars	436	83	272	52
Damages and other losses	12,730	2,419	-	-
Other	8,647	1,643	20,510	3,897
		7,478		8,081
Underprovision in respect of previous year		256		232
Total income tax expense		78,553		57,319
Effective tax rate		20.01 %		19.43 %

36. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the net profit attributable to the holders of ordinary shares by the weighted average number of ordinary shares in issue during the year.

Sk '000	2007	2006
Profit before taxation	392,562	294,981
Adjusted by:		
Income tax payable	(78,553)	(57,319)
Dividends on preference shares	(89,734)	(73,532)
Profit attributable to ordinary shareholders of the Bank	224,275	164,130
Weighted average number of ordinary shares in issue	89,550	89,550
Basic earning per share (expressed in Sk per share)	2,504	1,833

Diluted

There are no dilutive factors.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

37. PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES

Sk '000	2007	2006
Profit before taxation	392,562	294,981
Adjustments for non-cash items:		
Depreciation and impairment losses	219,242	195,793
Impairment losses on loans and advances to customers and write-offs of receivables	107,645	215,269
Provisions	7,689	7,326
Income from associates	(29,777)	(26,279)
Net loss on disposal of property and equipment	1,501	8,290
Fair value adjustment on investment property	-	414
Revaluation of financial assets and liabilities at fair value through profit or loss	(973)	(1,911)
	697,889	693,883
Net cash from operating activities includes the following cash flows:		
Interest received	1,876,925	1,526,941
Interest paid	(648,230)	(494,835)
	1,228,695	1,032,106

38. LEASE COMMITMENTS

At 31 December 2007, non-cancellable commitments under operating leases of 1 year or less were Sk 59,723 thousand (2006: Sk 58,806 thousand), of 5 years or less but over 1 year were Sk 190,306 thousand (2006: Sk 215,043 thousand) and of more than 5 years were 105,294 thousand (2006: Sk 142,990 thousand).

39. RELATED PARTY TRANSACTIONS

The Bank was engaged in the normal course of business in transactions with other members of the Volksbank Group and related parties. These transactions, which include the taking and placing of deposits, foreign currency operations and the provision of management and technology services, are conducted on an arm's length basis.

Parties with controlling influence

Volksbank AG

Volksbank International AG

Parties with significant influence

The Bank has no relationship with any parties holding significant influence.

Subsidiaries

The Bank has no subsidiaries.

Associates

VB LEASING SK, spol. s r.o.

Team Nový Dom s.r.o.

IMMO-CONTRACT Slovakia, s.r.o.

Key management

Board of Directors

Members of the Board of Directors are listed in note 1.

Supervisory Board

Members of the Supervisory Board are listed in note 1.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Parties with controlling influence

Amounts due from/(due to) Volksbank International AG at 31 December were as follows:

Sk '000	2007	2006
Loans and advances to customers	904	-
Customer accounts	(30,825)	(30,599)
Other expenses	(77,656)	(60,943)

Amounts due from/(due to) Volksbank AG at 31 December were as follows:

Sk '000	2007	2006
Loans and advances to customers	457,923	163,420
Customer accounts	(25,775)	(45,421)
Interest income	9,199	5,039
Interest expense	(7,541)	(16,011)
Fees and commissions income	218	8,884
Fees and commissions expense	(14,906)	(3,217)
Other expenses	(23)	-
Guarantees received	473,845	1,846,120

The Bank has no contingent liabilities with related parties.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Associates

Sk '000	2007	2006
Loans and advances to customers	367,995	1,911,148
Customer accounts	(47,736)	(40,884)
Interest income	63,233	84,789
Interest expense	(6,764)	(113)
Fee and commission income	2,239	2,124
Fee and commission expense	(19)	-
Other income	1,709	1,922
Other expenses	(702)	(792)

(c) Key management

Sk '000	2007	2006
Assets		
Board of Directors	-	-
Management	10,063	8,493
Supervisory Board	-	-
Others	2,405	2,491
	12,468	10,984
Former Board members	5,712	5,970
	18,180	16,954

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management (continued)

Sk '000	2007	2006
Liabilities		
Board of Directors	203	257
Management	23,184	9,298
Supervisory Board	2,294	3,150
Others	3,902	2,886
	29,583	15,591
Remuneration		
Board of Directors	22,891	19,284
Management	36,277	28,139
Supervisory Board	-	-
	59,168	47,423
Former Board members	20,904	1,079
	80,072	48,502

40. CUSTODIAL SERVICES

The Bank administers securities and other valuables totalling Sk 2,553 million (2006: Sk 3,768.6 million) on behalf of customers.

41. 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 Bank's financial assets and liabilities at year end were as follows:

Sk '000	Carrying value 2007	Fair value 2007	Carrying value 2006	Fair value 2006
Financial assets				
Cash and cash equivalents	6,540,510	6,540,510	8,129,750	8,129,750
Trading assets	23,371	23,371	4,791	4,791
Derivative assets held for risk management	165,685	165,685	487,337	487,337
Loans and advances to banks	619,549	619,549	857,400	857,400
Loans and advances to customers	26,306,203	26,306,203	21,502,853	21,502,853
Investment securities	3,815,475	3,815,475	3,948,827	3,948,827
Investments in associates	241,889	241,889	213,090	213,090
Investment property	27,000	27,000	27,000	27,000
Other assets	103,284	103,284	66,596	66,596
Financial liabilities				
Derivative liabilities held for risk management	140,949	140,949	462,398	462,398
Deposits by banks	1,573,974	1,573,974	2,707,365	2,707,365
Loans received	118,732	115,418	199,312	172,873
Customer accounts	29,589,565	29,571,863	27,047,808	27,038,498
Debt securities issued	3,000,713	2,631,830	1,674,588	1,666,957
Other liabilities	201,129	201,129	155,473	155,473

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

41. FAIR VALUES (CONTINUED)

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

Cash and cash equivalents

The fair values of cash and balances with central banks approximate to the book values.

Trading assets

Trading assets are stated at quoted market prices.

Derivative assets held for risk management

The fair values of derivative assets held for risk management are calculated using quoted market prices or theoretical prices determined by the present value method. Present value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

Loans and advances to banks

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

Loans and advances to customers

Loans and advances to customers are stated net of impairment losses. For loans and advances to customers with a remaining maturity of less than one year, it is reasonable to use the book value as an approximation of the fair value. Book values have also been used as an approximation for the fair values of other loans and advances to customers.

Investment securities

Debt securities and equity shares available for sale as well as financial assets at fair value through profit or loss are stated at quoted market prices or at net present value. The net present value is calculated by discounting future cash flows using spot reference capital market interest rates for the relevant maturity period.

41. FAIR VALUES (CONTINUED)

Investments in associates

The Bank's share of the associates' net asset value is used as an approximation of fair value.

Investment property

Investment property is stated at market value.

Other assets

The fair value of other assets approximates to book value as the remaining maturity is less than one year.

Derivative liabilities held for risk management

The fair values of derivative liabilities held for risk management are calculated using quoted market prices or theoretical prices determined by the present value method. Present value is calculated by discounting future cash flows by reference to the interbank interest rate for the relevant maturity period.

Deposits by banks

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

Loans received

For amounts with a remaining maturity of less than one year, it is reasonable to use book value as an approximation of fair value. The fair values of other loans received are calculated by discounting the future cash flows using current interbank rates.

Customer accounts

The fair values of current accounts and term deposits with a remaining maturity of less than one year approximate their carrying amounts. The fair values of other customer accounts are calculated by discounting the future cash flows using current deposit rates.

Customer accounts with cash flows linked to equity indices are stated at fair value through profit or loss. Valuations are obtained from the movements in the relevant indices.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

41. FAIR VALUES (CONTINUED)

Debt securities issued

The fair value of debt securities issued is calculated by discounting the future cash flows using current market rates.

Other liabilities

As the other liabilities are short-term in nature, their fair value approximates to the carrying value.

42. SUBSEQUENT EVENT

Under an amendment to the Income Tax Act, effective from 1 January 2008, impairment loss provisions on loans and advances as at 31 December 2007 will be added to the tax base for years ended 31 December 2008 and 2009 unless they meet certain criteria relating to the period the receivable is overdue. Prior to the enactment of this amendment, all impairment losses on loans and advances recognised under IFRS were fully deductible for income tax purposes.

The impact resulting from the new amendment on the tax liability and deferred tax for the year ending 31 December 2008 or 2009 has not yet been quantified.

DECLARATION ON THE CORPORATE GOVERNANCE OF VOLKSBANK SLOVENSKO, A.S.

VOLKSBANK Slovensko, pursuant to Article 20 § 6 and 7 of the Act No. 431/2002 Coll., on Accounting, and pursuant to the Corporate Governance Code of Slovakia issued by the Central European Corporate Governance Association, of which VOLKSBANK Slovensko is a member, hereby publishes the Declaration on Corporate Governance of VOLKSBANK Slovensko, a.s.

VOLKSBANK Slovensko is governed and managed by the legislation relevant to the area of banking and financial markets in the Slovak Republic. The essential legislative regulations for the activities pursued thereof are the Bank Law ¹ and the Act on Securities and Investment Services. ²

VOLKSBANK Slovensko, according to the available information, meets all the conditions indicated in the Corporate Governance Code in Slovakia. The wording of the Code is accessible on the webpage of the Central European Association for Administration and Management of Companies at www.cecga.com.

System of Internal Control and Risk Management

The System of Internal Control of VOLKSBANK Slovensko, pursuant to the Bank Law ³, consists of control processes and control activities, which are part of the operational work procedures and are performed by the employees and organization units, participating in the individual procedures. The managers of these organization units or personnel authorized by them are responsible for control processes and their results.

The control independent of the operational work procedures is performed by the independent unit of internal control and audit which, above all, controls the adherence to law and other generally binding legal regulations, internal regulations and procedures within VOLKSBANK Slovensko; above all, it assesses and evaluates the functionality and effectiveness of the control system, system of risk management and the system of evaluation of Internal Capital Adequacy, as well as the fulfilment of the requirements of own resources, cash-flow and adherence to restrictions of capital involvement.

The System of Risk management in VOLKSBANK Slovensko, pursuant to the Bank Law ⁴, consists of the specialized operations, processes and instruments intended for risk identification, monitoring and management, covering the market, credit and operational risks. The

¹ Act No. 483/2001 Coll. On banks and on changes and amendments to related laws in the wording of subsequent regulations.

² Act No. 566/2001 Coll., On securities and investment services and on changes and amendments to related laws.

³ Article 23 of Act No. 483/2001 Coll. On banks and on changes and amendments to related laws in the wording of subsequent regulations.

⁴ Article 23 of Act No. 483/2001 Coll. On banks and on changes and amendments to related laws in the wording of subsequent regulations.

main objective of these structures is, above all, the identification and assessment of individual types of risk. The identification and evaluation allow risk management and thereby preclude losses and damages in the operation of VOLKSBANK Slovensko.

The systems, processes and instruments intended for the performance of internal control and risk management are incorporated in the regulatory acts of VOLKSBANK Slovensko. The regulatory acts are regularly updated, whereby ensuring implementation of new instruments for the performance of internal control and risk management.

Information on the Composition and Activities of the General Meeting

The General Meeting of VOLKSBANK Slovensko is the supreme body of VOLKSBANK Slovensko. The right to attend its meetings is granted to all shareholders. The Board of Directors of VOLKSBANK Slovensko is obliged to convene an ordinary General Meeting every year, no later than within 5 months of the end of the calendar year, unless the valid legal regulations state otherwise.

The General Meeting of VOLKSBANK Slovensko decides about all affairs concerning VOLKSBANK Slovensko, unless the Articles of Association or legal regulations transfer the authority to other bodies of VOLKSBANK Slovensko.

The exclusive authority of the General Meeting includes the following tasks:

- a) to approve and amend the Articles of Association of VOLKSBANK Slovensko,
- b) to increase or decrease the registered capital of VOLKSBANK Slovensko,
- c) to amend the rights associated with individual types of shares,
- d) to determine on the dissolution of VOLKSBANK Slovensko,
- e) to elect and recall the Supervisory Board members of VOLKSBANK Slovensko in proportion as specified hereto ,
- f) to approve the individual or extraordinary individual financial statements and decide on profit sharing (the use of bottom line profits) or loss covering, as well as to determine the Directors' fees,
- g) to determine on the issue of bonds,
- h) to decide to cease trading in the shares of VOLKSBANK Slovensko, and decide to delist VOLKSBANK Slovensko from the Stock Exchange,
- i) to decide to authorize the Board of Directors of VOLKSBANK Slovensko to increase the registered capital, pursuant to valid legislation and regulations,
- j) to decide upon a contract on the transfer of a company or part of a company.

The Shareholders of VOLKSBANK Slovensko, depending on the proportion of their equity participation, shall be entitled to take part in the management of the company, in its profits (dividends) and in its liquidation proceeds, in the event that it is dissolved by liquidation. Shareholders shall exercise their essential rights to which they are entitled pursuant to the Articles and to the relevant legislation. Shareholders shall be entitled to participate in a General Meeting, to require explanations, to comment, to make proposals, and to vote on their own proposals and those of other shareholders. The voting right shall not be associated with the preference shares. Every Shareholder shall be entitled to request an excerpt from the General Meeting minutes or its copy, including the Annexes to the Minutes.

The shares of VOLKSBANK Slovensko shall be registered (inscribed) and shall be issued as booked and publicly marketable, pursuant to the relevant valid legislation the Slovak republic. The booked shares shall be registered with the Central Securities Depository of the Slovak Republic, a.s. The shares shall be indivisible. The transfer of the ownership of shares shall not be limited.

The shares of VOLKSBANK Slovensko shall be divided into common and preference shares. The common shares entail rights pursuant to the legislative regulation. The preference shares are associated with the right to a priority pay-out of dividends, however, they shall not entail the right to vote in the General Meeting. Providing the preference dividend is not paid out at all, preference shareholders shall enjoy the voting rights associated with these shares from the date following the date of the General Meeting's decision not to pay out the preference dividends, or the dividend pay-out defaulting date, up to the date of General Meeting's decision to pay out the dividends, or up to the dividend payment date, in the event of the Company's failure to pay-out the preference dividends. The preference shareholders shall be entitled to vote in the General Meeting's decision on preference dividend payment.

Information on the Composition and Activities of the Board of Directors

The Board of Directors shall be the statutory body of VOLKSBANK Slovensko, managing the operations of VOLKSBANK Slovensko. The Board of Directors of VOLKSBANK Slovensko is composed of three members.

The Board of Directors of VOLKSBANK Slovensko shall be elected and dismissed by the Supervisory Board of VOLKSBANK Slovensko. The proposal for their election or dismissal can be submitted by a shareholder of the company or member of the Supervisory Board to the Chairman of the Supervisory Board. A recurrent vote is admissible. During their tenure, the

Supervisory Board shall be entitled to dismiss individual members. At an early termination of the tenure a bi-election shall be held without undue delay, only if the minimum number of members is lower than stipulated by the Articles of Association of VOLKSBANK Slovensko, a.s.

The Supervisory Board determines, which of the Members of the Board of Directors shall be the Chairman of the Board of Directors.

The Board of Directors acts on behalf of VOLKSBANK Slovensko. It shall be accountable for the creation, implementation and control of business intents of VOLKSBANK Slovensko as well as organizing the activity of VOLKSBANK Slovensko pursuant to the generally binding regulations as well as extraordinary regulations and performs the rights of an employer.

The Board of Directors shall be held accountable for the following:

- a) company management system, Company system of internal controls, including the internal control and audit department appropriate to the level of sophistication and risks of banking business;
- b) system of risk management segregated from the banking business, including a system for identifying, monitoring, measuring, and managing material risks, including risks of dealing with people in special relation with the Company pursuant to valid legislation; and the transposition of this system in the organizational rules and other internal rules and regulations of the Company,
- c) segregated performance of lending activities and investments,
- d) system of preventing illicit income (proceeds from crime) legalization, and protection against financing terrorism
- e) information system.

The competences of the Board of Directors of VOLKSBANK Slovensko include the following:

- a) to convene a General Meeting and implement its decisions,
- b) to prepare drafts, proposals, and suggestions for General Meeting sessions regarding the following issues:
 - ba) amendments to the level of equity, Articles of Association, and scope of business;
 - bb) principal issues relating to Company financing;
 - bc) ordinary individual annual financial statements and extraordinary individual financial statements and proposals for profit-sharing or loss coverage,
- c) to provide for all means required to support the development and profitability of the Company's business;
- d) to decide on investing, amending, and divesting in other companies, including equity interests in foreign companies;

- e) to produce the following documents:
 - ea) annual report including the report on the Company's business performance and assets for the General Meeting session;
 - eb) organization rules and regulations;
 - ec) information report on the main aims and objectives of the Board of Directors for the coming period, as well as on the projected development of assets, cash-flows, and revenues for Supervisory Board meetings;
- f) to confer and cancel procurement and other permanent powers and authorizations in writing, pursuant to Article 23 hereto;
- g) to ensure proper Company book-keeping and accounting.

Committees of the Board of Directors

The Executive Committee, performs the activities and resolves matters related to strategic management of VOLKSBANK Slovensko, the Committee meetings are attended by the members of the board of directors and the key members of the senior management of VOLKSBANK Slovensko.

Asset and Liabilities Committee - ALCO of VOLKSBANK Slovensko Asset and Liabilities Committee - ALCO, is intended to ensure an efficient approval and optimum decision-making in processes in processes related to controlling assets and liabilities of VOLKSBANK Slovensko. The Committee Meetings are attended by the members of the Board of Directors and selected members of the senior management of VOLKSBANK Slovensko.

Credit Committee, deals with revising and approving loans provided by VOLKSBANK Slovensko. The committee meetings are attended by by the members of the Board of Directors and members of the senior management of VOLKSBANK Slovensko.

REPORT OF THE SUPERVISORY BOARD


STATEMENT OF THE SUPERVISORY BOARD

The Supervisory Board of VOLKSBANK Slovensko, a. s.
at its meeting on 19 May 2008, discussed and reviewed
the Financial statements for Year ended 31 December 2007 and the Separate financial
statements for Year ended 31 December 2007 of VOLKSBANK Slovensko, a.s
and arrived at the following conclusions:

In accordance with Article 21 (4) of the Articles of Association and Article 198 of the
Commercial Code, the Supervisory Board unanimously approved
the Financial statements for Year ended 31 December 2007 and the Separate financial
statements for Year ended 31 December 2007, audited by
KPMG Slovensko spol. s.r.o., Bratislava.

The Supervisory Board agrees that, at the General Meeting
of VOLKSBANK Slovensko, a. s.
on 19 May 2008, the Board of Directors
shall submit the following proposal for the allocation of

the net profit of VOLKSBANK Slovensko, a.s., for 2007 in the amount of	SKK	284,232,463.15
• legal reserve fund	SKK	0.00
• dividend payment	SKK	94,985,200.00
thereof ordinary shares (SKK 504.00 per share)	SKK	45,133,200.00
and preference shares (SKK 500.00 per share)	SKK	49,852,000.00
• balance – transfer to retained earnings	SKK	189,247,263.15



Mag. Gerhard Wöber
2nd Vice - Chairman of Supervisory Board

SERVICE

Austria

Bosnia and Herzegovina

Croatia

Czech Republic

Hungary

Romania

Serbia

SLOVAKIA

Slovenia

Ukraine



OUR NETWORK

BANSKÁ BYSTRICA

Dolná 27, P.O.BOX 239
974 01 Banská Bystrica
Tel.: +421/48/4712 111
Fax: +421/48/4712 130

ČADCA

Kukučínova 2283
022 01 Čadca
Tel.: +421/41/4302 856
Fax: +421/41/4302 855

DUNAJSKÁ STREDA

Poštová 2, P.O.BOX 85
929 01 Dunajská Streda
Tel.: +421/31/5902 700
Fax: +421/31/5902 705

GALANTA

Hlavná 977/14, P.O.BOX 42
924 00 Galanta
Tel.: +421/31/780 2174
Fax: +421/31/780 2355

HLOHOVEC

Nám. sv. Michala 1
920 01 Hlohovec
Tel.: +421/33/7351 030
Fax: +421/33/7351 035

KOMÁRNO

Záhradnícka 15, P.O.BOX 178
945 01 Komárno
Tel.: +421/35/7900 010
Fax: +421/35/7900 015

KOŠICE

Mlynská 29, P.O.BOX G-43
043 73 Košice
Tel.: +421/55/7204 211
Fax: +421/55/7204 240

KOŠICE

Hlavná 108, P.O.BOX G-43
043 73 Košice
Tel.: +421/55/7206 511
Fax: +421/55/7206 515

LEVICE

Nám. hrdinov 7-8
934 01 Levice
Tel.: +421/36/6350 381
Fax: +421/36/6350 385

LIPTOVSKÝ MIKULÁŠ

Nám. osloboditeľov 75
031 01 Liptovský Mikuláš
Tel.: +421/44/5474 952
Fax: +421/44/5474 955

LUČENEC

Nám. Artézskych prameňov 4
P.O.BOX 125, 984 01 Lučenec
Tel.: +421/47/431 61 11
Fax: +421/47/433 05 66

MALACKY

Sasinkova 1A
901 01 Malacky
Tel.: +421/34/7975 1111
Fax: +421/34/7975 115

MARTIN

Francisciho 6
036 01 Martin
Tel.: +421/43/4213 906
Fax: +421/43/4213 905

MICHALOVCE

Hollého 7
071 01 Michalovce
Tel.: +421/56/6871 014
Fax: +421/56/6871 015

NITRA

Fraňa Mojtu 8, P.O.BOX 26/B
949 01 Nitra
Tel.: +421/37/6550 360
Fax: +421/37/6550 369

NITRA - ZOC MAX

Chrenovská 1661/30
949 01 Nitra
Tel.: +421/37/6930 351
Fax: +421/37/6930 355

NOVÉ MESTO NAD VÁHOM

Weisseho 16
915 01 Nové Mesto nad Váhom
Tel.: +421/32/7484 400
Fax: +421/32/7484 405

NOVÉ ZÁMKY

M. R. Štefánika 45, P.O.BOX 159
940 01 Nové Zámky
Tel.: +421/35/6911 330
Fax: +421/35/6911 335

PIEŠŤANY

Nám. slobody 13, P.O.BOX D-27
921 01 Piešťany
Tel.: +421/33/7970 000
Fax: +421/33/7970 005

PEZINOK

Nákupné centrum MÓLO
Myslenická 2/C, 902 01 Pezinok
Tel.: +421/33/6905 491
Fax: +421/33/6905 495

POPRAD

Nám. sv. Egídia 124, P.O.BOX 20
058 01 Poprad
Tel.: +421/52/7722 910
Fax: +421/52/7723 215

PREŠOV

Hlavná 45, P.O.BOX 70
080 01 Prešov
Tel.: +421/51/7580 555
Fax: +421/51/7580 530

PÚCHOV

Ul. 1. mája 899
020 01 Púchov
Tel.: +421/42/4650 921
Fax: +421/42/4650 925

RUŽOMBEROK

Mostová 16, P.O.BOX 96
034 01 Ružomberok
Tel.: +421/44/4314 111
Fax: +421/44/4314 130

SENICA

Nám. oslobodenia 2560/ 18A
905 01 Senica
Tel.: +421/34/6946 021
Fax: +421/34/6946 025

SPIŠSKÁ NOVÁ VES

Letná 51
052 01 Spišská Nová Ves
Tel.: +421/53/4182 081
Fax: +421/53/4182 085

ŠAĽA

Hlavná 6/53, P.O.BOX 64
927 00 Šaľa
Tel.: +421/31/7707 181
Fax: +421/31/7707 180

TRENČÍN

Nám. Ľudovíta Štúra 16
P.O.BOX 90, 911 50 Trenčín
Tel.: +421/32/7441 938
Fax: +421/32/7441 935

TRNAVA

Paulínska 2, P.O.BOX 39
917 01 Trnava
Tel.: +421/33/5903 826
Fax: +421/33/5903 850

ZVOLEN

Nám. SNP 19
960 01 Zvolen
Tel.: +421/45/5249 071
Fax: +421/45/5249 075

ŽILINA

Národná 28, P.O.BOX B-165
010 01 Žilina
Tel.: +421/41/5626 293
Fax: +421/41/5626 319

BRATISLAVA

Vysoká 9
P.O.BOX 81
810 00 Bratislava
Tel.: +421/2/5965 1111
Fax: +421/2/5441 2453
Telex: 926 49 LBBA SK

Nám. SNP 15
P.O.BOX 81
810 00 Bratislava
Tel.: +421/2/5921 1111
Fax: +421/2/5296 3794

Jesenského 2
P.O.BOX 81
810 00 Bratislava
Tel.: +421/2/5441 8984
Fax: +421/2/5441 8979

Mlynské nivy 3
P.O.BOX 81
810 00 Bratislava
Tel.: +421/2/5720 1061
Fax: +421/2/5720 1064

Vazovova 22
P.O.BOX 81
810 00 Bratislava
Tel.: +421/2/5020 3028
Fax: +421/2/5020 3025

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P.O.BOX 81
810 00 Bratislava
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Kazanská 23
P.O.BOX 81
810 00 Bratislava
Tel.: +421/2/4020 3041
Fax: +421/2/4020 3045

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Tel.: +421/2/4910 3010
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Bank Shop - POLUS CITY CENTER
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Fax: +421/2/4464 5193

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810 00 Bratislava
Tel.: +421/2/6531 3600
Fax: +421/2/6531 3302

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810 00 Bratislava
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Fax: +421/2/6920 2035

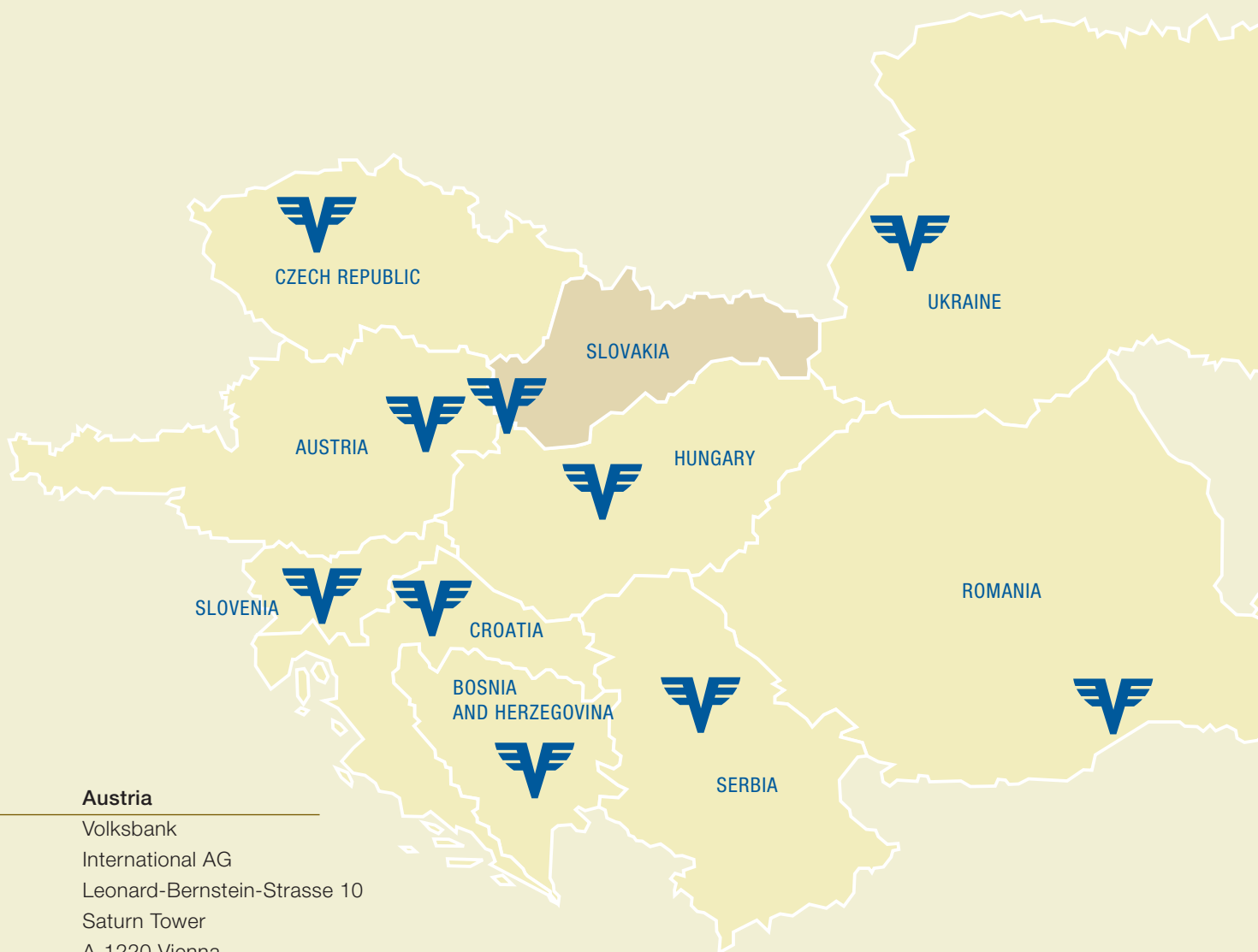
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Fax: +421/2/6231 8978

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810 00 Bratislava
Tel.: +421/2/6820 6051
Fax: +421/2/6820 6055

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P.O.BOX 81
810 00 Bratislava
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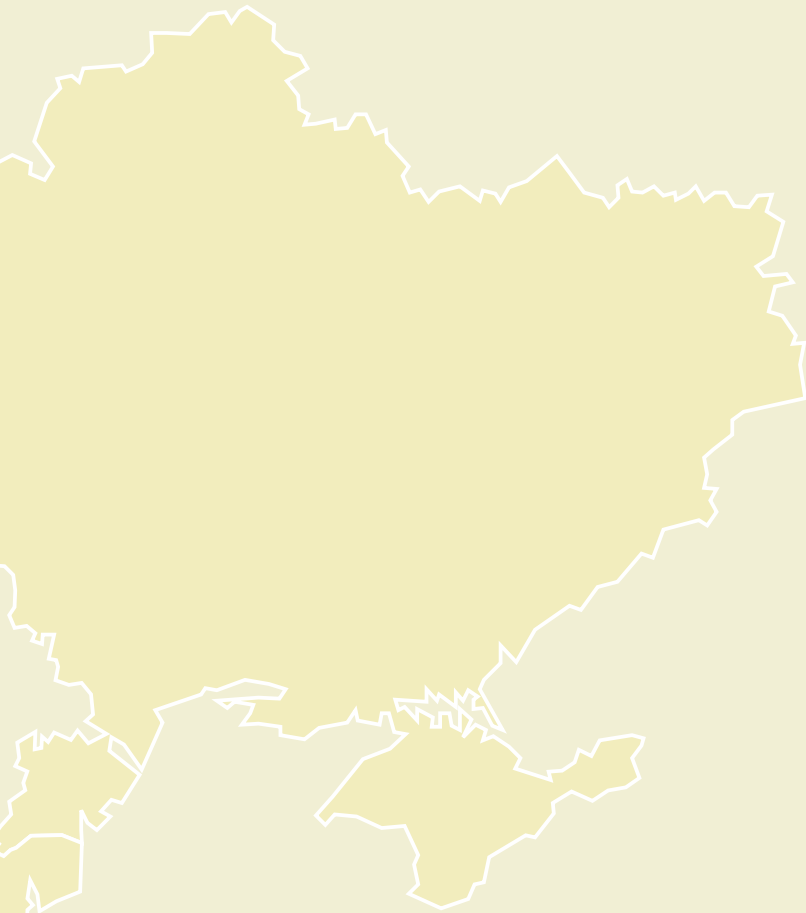
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810 00 Bratislava
Tel.: 02/6720 2071
Fax.: 02/6720 2075

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Austria

Volksbank
International AG
Leonard-Bernstein-Strasse 10
Saturn Tower
A-1220 Vienna
Tel.: 00431/313 40-3182
Fax: 00431/313 40-3905
www.vbi.at



Bosnia and Herzegovina

Volksbank BH d.d. Fra Andela Zvzdovića 1 BH-71000 Sarajevo Tel.: 00387/33 295 601 Fax: 00387/33 295 603 www.volksbank.ba	Volksbank a.d. Banja Luka Jevrejska ulica, Poslovni centar BH-78000 Banja Luka Tel.: 00387/51 241 100 Fax: 00387/51 213 391 www.volksbank-bl.ba
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Czech Republic

Volksbank CZ, a.s.
Lazarská 8/13
CZ-12000 Praha
Tel.: 00420/221 96 99 11
Fax: 00420/221 96 99 51
www.volksbank.cz

Romania

Volksbank Romania S.A.
Mihai Bravu 171
RO-030244 Bucharest
Tel.: 00402/1209 4400
Fax: 00402/1209 4490
www.vbr.ro

Hungary

Magyarországi
Volksbank Zrt.
Rákóczi út 7
H-1088 Budapest
Tel.: 00361/328 6666
Fax: 00361/328 6604
www.volksbank.hu

Slovakia

VOLKSBANK Slovensko, a.s.
Vysoká 9
SK-810 00 Bratislava
Tel.: 00421/2/5965 1111
Fax: 00421/2/5441 2453
www.volksbank.sk

Serbia

Volksbank a.d.,
Bulevar Mihaila Pupina 165g
SCG-11070 Belgrade
Tel.: 00381/11/201 3259
Fax: 00381/11/201 3270
www.volksbank.co.yu

Slovenia

Volksbank-Ljudska Banka d.d.
Dunajska 128a
SLO-1000 Ljubljana
Tel.: 00386/1/530 74 00
Fax: 00386/1/530 75 55
www.volksbank.si

Croatia

Volksbank d.d.
Varsavska 9
HR-10000 Zagreb
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Fax: 00385/1/4801 365
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Ukraine

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